

# **REPORT OF THE AUDITOR-GENERAL ON NEW KENYA CO-OPERATIVE CREAMERIES LIMITED FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of New Kenya Co-operative Creameries Limited set out on pages 1 to 48, which comprise the statement of financial position as at 30 June 2017, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the New Kenya Co-operative Creameries Limited as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenya Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion section of my report, based on the procedures performed, I confirm that nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### **Basis for Qualified Opinion**

#### **1. Non- Current Assets**

As previously reported, property, plant and equipment balance of Kshs.2,125,360,155 as at 30 June 2017 had the following unresolved issues;

- i) Title documents for forty-nine (49) properties with a value of Kshs.1,906,927,500 whose title document were not availed for audit verification.
- ii) The property, plant and equipment balance of Kshs.2,125,360,155 excludes fifteen (15) parcels of land and buildings which have not been valued.

- iii) Sixteen (16) disputed properties with a value of Kshs.222,500,000 were registered in the name of third parties and the valuation report recorded Kshs.750,000,000 for the disputed properties.

The company has failed to disclose in the financial statements that the Ethics and Anti-Corruption Commission had cleared two disputed properties; LR No.37/371 and LR No.37/22 situated in Upper Hill, Nairobi which had legally been transferred to third parties.

- iv) Five (5) acres out of 32.94 acres (13.33 ha) of land LR No MN/VI/2860 on which Miritini factory is located have been encroached by squatters some of whom have already put up permanent structures thereby exposing the Company to likely loss of vital property.

In view of the foregoing, it has not been possible to confirm the valuation, ownership status and the security of properties and that property, plant and equipment balance of Kshs.2,125,360,155 as at 30 June 2017 is fairly stated.

## **2. Trade and Other Receivables**

Trade and other receivables' balance stood at Kshs.1,762,200,310 as at 30 June 2016. However, the following anomalies were noted;

- i) Included in this balance are bounced cheques amounting to Kshs.32,645,313 which have been outstanding for over one year.
- ii) Further, included in this balance are staff debts amount of Kshs.21,006,909, out of which an amount of Kshs.9,355,033 relates to staff who have since left the Company although the amount has been fully provided for.
- iii) Included in this balance is an unreconciled and unexplained credit balance amounting to Kshs.28,663,393 in addition to the previous year's unreconciled credit balance of Kshs.45,958,477.

In the circumstances, it has not been possible to confirm the accuracy and recoverability of trade and other receivables balance of Kshs.1,762,200,310.

## **3. Trade and Other Payables**

The trade and other payables' balance of Kshs.1,078,901,682 as at 30 June 2017 includes an amount of Kshs.26,447,283 which has remained outstanding for more than two years. This casts doubt on the validity of the above transactions and the Company's ability to pay its debts as they fall due.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of New Kenya Co-operative Creameries Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, were of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section of my report, there were no other Key Audit Matters to report in the year under review.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to have the Company cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee

that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

#### REPORT ON OTHER MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015

As required by the Companies Act, 2015 I report based on the audit, that:

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- (ii) In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records;
- (iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the accounting records; and
- (iv) In my opinion, the information given in the report of the directors is consistent with the financial statements.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**11 July 2018**