

REPORT OF THE AUDITOR-GENERAL ON RIVATEX EAST AFRICA LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Rivatex East Africa Limited set out on pages 20 to 42, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, statement of cash flows 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 paragraph, the financial statements present fairly, in all material respects, the financial position of Rivatex East Africa Limited as at 30 June 2017, and of its financial performance and of its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Kenyan Companies Act.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that nothing 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

1.0 Trade and Other Receivables

As previously reported, included in the trade and other receivables balance of Kshs.43,081,682 as disclosed in note 19(a) to the financial statements is prepayments of Kshs.14,102,936 relating to 2013/2014 and prior years. Although the management has provided evidence that the matter has been handed over to the lawyer to institute legal proceeding with a view to recover the prepayment, however no explanation has been provided for making advance payments before goods were received. Consequently, the propriety of the prepayment of Kshs.14,102,936 as at 30 June 2017 could not be confirmed and the company did not receive value for money on this payment.

2.0 Current Liabilities

Included in the statement of financial position as at 30 June 2017 under current liabilities figure of Kshs.220,903,542 is cash and cash equivalent (O/D) figure of Kshs.1,736,741 as disclosed in note 21 to the financial statement relating to the following banks:

Bank	Name	Account Number	Amount (Kshs)
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Equity Bank	Nairobi Account	0300297551263	1,467,680
Kenya Commercial Bank	Show Room Account	1136152989	229,884
Equity Bank	Moi University	0300294911893	33,047
Kenya Commercial Bank	Main Account	1182314436	6,130
Total			1,736,741

Although the management has explained that this relates to overdrawn cash books, no explanation has been given for this anomaly. Under the circumstances, the validity, accuracy and propriety of the cash and cash equivalent (O/D) balance of Kshs.1,736,741 as at 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Rivatex East Africa 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 judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no Key Audit matters to communicate in my report.

Other Matter

1.0 Financial Performance

The company net loss decreased from Kshs.132,543,477 in 2015/2016 to Kshs.132,015,501 in the year under review bringing the accumulated losses to Kshs.1,152,619,354. The management attributes the poor performance to constant breakdown in wet processing machine that had hindered the company's ability to supply goods of the right quality and on time. Although the management indicates that it has partially addressed this challenge through acquisition of new machinery, no indication has been provided of measures being taken to increase sales volume. If this loss making trend is not reversed, the company is likely to face financial difficulties in its future operations.

2.0 Budgetary Control and Performance

2.1 Receipts

The Company budgeted to collect income of Kshs.241,106,801 during the year under review. However, Kshs.118,902,060 was realized resulting in a shortfall of Kshs.122,204,741 or 50.68% of the budgeted income. There is need for the management to re-align its budget process in line with the realities on the ground in order to achieve realistic targets.

2.2 Expenditure

A review of the company budgeted and actual expenditure for the year ended 30 June 2017 revealed that the total budget for the year 2016/2017 was Kshs.98,480,317 against which total expenditure of Kshs.96,967,545 was incurred resulting to an under expenditure of Kshs.1,512,772 or approximately 1.5% of the budgeted expenditure.

The under absorption of approved budget is an indication of activities and projects in the annual work plan not implemented by the Rivatex East Africa Limited which is likely to have negative effect on goods and service produced for sales which may have contributed to land the company poor performance.

3.0 Failure to Observe One Third Staff Establishment Rule

Audit review of the payroll for the month of June 2017 showed that Rivatex East Africa Limited had a staff establishment of 475 out of whom 358 or 75% of staff are from the same ethnicity leaving only 117 or 25% from other ethnicities as analysed here below:

STAFF STRUCTURE	No	DOMINANT ETHNIC COMMUNITY	% OF DOMINANT ETHNIC COMMUNITY
Board of Directors	13	3	23
Senior Management	12	9	75
Other permanent and pensionable staff	450	346	77
Total	475	358	75%

This is Contrary to Section 7 (1) and (2) of the National Cohesion and Integration Act, 2008 which requires that all public establishments shall seek to represent the diversity of the people of Kenya in employment of staff and that no public establishment shall have more than one third of its establishment from the same ethnic community. Consequently the entity is in breach of the law.

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 as a going concern matters related to going concern and using the going concern basis of accounting unless the management either

intends to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 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 Corporation'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 as a going concern. 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 as a going concern.

- 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 LEGAL AND REGULATORY REQUIREMENTS

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, proper books of accounts have been kept by the Company, so far as appears from the examination of those books; and
- (iii) The Company's financial statements and statement of comprehensive income are in agreement with the books of account.



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

Nairobi

16 March 2018