

REPORT OF THE AUDITOR-GENERAL ON RIVATEX EAST AFRICA LIMITED FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Rivatex (E.A) Ltd set out on pages 21 to 44, which comprise the statement of financial position as at 30 June 2018, and the statement of comprehensive income, statement of changes in equity and 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Rivatex (E.A) Ltd as at 30 June 2018, 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 Companies Act, 2015.

Basis for Qualified Opinion

1.0 Inventory

The statement of financial position as at 30 June 2018 reflects inventory balance of Kshs.664,478,202 and as disclosed in note 18 to the financial statements. As explained in note 18 to the financial statements the Company's inventories are valued at lower of cost and net realizable value as the accounting policy ensures that inventories are properly disclosed in the financial statements. However, available records revealed that included in the inventory figure of Kshs.664,478,202 in the year ended 30 June 2018 is chemicals which had expired amounting to Kshs.15,484,685. Accordingly, had the company complied with the accounting policy, the figure for inventories would have been less than the figure reflected in the financial statements as at 30 June 2018. Management explained that these were chemicals which were waiting for approval for disposal, However, the same has not been disclosed in the financial statements.

Consequently, the accuracy, valuation and completeness of the inventory balance of Kshs.664,478,202 as at 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Rivatex (E.A) Ltd 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 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. There were no Key Audit Matters to report in the year under review.

Other Matter

1.0 Financial Performance

During the year under review, the company net loss increased from Kshs.132,015,501 in 2016/2017 to Kshs.133,959,051 bringing the accumulated loss to Kshs.1,286,578,406 as at 30 June 2018. The management attributes the poor performance to constant breakdown in processing machines 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.

In the circumstances, if this loss making trend is not reversed, the company is likely to face difficulties in meeting its operating obligations as they fall due.

2.0 Budget as a Control Tool

2.1 Receipts

The company budgeted to collect income of Kshs.166,812,408 during the year under review. However, Kshs.125,976,752 was realized resulting in a short fall of Kshs.40,835,656 or 24% of the budgeted income. There is need for the management to realign its budget process in line with the realities on the ground in order to plan and budget for achievable realistic targets.

2.2 Expenditure Budget

A review of the company budgeted and actual expenditure for the year ended 30 June 2018 revealed that the total budget for the year 2017/2018 was Kshs.280,153,858 against which total expenditure of Kshs.261,135,802 was incurred resulting to an under expenditure of Kshs.29,209,758 or approximately 10.4 % 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 Rivatex East Africa Ltd which is likely to have a negative effect on goods and services produced for sales which may have contributed to the company's poor performance. Further, no evidence has been provided to confirm whether the over expenditure totalling Kshs.10,191,702 on sales and marketing expenses, personnel emoluments and finance costs were approved by the Board of Directors.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Conclusion on Compliance and Effectiveness section of my report, 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 conclusion

1.0 Trade and Other Receivables

1.1 Failure to Collect Debts Due

A review of the debtors' records provided for audit revealed that debts totalling Kshs.12,210,936 had been outstanding for more than one year. This was contrary to paragraph 5.2 of the company's Credit control policy that stipulates that credit period will be between 30 and 90 days. Further, the management did not explain the measures undertaken to collect the debts before they turn bad as required by paragraph 1.4 of the credit control policy.

In the circumstances, the company might lose Kshs.12, 210,936 as a result of non-collection of debts arising from credit sales.

2.0 Human Resource Management

2.1 Failure to Observe One Third of Basic Salary Payment Rule

A review of the payroll records for the period 2017/2018, revealed that a number of staff earned less than a third of their basic salaries contrary to the provisions of section 17(3) of the employment Act. In some cases, there were those who earned nil salaries. The management did not provide explanations for not complying with the provision of the Employment Act. Consequently, the management was in contravention of section 17(3) of the Employment Act.

2.2 Ethnic Composition

Included in the statement of comprehensive income are employee costs amounting to Kshs.117,115,780 for the year ended 30 June 2018. However, audit review of the payroll showed that the Company had four hundred and fifty-nine (459) employees out of whom three hundred and four (304) or 66% of employees were from the dominant community, while one hundred fifty-five (155) or 34% are from non-dominant communities as detailed below:

Details	Number of staff	No. from Dominant Community	No. From Non-Dominant Community	% Dominant Community
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Board of Directors	17	11	6	65
Senior management	8	7	1	88
Other permanent staff	459	304	155	66
Total	491	322	169	66

In addition, eleven (11) out of the seventeen (17) appointed board members are from the same ethnic community being 65% of the board membership. This is contrary to Section 7 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 the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

Consequently, the management is in breach of the law.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this compliance review.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the procedures performed, except for the matter described in the Conclusion on Effectiveness of Internal Controls section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 1315. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance was maintained in all material respects.

The matters reported are limited to the deficiencies identified during the audit that I have concluded are material to be reported. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this review.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Companies Act, 2015, I report based on my 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's so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective 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 and for its assessment of the effectiveness of internal control.

In preparing the financial statements, management is responsible for assessing the company's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Company's 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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in

compliance with the authorities which govern them, and that public money is applied in an effective manner.

Those charged with governance are responsible for overseeing the company's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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. 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 and weakness 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.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the company's policies and procedures may deteriorate.

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.
- 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 or 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 as a going concern or 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 and business activities of the company 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.



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

Nairobi

16 January 2019