

REPORT OF THE AUDITOR-GENERAL ON SOUTH NYANZA SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of South Nyanza Sugar Company Limited set out on pages 27 to 71, which comprise of the statement of financial position as at 30 June, 2019, statement of profit or loss and other comprehensive income, statement of changes in net assets and the 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 the South Nyanza Sugar Company Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracy in Cash and Bank Balances

As disclosed in Note 20 to the financial statements, the statement of financial position as at 30 June, 2019 reflects cash and bank balances of Kshs.6,228,000. However, the balance excludes stale cheques amounting to Kshs.7,514,512 which had not been reversed in the cash book.

Consequently, the accuracy and completeness of the cash and cash equivalent balance of Kshs.6,228,000 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

2.0 Unsupported Receivables from Outgrowers

As disclosed in Note 19 to the financial statements, the statement of financial position reflects receivables from outgrowers balance of Kshs.299,555,000. The balance arose from the Company's provision of agricultural inputs and services to outgrowers and the related accrued interest. However, validation of the individual outgrowers' balances revealed several unsupported transactions in the outgrowers' ledger, inconsistent transactions between the underlying outgrowers files and ledger, and transactions in outgrowers files not recorded in the ledger. A provision for impairment of receivables from outgrowers totalling to Kshs.865,540,000 was made, an indication of the Management's inability to collect the debts.

Consequently, the accuracy, completeness and validity and recoverability of receivables from out growers of Kshs.299,555,000 reflected in the statement of financial position as at 30 June, 2019 could be confirmed.

3.0 Unsupported Deferred Income Tax

As disclosed in Note 25 to the financial statements, the statement of financial position reflects deferred income tax amounting to Kshs.26,944,000. However, the Management did not provide supporting analysis for the computation and justification for reporting the deferred income tax.

Consequently, the accuracy, completeness and validity of deferred income tax balance of Kshs.26,944,000 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the South Nyanza Sugar Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAIs 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.

Emphasis of Matter

Material Uncertainty in Relation to Going Concern

As disclosure in Note 4 to the financial statements, the statement of profit or loss and other comprehensive income reflects a net loss of Kshs.1,358,342,000. The Company incurred a net loss after tax of Kshs.1,345,564,000 (2018:Kshs.2,074,754,000) and had accumulated losses of Kshs.4,666,502,000 as at 30 June, 2019 (2018: Kshs.3,308,160,000).

Further, the statement of financial position reflects total current liabilities of Kshs.5,614,922,000 which exceeds the total current assets balance of Kshs.1,141,169,000 resulting to a negative working capital of Kshs.4,473,753,000 an indication that the Company may be experiencing financial difficulties in settling financial obligations as and when they may fall due. Management has however, stated that the Company's future existence as a going concern depends on implementation of various strategies, whose success is yet to be realized.

The financial statements have therefore been prepared on the going-concern basis on the assumption that the Company will continue to get financial support from the Government, shareholders and other creditors.

My opinion is not modified in respect of this matter.

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 Information

The Board of Directors is responsible for the other information. The other information comprises the Company's information, corporate governance and the report of Board of Directors as required by the Companies Act, 2015. The other information does not include the financial statements and the auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

In connection with my audit of the Company's financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Presentation of the Annual Report and Financial Statements

Management did not incorporate the statement for comparative budget and actuals amounts in the financial statements. This is contrary to the Public Sector Accounting Standards Board's revised financial reporting templates for National and County Entities where section 2.2.5 states that other amendments include elaborate details under corporate governance and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

Consequently, the Management is in breach of the law.

2.0 Irregular Payment of Sitting Allowances

The Company paid an officer from Inspectorate of State Corporations Kshs.317,600 as allowance for attending board meetings in a supervisory capacity. This was part of the officer's regular duties. The allowance was contrary to the Attorney General Circular AG/CONF/6/D/73 dated 22 August, 2013 that advised that sitting allowances or other remuneration is only payable to duly appointed chairperson and members of board attending a board meeting.

Consequently, the Management is in breach of the law.

3.0 Long Outstanding Trade and Other Payables

As disclosed in Note 26 to the financial statements, the statement of financial position reflects trade and other payables balance of Kshs.4,007,753,000. The balance includes other payables and accrued expenses amounting to Kshs.3,584,476,000 which includes outstanding Value Added Tax (VAT) and PAYE payables totalling Kshs.1,102,608,624 resulting from non-payment of principal amount, interest and penalties. Management has continued to indicate that some of the outstanding obligations had been paid and that it intends to approach the Kenya Revenue Authority for waiver of resultant interest and penalties.

Further, the balance includes other payables and accrued expenses totaling to Kshs.373,046,883. The balance constitutes statutory deductions which had not been remitted to the relevant bodies. Non-remittance of the statutory deductions is a breach of the law which will attract heavy penalties and interests for non-compliance which have not been disclosed in the financial statements.

In the circumstances, the Management is in breach of the law.

4.0 Unpaid Borrowings

As disclosed in Note 27 to the financial statements, the statement of financial position reflects borrowing balance of Kshs.1,945,573,000 which includes Government of Kenya Loan (GOK/ODA) loans of Kshs.794,628,000 and Commodity Fund loan of Kshs.454,834,000 which were due as at 30 June, 2019 but were not paid. The applicable penalties and interest have not been provided for in these financial statements.

Non-payments of loans is a breach of contract agreement which may attract heavy penalties and interests for non-compliance.

Consequently, the Management is in breach of the law.

5.0 Non-Compliance with Law on Ethnic Composition

During the year under review, the Company had 86% of employees from members of the dominant ethnic community in the county. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, “all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community”.

Consequently, Management is in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about 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. 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, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit 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.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. 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 the Kenyan Companies Act, 2015, except for the matters under the Basis for Qualified Opinion, Emphasis of Matter, Other Matter and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, 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 my audit;

- (ii) In my opinion, adequate accounting records have been kept by the Company, so far as appears those records; and
- (iii) The Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) 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, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to 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.

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 resources are applied in an effective way.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Company 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 overall 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 audit is planned and performed to express a conclusion about 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 and that public resources are applied in an effective way, 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.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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 Corporation'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 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

24 August, 2021