

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF EAST AFRICAN PORTLAND CEMENT PLC FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

The accompanying consolidated and the company financial statements of East African Portland Cement Company Limited (“the company”) and its subsidiary (“together with the group”) set out on pages 26 to 85, which comprise the consolidated and the company’s statement of financial position as at 30 June 2018, and the consolidated and the company statement of profit or loss and other 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, have been audited on my behalf by Deloitte and Touche, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of East African Portland Cement Company Limited as at 30 June 2021, 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 Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of East African Portland Cement Company Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code). I have fulfilled my other ethical responsibilities in accordance with the IESBA code and in accordance with other ethical requirements applicable to performing audit of other financial institutions 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.

Emphasis of matter

Material Uncertainty Related to Going Concern

I draw attention to note 2 in the consolidated and company financial statements, which indicates that the Group and Company incurred a loss from operations of Kshs.3,558,907,000 (2017: Kshs.1,316,283,000) and Kshs.3,883,780,000 (2017: KShs.1,277,816,000) respectively and, as at that date, the group’s current liabilities

exceeded its current assets by Kshs.6,007,396,000 (2017: Kshs.4,247,118,000) while the Company's current liabilities exceeded its current assets by Kshs.6,079,900,000 (2017: Kshs.3,987,186,000).

As stated in note 2, these events or conditions, along with other matters as set forth in the note, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. My opinion is not modified in respect of this matter.

Key Audit Matter

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the consolidated and company financial statements of the current period. These matters were addressed in the context of my audit of the consolidated and company financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. In addition to the matter described in the Emphasis of matter - Material Uncertainty Related to Going Concern section, I have determined the matter described below to be the key audit matter to be communicated in my report.

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p>Valuation of investment properties</p> <p>As disclosed in note 21 of the financial statements, as at 30 June 2018, the company and group's investment properties were valued at Sh 27.18 Billion (2017: Sh 15.9 Billion) representing 71% (2017: 58%) of the total assets of the group and 72% (2017: 57%) of the total assets of the company.</p> <p>The investment properties were professionally valued as at the end of the reporting period and the net fair value gain recognized in the profit or loss was Sh 11.3 Billion.</p> <p>The group's investment properties comprise land held for capital appreciation. The group uses external independent valuers for valuation of investment properties. The fair value of land was determined on an open market basis using the comparable sales approach, equating to the general land values where the properties are located.</p>	<p>I assessed the competence, capabilities and objectivity of the Group's independent valuers and verified their qualifications. In addition, I discussed the scope of their work with the directors and reviewed their terms of engagement to determine that there were no matters that affected their objectivity or imposed scope limitations upon them. I confirmed that the approaches they used are consistent with International Financial Reporting Standards (IFRS) and industry norms.</p> <p>I evaluated the valuers' judgements in relation to the significant assumptions made in adjusting the open market prices of recent sales of neighbouring properties to take into account the size of the group's land. I also evaluated the inputs used by the valuer in coming up with a model for determining the effect of the cost of evicting squatters and securing the properties on the value of the land. I also reviewed directors'</p>

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p>Significant judgement is required by the external independent valuers in determining the fair value of investment properties and in determining the effect of the cost of evicting squatters and securing the properties on the value of the land. Significant judgement is also required by the board of directors in establishing portions of land that are no longer being mined and are separable (having distinct title deeds) for purposes of reclassification from either leasehold land or property, plant and equipment to investment property.</p> <p>I identified the valuation of investment properties as representing a key audit matter due to the significance of the balance to the consolidated and company financial statements as a whole, combined with the judgement associated with determining the fair values.</p> <p>The inputs with the most significant impact on these valuations include assumptions made in adjusting values of recent sales of neighbouring properties to take into account the size of the group's land, the cost of evicting squatters and securing the properties and reclassification of portions of fully mined idle and separable from either leasehold land or property, plant and equipment to investment property.</p>	<p>basis for reclassification of land that is no longer being mined and is separable.</p> <p>My audit procedures also focused on reviewing the reasonableness of assumptions made and methodologies used to ensure that they are reasonable and appropriate given my understanding of similar valuations.</p> <p>I found that the models used for the valuation of the investment properties were appropriate, the significant assumptions made, and methodology used to be reasonable and appropriate.</p> <p>I also concluded that the basis for reclassification of fully mined idle and separable land was reasonable. In addition, the disclosures pertaining to the investment properties were found to be appropriate and comprehensive in the financial statements in terms of International Accounting Standard (IAS) 40, Investment Property.</p>

Other Information

The other information comprises the Chairman's Statement and the Managing Director Statement, which I obtained prior to the date of this auditor's report, and the rest of the other information in the Annual Report which is expected to be made available to me after that date, but does not include the financial statements and my auditor's report thereon. The directors are responsible for the other information. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, 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.

When I read the rest of the other information in the Annual Report and we conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

As required by Article 229(6) of the Constitution, 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.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS

As required by Section 7 (1) (a) of the Public Audit Act, 2015, I confirm that, nothing has come to my attention to cause me to believe that internal controls were not operating in an effective way.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (i) In my opinion, the information given in the report of the directors on pages 16 to 18 is consistent with the financial statements.
- (ii) In my opinion the auditable part of the directors' remuneration report on pages 19 to 21 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

Responsibilities of Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the Directors determine are necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the separate's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company and its subsidiary or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for the submission of the financial statements to the Auditor General in accordance with the provision of Section 47 of the Public Audit Act, 2015.

Auditor-General Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the consolidated and company 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 provision of Section 48 of the Public Audit Act, 2015 and submit the 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 consolidated and company 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, but not for the purpose of expressing an opinion on the effectiveness of the group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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 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 consolidated and Company 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 within the group to express an opinion on the consolidated and Company 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 we identify during our audit.

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



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

Nairobi

14 November, 2018