REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP) FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;

B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Disclaimer of Opinion is issued when the Auditor-General is unable to obtain sufficient appropriate audit evidence to form an opinion on the financial statements. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Muhoroni Sugar Company Limited (In Receivership) set out on pages 1 to 25, which comprise of the statement of financial position as at 30 June, 2025 and the statement of profit or loss & other comprehensive income, statement of changes in equity, statement of cash flows and 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Unsupported Transfer of Ownership

Review of information provided by Management indicated that as per a Cabinet Resolution, the Government of Kenya leased Muhoroni Sugar Company (In Receivership) to a company known as West Valley Sugar Company (Ltd) for a period of thirty (30) years. The Joint Receiver Manager officially handed over on 10 May, 2025. Management further explained that the lessee took over all the assets excluding motor vehicles and movable assets. However, the details of the assets transferred and ownership of the assets could not be confirmed due to lack of provision of the relevant records. Further, the fair value of the assets could not be confirmed contrary to IAS 17.11 which states that for a finance lease, at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. In addition, the price of the lease was not determined.

In addition, Management have not provided an inventory of all the motor vehicles and movable assets excluded from the lease including their valuation, status report and location.

In the circumstances, the credibility of the transfer of ownership and existence of an effective mechanism to safeguard company's assets and premises could not be confirmed.

2. Unconfirmed Transitional Process of Union Workers

Review of records provided by Management revealed that the Government of Kenya leased Muhoroni Sugar Company (In Receivership) to the West Valley Sugar Company (Ltd). Communication by the Cabinet Secretary, Ministry of Agriculture and Livestock Development referenced MOA/S.11/17A/VOL.IV/(5) dated 9 May, 2015 to the Joint Receiver Manager indicated that the leasing process was concluded and the official handover took place on 10 May, 2025. Further, the Joint Receiver Manager vide circular Ref REC/RM/22/2025 dated 15 August, 2025 indicated that termination of services by employees and declared all positions redundant by 31 October, 2025. However, review of the payables of the Company revealed that Kshs.794,352,533 remained outstanding as at 30 June, 2025. The current status of the pending staff arrears is yet to be provided for audit review. Further, a signed and agreed Memorandum of Understanding between the Government and Kenya Union of Sugar

Plantation and Allied Workers detailing the transition terms and conditions of workers' welfare has not been provided for review.

In the circumstances, it was not possible to confirm the regularity of the declaration of the redundancies.

3. Inaccuracies in the Financial Statements

Review of the financial statements submitted for audit revealed various inaccuracies as detailed below:

i. The statement of financial position and Note 10 to the financial statements reflects growing produce of Kshs.323,792,545. However, the corresponding explanatory note is disclosed under Note 11 to the financial statements. Similarly, the statement reflects committed sugar and due to related party of Kshs.210,450,877 and Kshs.185,362,290 respectively which has no corresponding explanatory note.

ii. The statement of profit or loss and other comprehensive income reflects revenue, cost of sales and administrative expenses whose corresponding explanatory notes are not indicated on the face of the financial statements.

iii. Further, the statement reflects other operating income of Kshs.16,141,505. However, the explanatory Note 30 to the financial statements includes gain on biological assets of Kshs.373,225,040. The note does not indicate the total income.

In the circumstances, presentation, accuracy and completeness of the financial statements could not be confirmed.

4. Variances in the Financial Statements

Review of the annual report and financial statements revealed variances between the amounts reflected in the statement of profit or loss and other comprehensive income and statement of financial position with the ledgers and supporting documents as indicated below:

i. The statement of profit or loss and other comprehensive income and as disclosed in Note 31 to the financial statements reflects an amount of Kshs.430,744,448 in respect of administrative expenses. However, the ledgers provided for audit revealed an amount of Kshs.36,887,713, resulting in an unreconciled and unexplained variance of Kshs.393,856,736. Included in the ledger balance of Kshs.36,887,713 is an expenditure of Kshs.970,203 which was not reported in the financial statement.

ii. Further, the statement of financial position reflects a balance of Kshs.185,362,290 relating to due to related parties whose supporting ledgers were not provided for audit review.

iii. The statement of financial position and as disclosed in Note 9 to the financial statements reflects property, plant and equipment balance of Kshs.3,511,599,179 which differs with the ledger balance of Kshs.3,641,962,878 resulting to an unreconciled variance of Kshs.130,363,699.

In the circumstances, the accuracy and validity of the balances reflected in the financial statements could not be confirmed.

5. Inaccuracies of the Cost of Sales

The statement of profit or loss and other comprehensive income and as disclosed in Notes 26 and 28 to the financial statements reflects cost of sales of Kshs.1,385,226,685 comprising of cane purchases and factory costs of Kshs.861,752,452 and Kshs.523,474,232 respectively. However, review of the factory costs schedules revealed that costs relating to oils, process chemicals and packaging materials totalling Kshs.19,981,958 were omitted from the ledger due to offsetting of these transactions in the ledger. The omission of the factory costs was contrary to IAS 1.15.

Further, the factory costs of Kshs.523,474,232 included electricity and water costs of Kshs.14,499,202. However, review of the supporting schedule revealed that electricity expenses amounting to Kshs.3,411,261 related to the year ended 30 June 2024 which was contrary to National Treasury circular on guidelines on the year end closing procedures for financial year 2024/2025 Ref No. AG.3/88/Vol. VII (43).

In the circumstances, accuracy and completeness of the cost of sales of Kshs.1,385,226,685 could not be confirmed.

6. Unsupported Cash and Bank Balances

The statement of financial position reflects bank balance of Kshs.510,662. However, the bank reconciliation statements in support of the balance were not provided for audit. Further, the certificate of bank balances in respect of Standard Chartered Bank (0102098543200), National Bank of Kenya (0102007885400) and cash certificate in support of Kshs.19,286, Kshs.17,000 and Kshs.41,173 respectively were not provided for audit review.

In the circumstances, the accuracy and fair statement of the bank balance of Kshs.510,662 could be confirmed.

7. Overstatement of Growing Produce

The statement of financial position and Note 11 to the financial statements reflects a balance of Kshs.323,792,545 in respect of growing produce. Review of the significant assumptions made and disclosed indicated that the valuation of growing produce was based on a market price of Kshs.5,500 per tonne of sugar cane and that cane of six (6) months and below is assumed to be immature cane. However, review of the supporting documentation and data used to compute the fair value figures revealed that the actual assumptions made at the value was based on a market price of Kshs.4,359 per tonne of cane. This resulted to overstatement of growing produce by Kshs.1,141 per tonne. No justifiable explanation was provided for the overstatement.

In the circumstances, the accuracy and completeness of growing produce balance could not be confirmed.

8. Unsupported Trade Payables

The statement of financial position and as disclosed in Note 16 to the financial statements reflects a balance of Kshs.3,058,745,788 in respect of trade and other payables. However, the balance was not supported with detailed ledgers or schedules and an ageing analysis per category showing the opening balance, additions and payments in the year to arrive at the closing balance. Further, supporting documents including LPOs, invoices, vouchers, certificates and creditors' statements were not provided for audit review. Although the Management has explained that the payables were verified by the Presidential Pending Bills Taskforce, the official report on the balances was not provided for audit review.

Further, the trade and other payables balance includes employee related payables of Kshs.794,352,533 which remained outstanding as at 30 June, 2025. However, Management did not provide details of the staff members and respective arrears.

In the circumstances, the accuracy and completeness of trade payables balance of Kshs.3,058,745,788 could not be confirmed.

9. Unsupported Grant Income

The statement of profit or loss and other comprehensive income and Note 4 to the financial statements reflects an amount of Kshs.373,225,040 in respect of grants income related to direct payments by Government of Kenya. However, a detailed analysis of the suppliers whose arrears were defrayed were not provided for audit.

In the circumstances, the accuracy and completeness of the grant income amount of Kshs.373,225,040 could not be confirmed.

10. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a revenue budget of Kshs.3,106,662,195 and actual amounts realized of Kshs.1,568,684,872 resulting to an under-collection of Kshs.1,537,977,323 or 50% of the budget. The under-collection is attributed mainly due to less than anticipated cane supply and production. Further, the Company reported operating expenses of Kshs.1,815,971,133 out of the approved budget of Kshs.2,629,165,312 resulting to under expenditure of Kshs.813,194,179 or 31% of the final budget.

In the circumstances, the under expenditure affected the implementation of activities and may impact negatively on service delivery.

11. Non-Remittance of Statutory Deductions

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.3,058,745,788 which, as disclosed in Note 16 to the financial statements, includes unremitted statutory deductions of Kshs.658,853,083. However, Management did not provide evidence to confirm that the statutory deductions were remitted to the beneficiary organizations. This is contrary to Section 19(4) of Employment Act, Cap 226, which require that an employer who deducts an amount from an employee's remuneration in accordance with subsection (1)(a), (f), (g) and (h) of the Act shall pay the amount so deducted in accordance with the time period and other requirements specified in the law, agreement, court order or arbitration as the case may be.

In the circumstances, Management was in breach of law.

12. Non-Submission of Quarterly Reports

During the year under review, Management did not provide quarterly reports relating to the Company containing information on the financial and nonfinancial performance in a form that complies with the standards prescribed and published by the Public Sector Accounting Standards Board from time to time. This was contrary to Section 166(4) of the Public Finance Management Act, 2012 which states that not later than one month after the end of each quarter, the County Treasury shall consolidate the quarterly reports and submit them to the county assembly; deliver copies to the Controller of Budget, National Treasury and the Commission on Revenue Allocation; and publish and publicize them.

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

13. Unsupported Tender Evaluation and Awarding Process

Review of procurement records in respect of repairs and maintenance revealed that the Management did not provide the following procurement records for audit verification;

i. Letter of notification of award to the successful tenderer in accordance with Section 87 of the Public Procurement and Asset Disposal Act, 2015 which requires that a person submitting the successful tender is notified under subsection (1), the accounting officer of the procuring entity shall also notify in writing all other persons submitting tenders that their tenders were not successful, disclosing the successful tenderer as appropriate and reasons thereof.

ii. Letter of acceptance from the successful bidder as per Section 87(2) of the Public Procurement and Asset Disposal Act, 2015.

iii. Notification to unsuccessful bidders in accordance with Section 87(3) of the Public Procurement and Asset Disposal Act, 2015.

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

14. Irregular Procurement of Production Supplies

Review of records showed that payments were made for the supply and delivery of various factory supplies amounting to Kshs.5,996,176. However, the supplies were made without purchase orders contrary to Regulation 166(1) of the of the Public Procurement and Asset Disposal Regulations, 2020 which provides that an accounting officer of a procuring entity shall only receive works, goods or services pursuant to section 159 of the Act based on a purchase order, service order or signed contract. Further, Management procured production items totalling Kshs.4,120,056 from various suppliers. However, the procurement details were not supported with approved Goods Received Notes and merchant's invoices. This was contrary to Regulation 139 (3) of the of the Public Procurement and Asset Disposal Regulations, 2020.

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

15. Irregular Procurement of Sugar Bagging and Branding Services

During the year under review, Management awarded two (2) companies, contracts for sugar bagging and sugar branding under the tender reserved for the Youths, Women and Persons with Disabilities. However, review of the tender evaluation report dated October, 2024 revealed that under preliminary evaluation criteria, the awarded bidders did not submit AGPO Certificate documents which was a mandatory requirement. This was contrary to Regulation 75(1) of the Public Procurement and Assets Disposal Regulations, 2020 which provides that, a procuring entity shall reject all tenders, which are not in conformity to the requirements of section 79 of the Act and Regulation 74 of these Regulations. Further, there was no evidence of notification of award to the successful tenderer was issued in accordance with Section 87 of the Public Procurement and Asset Disposal Act, 2015 which requires that a person submitting the successful tender is notified under subsection (1), the accounting officer of the procuring entity shall also notify in writing all other persons submitting tenders that their tenders were not successful, disclosing the successful tenderer as appropriate and reasons thereof.

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

16. Irregular Procurement of Security Services

Note 34 to the financial statements reflects an amount of Kshs.27,360,142 in respect of indirect general expenses. Review of payment records revealed that Management entered into a contract for the provision of security services and incurred expenses amounting to Kshs.15,372,983. However, audit of the procurement process documents revealed that the provision of security services was not included in the procurement plan for 2024-2025 contrary to Section 45(3)(a) of the Public Procurement and Asset Disposal Act, 2015 which states that all procurement processes shall be within the approved budget of the procuring entity and shall be planned by the procuring entity concerned through an annual procurement plan.

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

17. Irregular Commitment of Funds

Review of records obtained revealed that Local Purchase and Service Orders (LPOs and LSOs) amounting to Kshs.3,181,091 were committed past 31 May, 2022 for repairs and installing of new tracking system on tractors and vehicles without approval of the Accounting Officer, contrary to Regulation 51(1) of the Public Finance Management (National Government) Regulations, 2015 which requires that all commitments for supply of goods or services shall be done not later than May 31 each year except with the express approval of the Accounting Officer in writing. The written approval by the Accounting Officer for the commitment of funds past the allowed date was not provided for audit review.

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

18. Staff Over Establishment

Review of the Company's staff establishment revealed that Management approved sixty-eight (68) employees in the sampled departments. However, review of the April, 2025 payroll data revealed that the Company had twenty-seven (27) employees resulting to excess staff by forty-one employees. This is contrary to Section A.15 of the Human Resource Policies and Procedures Manual for Public Service, May, 2016, which states that the functions of Ministerial Human Resource Management Advisory Committees (MHRMAC) entail making recommendations to the Authorized Officer regarding: - inter alia (viii) establishment and complement control. In the circumstances, Management was in breach of the public service policies and procedures.

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

19. Unearned Revenue from Sale of Sugar

The statement of profit or loss and other comprehensive income reflects revenue amount of Kshs.1,179,318,326 in respect of cane and molasses sale. Review of sales records show that Management had unexecuted sugar orders of Kshs.216,497,949 as at 30 June, 2025 an indication that the company was financing its operations through customer borrowings. This was contrary to Section 7.2.1.14 of the Operating Procedure for Sales and Marketing, 2016 which require that the sales, marketing and planning Manager shall ensure that processing sales orders from the time of receipt of customer order to Chief Accountant take no more than 20 minutes to enhance efficiency. The subsequent clearing processes lasting more than 50 minutes will attract Sales and Marketing Manager intervention.

In the circumstances, it was not possible to confirm existence of effective internal controls to ensure efficient sale of sugar.

20. Incomplete Fixed Assets Register

The statement of financial position and as disclosed in Note 9 to the financial statements reflects an amount of Kshs.3,511,599,179 in respect of property, plant and equipment. However, Management did not maintain a fixed asset register to record critical details of the assets indicating their nature, date of purchase, amount, unique identifier number, depreciation among other details. This was contrary to Regulation 139(1) of the Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer of a National Government entity to take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage, and misuse and that movement and conditions of assets can be tracked.

In the circumstances, the effectiveness of internal controls on safeguarding fixed assets could not be confirmed.

21. Grounded Motor Vehicles and Machineries

Review of the status of the Company's fleet of motor vehicles and machineries revealed that fifty-nine (59) motor vehicles and heavy machinery were grounded with no indication of whether the vehicles would be repaired or disposed of as required by Section 163(1) of the Public Procurement and Disposal Act, 2015. Physical verification of the vehicles at the garage in June, 2025 confirmed that they were dilapidated and were way beyond their economic value. Additionally, one hundred and twelve (112) machinery and motor vehicles were scrapped, grounded and obsolete and were marked for disposal with no indication of whether there were plans to dispose the vehicles, which continue to depreciate in value.

In the circumstances, effectiveness of mechanisms in safeguarding motor vehicles and machines could not be confirmed.

22. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised in the Disclaimer of Opinion. However, although Management has indicated that it has resolved most of the issues, there was no evidence provided to indicate that the issues had been resolved as indicated in the attached **Appendix I**.

REPORT ON THE LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

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

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Conclusion

As required by the Companies Act, 2015, I report based on my audit that I did not obtain all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of the audit.

Responsibilities of the Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Company'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 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 comply 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 Company's financial reporting process, reviewing the effectiveness of how Management 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

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

09 December, 2025

APPENDICES

Appendix I :Unresolved Prior Year Matters

S/No	Matter
1.	Variances in the Financial Statements
2.	Unsupported Administrative Expenses
3.	Unsupported Taxes and Loan Written Off
4.	Non – Compliance with the Public Sector Accounting Standards Board Reporting Framework
5.	Unsupported Fair Value Gain
6.	Inaccurate Disclosure of Revenue
7.	Customer Rebates Without Approval
8.	Unsupported Grants Income
9.	Variance Between the Financial Statements and Payroll Records
10.	Material Uncertainty Related to Going Concern
11.	Omitted Property, Plant and Equipment
12.	Fully Depreciated Assets
13.	Variance in Growing Produce
14.	Unsupported Trade Receivables
15.	Management of Inventories
16.	Unsupported Cash and Bank Balances
17.	Unsupported Transactions with Related Parties
18.	Unsupported Trade Payables
19.	Non- Remittance of Statutory Deductions
20.	Inadequate Procurement Controls
21.	Irregular Procurement of Tractor
22.	Failure to Conduct a Market Survey in Procurement of Fertilizer
23.	Failure to Comply with Prescribed Procurement Thresholds
24.	Irregular Procurement of Specialized Parts
25.	Lack of Approved Human Resource Policy
26.	Overpayment of Salaries
27.	Non-Compliance with a Third Rule
28.	Staff Serving in Acting Capacity
29.	Employees in Service Beyond the Retirement Age
30.	Staff under Establishment
31.	Non-Compliance with Affirmative Action on Gender, Ethnicity and Regional Distribution
32.	Regularity of Imprest Management
33.	Lack of Standard Costing
34.	Significant Assumptions Fair Value of Growing Produce
35.	Long Outstanding Salary Arrears
36.	Weaknesses in Internal Audit Function
37.	Failure to Maintain a Fixed Assets Register
38.	Unresolved Prior Year Matters
39.	Contingent Liabilities