

REPUBLIC OF KENYA



THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 02 FEB 2022	DAY: Wed
TABLED BY: LDM	
CLERK-AT THE-TABLE: Per Petual Karani	

REPORT

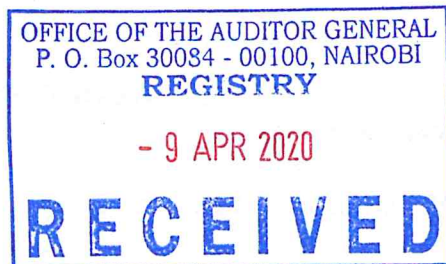
OF

THE AUDITOR-GENERAL

ON

WESTERN KENYA RICE MILLS LIMITED

**FOR THE YEAR ENDED
30 JUNE, 2019**



WESTERN KENYA RICE MILLS LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING

JUNE 30, 2019

**Prepared in accordance with the Accrual Basis of Accounting
Method under the International Financial Reporting
Standards (IFRS)**

WESTERN KENYA RICE MILLS.
Annual Reports and Financial Statements.
For the year ended June 30, 2019

TABLE OF CONTENTS

KEY ENTITY INFORMATION	iii
KEY ENTITY INFORMATION CONTINUED.....	iv
THE BOARD OF DIRECTORS	v
MANAGEMENT TEAM	xi
CHAIRMAN'S STATEMENT	xiii
REPORT OF THE MANAGING DIRECTOR	xiv
CORPORATE GOVERNANCE STATEMENT	xvi
MANAGEMENT DISCUSSION AND ANALYSIS.....	xviii
CORPORATE SOCIAL RESPONSIBILITY	xxx
REPORT OF THE DIRECTORS	xxi
STATEMENT OF DIRECTOR'S RESPONSIBILITY	xxiii
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR YEAR ENDED JUNE 30 2019.....	1
STATEMENT OF FINANCIAL POSITION AS AT JUNE 30 2019	2
STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 30 JUNE 2019.....	3
STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2019.....	4
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT FOR THE PERIOD ENDED 30 JUNE 2019.....	5
NOTES TO THE FINANCIAL STATEMENTS.....	7
APPENDIX 1: PROGRESS ON FOLLOW-UP ON AUDITOR RECOMMENDATION.....	1

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.

For the year ended June 30, 2019

KEY ENTITY INFORMATION

Background Information

Western Kenya Rice Mills (WCRM) Ltd was incorporated in 1993 under the Companies Act, CAP 486(now repealed and substituted with Companies Act 2015). National Irrigation Board (60% shareholding and Western Kenya Schemes Rice Farmers at 40% of shareholding) jointly owns the Company. The Company is domiciled in Kenya and is located in Kisumu County.

However, because the farmers have never completed their payment, the current state is that NIB holds 76.5%, Ahero Scheme farmers 11.7%, West Kano Scheme farmers 5.7% and Bunyala Scheme farmers 6.1%

Principal Activities

The principal activity of the Company is processing and marketing of milled white rice mainly from Western Kenya Schemes. However, due to changes in the business environment, the Company sometimes deals in the marketing of paddy and also purchasing of processed rice and selling to its customers.

The mill has an installed milling capacity of 3.5 metric tons per hour, but which is not maximized due to inadequate market outlets.

The mill markets its products as Aromatic Pishori and Non-Aromatic Ahero Rice. The by-products are mainly: Broken rice, Chicken feed and Rice bran

WCRM also undertakes commercial milling on behalf of clients. Our major client is National Cereals and Produce Board (NCPD). Our target customers are Vendors, Schools, Universities, Hospitals and Institutions like KNTC, wholesalers and individual buyers.

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.

For the year ended June 30, 2019

KEY ENTITY INFORMATION (Continued)

BOARD OF DIRECTORS:

Hon. Eng. Joshua N. Toro
Mr. Mudzo Kuhenderwa Nzili
Mr. Gitonga Mugambi
PS. Ministry of Water & Irrigation
PS. Ministry of Finance
Mr. Jason Ong'any
Mr. Michael Congo Ouma
Mr. David Odhiambo Ndhine

REGISTERED OFFICE

Head Office
Lenana Road
Unyunyuzi House
P O BOX 30372-00100
NAIROBI

COMPANY HEADQUARTERS:

P O BOX 1010 KISUMU

INDEPENDENT AUDITORS:

Auditor General-Kenya
National Audit Office (KENAO)
P O BOX 30084-00100
NAIROBI

PRINCIPAL LEGAL ADVISERS:

The Attorney General
State Law Office
Harambee Avenue
P O BOX 40112
City Square 00200
NAIROBI, KENYA

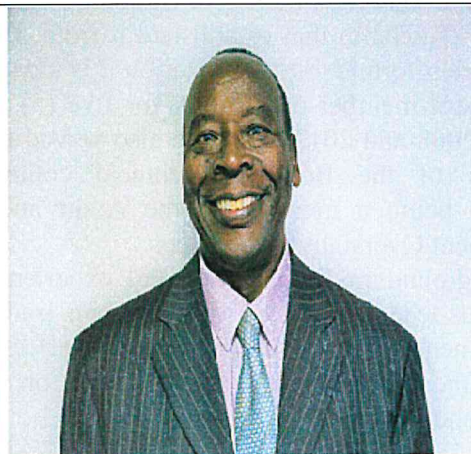
Lillian G Kimani
Fortis Suites, 2nd Floor
P O BOX 73076-00200
NAIROBI

CORPORATE BANKERS:

Kenya Commercial Bank Ltd
Kencom House
P O BOX 30081
NAIROBI

Kenya Commercial Bank Ltd
P O BOX 30081
KISUMU

BOARD OF DIRECTORS



Hon. Eng. Joshua N. Toro – Chairman

Hon. Eng. Joshua Ngugi Toro was appointed as the Chairman of NIB Board of Directors on May 3, 2019 via the Kenya Gazette special issue Vol. CXXI.56. He holds Bachelor of Science Degree in Mechanical Engineering from the University of Nairobi. He is a registered Engineer by Engineers Registration Board and a member of the Institution of Engineers of Kenya.

His Engineering career started immediately after graduating in 1977 at Kenya Railways Corporation (KRC). While at KRC, he was seconded to the Union of African Railways Headquarters in Kinshasa, Democratic Republic of Congo as Head of Engineering between 1989 and 1992. The Union is a specialized agency of the African Union (AU) responsible for the promotion of railway network interconnection and transportation of goods and passengers within African Countries. As Head of Engineering, he was responsible for research and feasibility studies, policy development for acquisition, design, renewal and standardization of rolling stock and equipment and evolution of maintenance standards for the members' railways. The Government of Kenya accorded him Diplomatic status during this period (1989 to 1992).

Hon. Eng. Toro served as a Member of Parliament for Kandara Constituency for ten (10) years from 1997 to 2007. H.E Mwai Kibaki, who was the Official Leader of Opposition then, appointed him shadow Minister for Roads, Public Works and Housing in parliament for five (5) years between 1997 and 2002. He also served as the Vice Chairman of the Parliamentary Committee for Labour, Health, Housing and Social Welfare between 1997 and 2002.

He was appointed by the then President H.E Mwai Kibaki as an Assistant Minister for Roads, Public Works and Housing for five (5) years between 2003 and 2007. While in Parliament, he served as Member of African Parliamentarians Network Against Corruption (APNAC) that is affiliated to the Global Organization of Parliamentarians Against

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.

For the year ended June 30, 2019

	<p>Corruption between 1997 and 2009.</p> <p>Hon. Eng. Toro was one of the pioneer members of the Board of Directors of Kenya National Highways Authority (KeNHA) that established it from scratch to the current formidable organization it is today. He was a Board member at KeNHA for five (5) years between 2008 and 2012 where he also served as the Chairman of the Board's Technical committee alongside being a member of the Audit and the Procurement Oversight Committees.</p> <p>His background in Engineering and experience in the various leadership roles will help him lead NIB in implementing its mandate so as to effect and promote the Government's Big4 Agenda on Food Security and Nutrition.</p>
	<p>MR. MUDZO KUHENDERWA NZILI-CHAIRMAN</p> <p>Mr. Mudzo was appointed as the Chairman to the Board on 5th June 2018. He holds Master's Degree in Business Administration (MBA) from Kenya Methodist University (KeMU) Nairobi Campus, Bachelor's Degree in Travel and Tourism Management (First Class Honors) from Kenya Methodist University (KeMU) Nairobi Campus) and Diploma in Tourism and Business Studies. He brings in wide range of leadership experience. He served as the chairperson of Kenya National Union of Teachers (KNUT), Vice Chairperson NHIF, Acting Chairperson NHIF, Assistant Deputy Secretary General Kenya National Union of Teachers, Assistant Secretary General, Kenya National Union of Teachers, member of National Executive Council Coast Region (KNUT) and Executive Secretary (Kinango Branch) KNUT. He also attended African Corporate Governance Conference in Johannesburg South Africa and Universal Health Training in Thailand.</p>

WESTERN KENYA RICE MILLS.

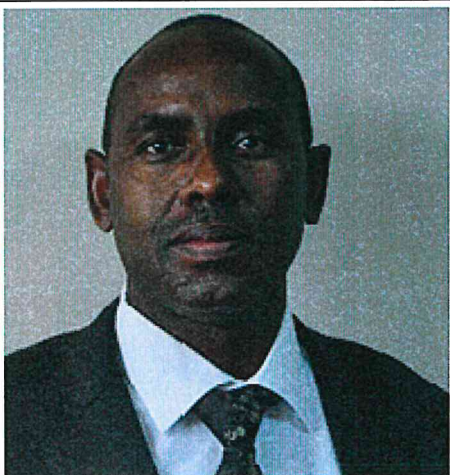
Annual Reports and Financial Statements.

For the year ended June 30, 2019



MR. GITONGA MUGAMBI - MANAGING DIRECTOR

Mr. Gitonga Mugambi was appointed the General Manager of National Irrigation Board on 1st August 2017. He is also the Managing Director of the Company by virtue of him being the General Manager of the National Irrigation Board. He holds Bachelor of Science degree in Agriculture from University of Nairobi and holds MBA in Strategic Management from Kenya Methodist University. Mr. Gitonga Mugambi is a well-accomplished agriculturalist with experience of over 25 years in Planning and Strategy, Resource Mobilization, Formulation of irrigation development programmes such as Economic Stimulus Programme. His experience is valuable in policy formulation, implementation and management of Western Kenya Rice Mills Ltd.



STEPHEN IKUA, REPRESENTATIVE OF THE PRINCIPAL SECRETARY, STATE DEPARTMENT OF IRRIGATION, MINISTRY OF AGRICULTURE LIVESTOCK FISHERIES AND IRRIGATION

Mr. Stephen Ikua, representative of the Principal Secretary, State Department of Irrigation, Ministry of Agriculture, Livestock, Fisheries and Irrigation.

He holds a Bachelors of Arts Degree from University of Nairobi and Masters in Business Administration, Strategic Studies from Moi University. He has also attended a number of local and overseas courses.

He has served the Public Service in various capacities from a District Office, District Commissioner, and County Commissioner. His experience in Public Service spans 30 years.

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.



For the year ended June 30, 2019

	<p>MR. MICHAEL CONGO OUMA, NON – EXECUTIVE DIRECTOR</p> <p>Mr. Michael Congo Ouma joined the Company’s Board on 29th May 2018. He is a Non-Executive Director representing Magombe Multi-Purpose Co-operative Society Ltd, an umbrella Society of farmers in Bunyala Irrigation Scheme and a shareholder of the company.</p> <p>His previous assignments include, a member of the Steering committee Bunyala Family Development project funded by World Vision Kenya from 1988-1997, Secretary to Ford Kenya Budalangi Sub-Branch in 1996 and Councilor Bunyala South Ward as well as Chairman of the Full Council (Busia County Council) from 1999-2007.</p>
	<p>MR. OBURA OWUOTH, NON - EXECUTIVE DIRECTOR</p> <p>Mr. Owuoth was appointed to the Board on 5th December 2015 as a non-Executive Director representing West Kano Farmers’ Co-operative Society Ltd. He has been the West Kano farmers scheme Chairman since 1981. He previously served in the Board between 1994 to 2001.</p> <p>He is a holder of Association of Chartered Certified Accountants (ACCA) part 2 certificate. He has previously worked as an Accounts Assistant with Kenya Shell & British Petroleum and Kenya Power as Deport Manager in Nairobi.</p> <p>He was appointed a councilor representing Kawino Ward, Kisumu County from 1983 to 1988.</p>

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.



For the year ended June 30, 2019

	<p>MR DAVID ODHIAMBO NDHINE, NON-EXECUTIVE DIRECTOR</p> <p>A Committed lecturer with over 6 years' experience. He holds an MBA in Finance, a Post Graduate Diploma in Marketing and A Bachelor of Arts in Administration.</p> <p>He was the Centre Manager/ Lecturer at Dalc Education from 2010-2013. Principal/Lecturer at Ribm Maseno University, Migori Campus as from August 2013 to May 2014. Part-Time Lecturer at Kisii University as from April 2016 to August 2017.</p> <p>He is currently a Part-Time Lecturer at Laikipia University from April 2015, at Jaramogi Odinga Oginga University, teaching undergraduates; Financial management, Marketing strategy and planning, Business Ethics and Cost Accounting</p>
	<p>MR. JOE PETER ONYANGO, NON-EXECUTIVE DIRECTOR</p> <p>Mr. Joe Peter Onyango joined the Company's Board in 2012. He is a Non-Executive Director representing Ahero Multi-Purpose Co-operative Society Ltd, which he joined as a member in 1994.</p> <p>He is a retired Career Banker having served Barclays Bank of Kenya Ltd for 29 years in various capacities including Branch Manager in various towns, Operations Manager, Advances (Risk) Manager and Branch Accountant. He is also a Tutor in the profession.</p> <p>Mr. Onyango brings vast knowledge, experience, leadership gained from irrigated, and rain fed rice farming, horticulture, poultry, pig, bee keeping and fish farming in the region.</p>

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.

For the year ended June 30, 2019

	<p>MR JASHON ONG'ANY, NON-EXECUTIVE DIRECTOR</p> <p>Joined the board in 2019 representing Ahero Multipurpose Co-operative Society. He is a retired police officer, was holding the post of senior superintendent of police having served for 34 years. He headed various countries on criminal investigations within the Republic of Kenya.</p> <p>He is also a holder of Diploma in public Relations and Ethics from Kenyatta University and a holder Masters degree in Peace Conflict studies from Kampala University. He is currently a director of Jashon Security Services (a company dealing with investigations and security management). He is also a staunch rice farmer at Ahero Irrigation Scheme.</p>
	<p>MR. CHARLES KAIRU – ALTERNATE TO PRINCIPAL SECRETARY, MINISTRY OF FINANCE, NON-EXECUTIVE DIRECTOR</p> <p>Mr. Charles Kairu was appointed to the Board on 14th October 2015 as alternate Director to the Principal Secretary, National Treasury. He is a holder of a Master Degree in Development Economics from Williams College, USA and a Bachelor's Degree in Economics from the University of Nairobi. He has over 30 years' experience in the Public Service and is currently serving as Senior Assistant Director in the Public Debt Management Office at the National Treasury.</p>

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.

For the year ended June 30, 2019

MANAGEMENT TEAM

The management team comprises of the Managing Director, the Deputy General Manager and the Company Secretary as follows:

	<p><i>Mr. Gitonga Mugambi, - Managing director.</i></p> <p>Mr. Gitonga Mugambi was appointed the General Manager of National Irrigation Board on 1st August 2017. He holds Bachelor of Science degree in Agriculture from University of Nairobi and holds MBA in Strategic Management from Kenya Methodist University. Mr Gitonga Mugambi is a well-accomplished agriculturalist with experience of over 25 years in Planning and Strategy, Resource Mobilization, Formulation of irrigation development programmes such as Economic Stimulus Programme. His experience is valuable in policy formulation, implementation and management of National Irrigation Board.</p>
	<p><i>Mr. Daniel Atula Masatia, - Deputy General Manager – Operation and Irrigation Management Services.</i></p> <p>Mr. Daniel Atula Masatia was appointed to the post of Deputy General Manager Operations of National Irrigation Board on 1st February, 2018. He holds Bachelor of Science degree in Agriculture from University of Nairobi and is currently pursuing his MBA in Strategic Management. Mr Daniel Masatia is a well accomplished agriculturalist and manager with experience of over 25 years in scheme, projects and research operations, planning and Strategy formulation and implementation, Resource Mobilization, Formulation and execution of irrigation programmes ranging from development to operations. His experience and expertise is valuable in policy formulation and in the provision of irrigation services.</p>

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.

For the year ended June 30, 2019

	<p>Mr. Dennis Banda Aroka, - LLB (HONS.), EMBA, FCPS (K) - Company Secretary.</p> <p>Mr. Dennis Banda Aroka-Company Secretary of National Irrigation Board and Western Kenya Rice Mills. Prior to joining the Board in 2012, he had practiced as a consultant Company Secretary and held other similar positions for over 20 years. He holds an Executive MBA from Moi University. He also holds LLB (Hons) from Catholic University of East Africa. He is a Fellow Member of the Institute of Certified Public Secretaries of Kenya and has previously held the position of Council Member of the same institute</p>
	<p>Nancy M. Wambugu, Head of ICT</p> <p>Nancy is currently the Head of ICT Services and Acting Company Secretary at National Irrigation Board. She has over 13 years of experience in ICT Infrastructure operations, Information Security and Innovations in both private and public sectors. She is a holder of BSC, Information Technology, and currently undertaking MSC Information Security at Strathmore University. She also holds a Diploma in Computer Studies, CCNP, A+ and N+ Certifications. Her immersive contribution in ICT Service delivery in the Public Service has seen her awarded a Certificate of Excellence in Public Sector Innovation, 2011 Edition, by the Head of Public Sector in Kenya. She has greatly contributed to the transformation of National Irrigation Board in digitization and automation processes.</p>

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.

For the year ended June 30, 2019

CHAIRMAN'S STATEMENT

The year ended 30th June 2019 was a very challenging one in terms of achieving the company's objectives. The company faced acute paddy shortage and loss of critical market, which led to low production, and underutilization of the factory operations as the milling plant went down as from June 2018 leading into a loss at the end of the year. This was occasioned by delayed paddy payments by the county Government of Kisumu.

Despite the significant challenges faced by the company during the year under review, the Board constituted and approved a taskforce to look into the operations of the company and recommend a turn-around strategy that will give a road map to the recovery of Western Kenya Rice Mills. Capital outlay has been a serious challenge to the company making it unable to meet the demand of the market. With cutthroat competition in the rice sub-sector, there is need to focus on putting in place strategic measures to ensure that the company regains its position as the leading rice miller in western Kenya. With the recommendations of the taskforce committee, I am optimistic the company will raise over Kshs. 50M as working capital through loans to be able to remain afloat and improve its business objective through paddy purchases, modernizing & improving the milling plant, putting in place a marketing strategy and expansion of market outlets. The board will remain steadfast in supporting the management acquire the necessary capital and human resource so as ensure the mill turns in to profitability.

The future of the rice sub-sector will be vibrant due to the initiatives being implemented by the Government under the Big 4 Agenda, specifically targeted at increased acreage under rice production. We are therefore looking forward to aligning ourselves with the ever-changing consumer and market needs, government policy shifts, and changing business environment. It is our hope that once the mill is capitated, it will increase its turnover and eventually realize profits. Finally, I wish to take this opportunity to convey my appreciation to my fellow directors for their support and diligence and to the management and staff for their hard work.

Sign.....

Date.....18/03/2020.....

Hon. Eng. Joshua N. Toro

CHAIRMAN, WESTERN KENYA RICE MILLS LTD

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.

For the year ended June 30, 2019

REPORT OF THE MANAGING DIRECTOR

I note the remarkable efforts and support accorded by the Board of Directors, Management and staff during the 2018/19 FY. The performance of the company has declined as compared to the last financial year. The decline is attributed to the non-availability of the raw material (paddy) during the year under review majorly due to harsh weather effects.

The core business of Western Kenya Rice Mills Ltd has been milling and marketing of rice mainly from Ahero and West Kano Irrigation Scheme. In this way, WKRM has remained committed to promoting the productivity of the schemes. The Mills endeavors to play pivotal role in value-addition and generation of rural employment and economic growth for the local and regional population. Our overall goal is to ensure food security, stable paddy and rice prices and increased consumption of rice through improved market access. The year 2019 was a challenging year for the company in execution of its core business because of inconsistent paddy supply due to drought within the schemes that affected rice production as well as hailstorm effects occasioned by the bad weather effects in the region.

Milling income dropped drastically over the year due to withdrawal of NCPB milling contract owing to inefficient mill that had no color-sorter, moist polisher, and destoner, hence resulting into low quality rice. Need to modernize the mill is compelling. To achieve profitability, we are undertaking a number of initiatives to ensure that our products are available to our consumers on time;

- Capital investment for the business (Ksh.50M)
- Strong and aggressive sales and marketing system, earning on commission basis to ensure turnover.
- Mill modernization to enhance efficiency and attract high number of customers.
- Ensure systems for input - output monitoring, debts collection management, credit control and reporting mechanism.
- Streamline farmers' payment system to facilitate timely payment.
- Open new retail outlets in new markets.
- Consider private partnership engagements.

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.

For the year ended June 30, 2019

Finally, it is important to note that, WKRM has delivered more Human welfare benefits in ways not directly captured in audited financial reports. We have improved community welfare through stable prices and provision of local employment -both directly and indirectly.

To conclude, I once more appreciate our customers who have over the years continued to enjoy our array of products and for that, we are grateful. We promise to work continuously to address their ever-evolving needs. We also appreciate our suppliers, other business partners and regulators for their invaluable support.

Sign:  Date: 18/03/2020

GITONGA MUGAMBI

MANAGING DIRECTOR, WESTERN KENYA RICE MILLS LTD

CORPORATE GOVERNANCE STATEMENT

Corporate governance is the process by which organizations are directed and controlled with the objective of increasing stake/shareholders value and satisfying them. Boards of directors are responsible for the governance of their companies. This is achieved by establishing a system of clearly defined authorities and responsibilities, which result in a system of internal controls that is regularly tested to ensure effectiveness.

Good Corporate Governance seeks to promote:

- ❖ Efficient, effective and sustainable corporations that contribute to the welfare of society by creating wealth, employment and solutions to emerging challenges.
- ❖ Responsive and accountable corporations.
- ❖ Legitimate corporations that are managed with integrity, probity and transparency.
- ❖ Recognition and protection of stakeholder rights.
- ❖ An inclusive approach based on democratic ideals, legitimate representation and participation.

The pillars of successful corporate governance are:

- ❖ Accountability
- ❖ Fairness
- ❖ Transparency
- ❖ Assurance
- ❖ Leadership
- ❖ Stakeholder management.

The benefits of corporate governance include:

- ❖ Ensuring corporate success and economic growth.
- ❖ Strong corporate governance maintains investors' confidence, because of which, company can raise capital efficiently and effectively.
- ❖ It lowers the capital cost.
- ❖ There is a positive impact on the share price.

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.

For the year ended June 30, 2019

At Western Kenya Rice Mills Ltd, the Management places a high degree of importance on maintaining a sound control environment and applying the highest standards of operational integrity and professionalism in all areas of its activities.

The Management is responsible for the governance of Western Kenya Rice Mills Ltd and conducts the business and operations of Western Kenya Rice Mills Ltd with integrity and in accordance with generally accepted corporate practices, in a manner based on transparency, accountability and responsibility.

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.

For the year ended June 30, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

The Company's turnover for the current financial year is Ksh. 7,108,484.00. While the previous year had Ksh. 24,798,050.00. Hence, 71.33% decrease as compared to the previous financial year 2017/2018. On the other hand, the cost of sales decreased from Ksh. 19,031,070 in the previous year to Ksh. 8,094,785.00 in the current year. Thus resulting to 57.46% decrease in cost of sales when comparing the two financial years. This information is highlighted in the form of a bar chart, on the next page (XVIII).

The Company's loss for the current financial year 2018/2019 increased from Kshs. 2,646,388 to Kshs. 8,093,688 representing 205.83% increase. The company's loss has gone up in the current financial year. It still faces challenges, which include the availability of cheap imported rice and high cost of production for our local rice due to the high price of the raw materials.

The other challenge faced by the Company is the use of an old mill, which has been in use since its inception in early 1960's. This has resulted to low recoveries of the finished product.

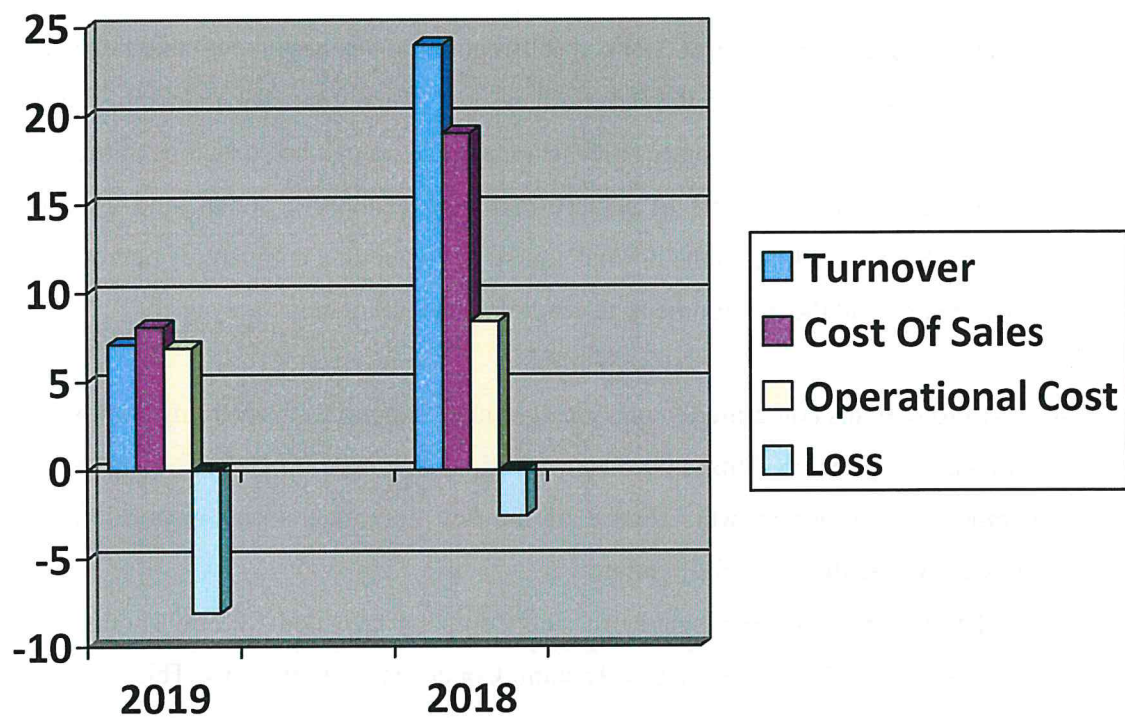
In order to turnaround the business of the Company, the management has plans of coming up with both short term and long term business strategies. There are also plans by the management to relinquish the responsibility of managing the day-to-day affairs of the Company by the National Irrigation Board's staff. In order to achieve this, the management will have to engage personnel who will be responsible for the day-to-day activities of the Company. The current situation is that National Irrigation Board offers administrative services to the Company who then pay an agreed percentage of 3% of the total revenue at the end of the financial year.

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.

For the year ended June 30, 2019

Figure 1: X Axis represents Ksh. In Millions



CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The (CSR) movement aimed at encouraging companies to be more aware of the impact of their business on the rest of society, including their own stakeholders and the environment.

Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society including economic, social, and environmental. To engage in CSR means that, in the normal course of business, a company is operating in ways that enhance society and the environment, instead of contributing negatively to it.

WKRM Ltd remains committed to provide continued support to the farming communities residing in our areas of operation. This is because we believe that our farmers' efforts are a force for good and important for our growth. Some of the key corporate social responsibilities initiatives undertaken during this financial year are:

- **ECD School feeding program:** The Company provided free transport of 5200 bags of rice to over 20 schools across Kisumu County in January 2018. This is in support of the county program towards ensuring every child going to school has access to food for productive learning. We therefore milled, packed and transported 5200 bags of rice, which had been procured by the county Government of Kisumu. This activity promotes education particularly in rice growing regions.
- **Environmental conservation;** WKRM participated in environmental clean-up and tree planting which coincided with World Environment Day on 5 June 2018. Riding on the day's theme 'connecting people to nature ', the company cleaned, slashed bushes within the villages and planted 200 trees in NIB compound. Additionally, an environmentalist delivered a talk on environmental sustainability.
- **Contribution of foodstuff to flood affected families;** Western Kenya schemes majority of which located in Kano plains experienced heavy flooding in the period May to July 2018. More than 100 families were displaced and evacuated to Ahero irrigation scheme evacuation center. WKRM provided 20 bags of milled sindano rice towards feeding the affected families.

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.

For the year ended June 30, 2019

REPORT OF THE DIRECTORS

The directors submit this report together with the financial statements for the year ending 30th June 2019, which show the state of the Western Kenya Rice Mills Ltd Company's affairs.

Principal activities

The principal activities of the Company are processing and marketing of milled white rice and the By-products mainly from Western Kenya Schemes.

Results

The results of the Company for the year ending 30th June 2019 are set out on pages 1 to 3 of the financial statements.

Dividends

The Directors did not recommend the payment of dividend for the year ending 30th June 2019 as the Company did not post any profits.

Directors

The Board of Directors for the Company comprises of the Chairman who is also the Chairman of the NIB's Board of Directors, two National Government representatives. Namely; the PS-National Treasury, Ministry of Agriculture, Livestock, Fisheries & Irrigation and the office of the Inspectorate of State Corporations as an ex-officio member, the Managing Director who also serves as the General Manager of NIB, the Chairmen of Ahero Multi-Purpose Co-op Society, West Kano Farmers Co-op Society and Magombe Multi-Purpose Co-op Society. The farmers' representatives' directorship only ceases once they stop serving in those capacities for their Societies.

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.

For the year ended June 30, 2019

Auditors

The Auditor General is responsible for the statutory audit of the Company in accordance with Article 229 of the Constitution of Kenya, 2010 and the Public Audit Act 2015.

By Order of the Board

Sign.....

Ms. Nancy Wambugu
Ag. Company Secretary.
Nairobi

Date.....18/03/2020.....

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.

For the year ended June 30, 2019

STATEMENT OF DIRECTORS' RESPONSIBILITY

Section 81 of the Public Finance Management Act, 2012 and *Companies Act, 2015* require the Directors to prepare financial statements in respect of Western Kenya Rice Mills, which give a true and fair view of the state of affairs of the *Company* at the end of the financial year/period and the operating results of the *Company* for that year/period. The Directors are also required to ensure that the *Company* keeps proper accounting records which disclose with reasonable accuracy the financial position and responsible for safeguarding the assets of the *Company*.

The Directors are responsible for the preparation and presentation of the *Company's* financial statements, which give a true and fair view of the state of affairs of the *Company* for and as at 30th June 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the *Company*; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *Company*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *Company's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the Companies Act, 2015. The Directors are of the opinion that the *Company's* financial statements give a true and fair view of the state of *Company's* transactions during the four quarters ending 30th June. 2019, and of the *Company's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *Company*, which have been relied upon in the preparation of the *Company's* financial statements as well as the adequacy of the systems of internal financial control.

WESTERN KENYA RICE MILLS.

Annual Reports and Financial Statements.

For the year ended June 30, 2019

Approval of the financial statements

The *Company's* financial statements were approved on _____ and signed on its behalf by:

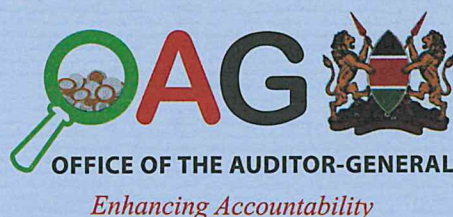
Sign: **Sign:**..... **Sign:**.....

Director: David Odhiambo **Director: Michael Congo Ouma** **Director: Jason Ong'any**

Date: **Date:**..... **Date:**.....
.....

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON WESTERN KENYA RICE MILLS LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Western Kenya Rice Mills Limited set out on pages 1 to 22, which comprise the statement of financial position as at 30 June, 2019, statement of profit and loss and 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 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 Western Kenya Rice Mills Limited as at 30 June, 2019 and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Kenyan Companies Act, 2015 and the Public Finance Management Act, 2012

Basis for Qualified Opinion

1. Material Uncertainty in Relation to Going Concern

The statement of profit and loss and other comprehensive income reflects a loss of Kshs.8,093,688 for the year ended 30 June, 2019 (2018: losses of Kshs.2,646,388). The statement of financial position similarly reflects a negative retained earnings balance of Kshs.67,579,281 as at 30 June, 2019 (2018: negative balances of Kshs.51,576,126).

The above is an indication of the existence of a material uncertainty which casts significant doubt on the Company's ability to continue as a going concern and to meet its obligations as and when they fall due. The financial statements have been prepared on a going concern basis on the assumption that the Company will receive financial support from the holding company and its creditors. However, this material uncertainty

in relation to going concern and any mitigating measures put in place by the Company's directors to reverse the undesirable precarious financial performance have not been disclosed in the notes to the financial statements.

In the circumstances, the continued existence of the Company as a going concern could not be confirmed.

2. Property, Plant and Equipment

As disclosed in Note 2 to the financial statements, the statement of financial position reflects property, plant and equipment amounting to Kshs.3,215,104. As reported in the previous year the balance excludes, undetermined value of land without title on which the Company's buildings are located in Ahero, Kisumu County. The building which hosts the offices has physical cracks on the walls and had been condemned by health officials in 2016 but the company continue to keep it under occupation. It has not been possible therefore to confirm legal ownership of the land.

Under the circumstances it was not possible to confirm the fair value of property, plant and equipment as at 30 June, 2019.

3. Unconfirmed Inventories

As disclosed in Note 3 to the financial statements, the statement of financial position reflects inventories balance of Kshs.3,965,840, an increase of Kshs.3,088,572 from last year's balance of Kshs.877,268. Examination of stock sheets revealed that although the stock items were itemized according to type of stock, the detailed values were not provided.

Under the circumstances, the completeness and accuracy of the inventories balance of Kshs.3,965,840 could not be ascertained.

4. Unconfirmed Share Capital

As disclosed in Note 6 to the financial statements, the statement of financial position reflects share capital balance of Kshs.35,049,935 while records at the Registrar of Companies reflects shares amounting to Kshs.32,728,600 resulting to a difference of Kshs.2,321,335. Although the Management has attributed the difference to shares acquired by farmers which are however not reflected in the Registrar's records, no evidence has been provided to confirm the assertion.

In the circumstances, the accuracy, value and completeness of the share capital balance of Kshs.35,049,935 could not be confirmed.

5. Unsupported Retained Earnings

As disclosed in Note 7 to the financial statements, the statement of financial position reflects a deficit of Kshs.67,579,281 under retained earnings, which includes an

amount of Kshs.7,909,467 described as prior year adjustment. No supporting documentation was provided to support the adjustment.

Further, the schedules provided for audit reflect a deficit of Kshs.66,232,378 which differs with the amount disclosed in these financial statements of Kshs.67,579,281 by Kshs.1,346,903. The difference between the two sets of records have not been reconciled or explained.

Consequently, the completeness and accuracy of retained earnings could not be confirmed.

6. Long Outstanding Tax Remittance

As disclosed in Note 8 to the financial statements, the statement of financial position reflects non-current liabilities balance of Kshs.10,440,517 against a tax liability as at 30 June, 2019 which has been outstanding for long. The amount includes unpaid provision for tax on profits made during earlier years dating back to 1996. However, penalties and interest in respect of the unpaid taxes have not been provided for in the financial statements. This has, in effect, understated the tax provision and loss for the year. Further, Management has not explained the reasons for reclassification of the amount from a current liability to non-current liability.

Consequently, the company risks payment of huge penalties and interests over and above the long outstanding unpaid taxes.

7. Variances in Inter Company Transactions

As disclosed in Note 9 to the financial statements, the statement of financial position reflects a balance of Kshs.33,482,549. The amount relates to transactions between the company and its holding company, National Irrigation Board (NIB). However, the National Irrigation Board financial statements reflects an amount of Kshs.81,244,791, resulting to an unexplained variance of Kshs.47,762,242.

Consequently, the accuracy and completeness of the NIB current Account balance of Kshs.33,482,549 could not be ascertained.

8. Failure to Settle Long Outstanding Liabilities

As disclosed in Note 10 to the financial statements, the statement of financial position reflects a balance of Kshs.1,752,387 under trade and other payables which includes trade payables, others payables and audit fee dues.

No reason has been provided for the failure to settle the outstanding balances.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Western Kenya Rice Mills Ltd Management in accordance with ISSAI 130 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. There were no key audit matters to report in the year under review.

Other Information

The directors are responsible for the other information. The other information comprises the report of directors as required by the Companies Act, 2015, and the statement of the Directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

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 thereon.

In connection with the audit of the 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. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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 sections 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

Reduction in Performance and Productivity

As disclosed in Note 11 to the financial statements, the statement of profit and loss and other comprehensive income reflects a turnover of Kshs.7,108,484 representing a drop of Kshs.17,689,566 or about 71% from the previous year's turnover of Kshs.24,798,050. Further, during the year under review, the Company earned

Kshs.5,937,100 from sindano rice sales against prior year's performance of Kshs.16,122,620, representing a 63% drop in milling income.

The Company has not taken measures to improve its productivity. This is despite the fact that the mill has sufficient milling capacity, enough drying floor facilities, enough storage and the rice schemes have potential for expansion of paddy which is the raw material for the Mill.

Consequently, the effectiveness in the use of public resources could not be confirmed.

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

Responsibilities of 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 and for maintaining effective internal control as the 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, the 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 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, the 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's 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 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. 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 the 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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

30 December, 2021

WESTERN KENYA RICE MILLS LTD
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

	Note	2018-2019 Kshs	2017-2018 Kshs
Turnover / Revenues	11	7,108,484	24,798,050
Cost of sales	12	(8,094,785)	(19,031,070)
Gross profit/ Loss		(986,301)	5,766,980
Total Revenues		(986,301)	5,766,980
Operating Expenses			
Administration Costs	13	(6,311,442)	(7,620,415)
Other Expenses	14	(465,544)	(605,618)
Board Members	15	(330,400)	(187,335)
Total Operating Expenses	16	(7,107,386)	(8,413,368)
Profit/(Loss) before Taxation		(8,093,688)	(2,646,388)
Total Comprehensive Income for the year		(8,093,688)	(2,646,388)

WESTERN KENYA RICE MILLS LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	2,019 Kshs	2,018 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	2	3,215,104	4,463,808
Total Non-Current Assets		3,215,104	4,463,808
Current Assets			
Inventories	3	3,965,840	877,268
Trade and other receivables	4	2,195,713	18,757,915
Bank and cash balances	5	3,769,450	372,859
Total Current Assets		9,931,003	20,008,042
		13,146,107	24,471,850
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	6	35,049,935	35,049,935
Retained earnings	7	(67,579,281)	(51,576,126)
Capital and Reserves		(32,529,346)	(16,526,191)
Non-Current Liabilities			
Tax	8	10,440,517	10,440,517
NIB Current Account	9	33,482,549	27,950,094
Total Non-Current Liabilities		43,923,066	38,390,611
Current Liabilities			
Trade and other payables	10	1,752,387	2,607,430
Total Current Liabilities		1,752,387	2,607,430
TOTAL EQUITY AND LIABILITIES		13,146,107	24,471,850
The financial statements were approved by the Board on			
Sign..... MS. JOSEPH KIGOTHO SENIOR ACCOUNTANT NO. 17161	Sign..... MR. GITENGA MUGAMBI MANAGING DIRECTOR	And signed on its behalf by: Sign..... HON. ENG. JOSHUA N. TORO CHAIRMAN	
DATE 18/03/2020	DATE 18/03/2020	DATE 18/03/2020	

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2019**

	Ordinary share capital	Retained earnings	Total
	Kshs	Kshs	Kshs
At July 1, 2017	35,049,935.00	(48,994,438.00)	(13,944,503.00)
Prior yeat adjustments	-	64,700.00	64,700.00
Profit/Loss for the year	-	(2,646,388.00)	(2,646,388.00)
At June 30, 2018	35,049,935.00	(51,576,126.00)	(16,526,191.00)
At July 1, 2018	35,049,935.00	(51,576,126.00)	(16,526,191.00)
Prior yeat adjustments	-	(7,909,467.00)	(7,909,467.00)
Profit/Loss for the year	-	(8,093,687.93)	(8,093,687.93)
At June 30, 2019	35,049,935.00	(67,579,280.93)	(32,529,345.93)

WESTERN KENYA RICE MILLS LTD
STATEMENT OF CASH FLOWS FOR THE
YEAR ENDED 30 JUNE, 2019

		Kshs	Kshs
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	Notes		
Deficit		(8,093,687.93)	(2,646,388.00)
Prior Year Adjustment		(7,909,467.00)	64,700.00
Depreciation		343,403.00	556,202.00
(Increase)(Decrease) in Inventories		3,088,572.43	11,483,742.00
(Increase)(Decrease) in Receivables		16,562,203.00	(12,326,095.00)
(Increase)(Decrease) in Payables		(4,677,412.00)	2,032,488.00
Net cash generated from/(used in) operating activities		<u>(686,388.50)</u>	<u>(835,351.00)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Net cash generated from/(used in) investing activities		<u>-</u>	<u>-</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Net cash generated from/(used in) financing activities		<u>-</u>	<u>-</u>
 Increase/(Decrease) in cash and cash equivalents		 3,396,590.00	 (835,351.00)
Cash and Cash Equivalents at the beginning of the year		372,857.00	1,208,208.00
Cash and Cash Equivalent at the end of the year		<u>3,769,447.00</u>	<u>372,857.00</u>
 Disclosure (Prior year adjustment)			
Kshs. 7,909,467.10			
1. Issues to Farmers -recognition of revenue	-	630.00	
2. Farmers total account - recognition of revenue	-	2,157,300.00	
3. Jaramogi O. O. T. R. H - adjustment of opening balance	-	460,000.00	
4. KHABONDI WHOLESALERS -Recognition of past payment	-	132,000.00	
5. Adjustment of medical inpatient- posted wrongly	-	(26,223.00)	
6. Adjustment of medical inpatient- posted wrongly	-	(9,618.00)	
7. Adjustment of medical inpatient- posted wrongly	-	(35,625.00)	
8. Factory Spares	-	(473,996.90)	
9. Sindano Rice Income - adjustment of overstated income	-	5,705,000.00	
		<u>7,909,467.10</u>	

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30TH JUNE, 2019**A) WHITE RICE:**

PRODUCT	RECOVERY	QUANTITY KGS	PRICE/KG KSHS	TOTAL
Non- Aromatic Grade 1(IR Rice)	55%	51,000	100	5,100,000
Non- Aromatic Grade 1(ITA Rice)	50%	100,000	120	12,000,000
Aromatic Pishori Grade 1	50%	85,000	170	14,450,000
			T/ INCOME	31,550,000

B) BY- PRODUCTS:

BY-PRODUCT	RECOVERY RATE %	QUANTITY KGS	PRICE PER KG (KSHS)	TOTAL REVENUE(KSHS)
Broken Rice	4%	20,000	50	1,000,000.00
Chicken feed	2%	10,000	35	350,000.00
Bran meal	10%	5,750	15	86,250.00
			T/ INCOME	1,436,250.00

C) PROJECTED COMMERCIAL MILLING

EXPECTED FROM	QUANTITY(BAGS)	UNIT PER BAG	PRICE PER KG (KSHS)	MILLS INCOME(KSHS)
N.C.P.B	50,000	75KGS	3.5	175,000.00
OTHERS	50,000	75KGS	3.5	175,000.00
TOTAL INCOME			T/ INCOME	350,000.00

RECURRENT BUDGET FOR WKRM LTD FOR THE FY 2018/19

	VOTES	ORIGINAL BUDGET	ADJUSTMENTS	FINAL BUDGET	ACTUAL ON COMPARISON BASIS	PERFORMANCE DIFFERENCE
		2018/2019	2018/2019	2018/2019	2018/2019	2018/2019
		Kshs	Kshs	Kshs	Kshs	Kshs
Expected income		33,336,250	-	33,336,250	7,108,484	26,227,766
Expenditure						
Salaries & Wages Adm	951	2,200,000	-	2,200,000	2,120,154	79,846
House allowance	961	156,000	-	156,000	156,000	-
Casual wages	957	600,000	-	600,000	554,804	45,196
Training expenses	825	-	-	-	-	-
Pension Fund Employer		210,000	-	210,000	203,931	6,069
Medical allowance	838	24,999	-	24,999	24,999	-
Transport Expenses		250,000	-	250,000	247,899	2,101
Travelling Expenses		30,000	-	30,000	26,500	3,500
Travelling, Meals & Acc.	847	1,300,000	-	1,300,000	1,233,754	66,246
Electricity – Factory	914	450,000	-	450,000	411,348	38,652
Building mtce -Factory	731	90,000	-	90,000	83,545	6,455
Offices	711	10,000	-	10,000	-	10,000
General Administration Services		800,000	-	800,000	783,723	16,277
Security Services		250,000	-	250,000	241,657	8,343
P & M mtce –Mills spares	641	50,000	-	50,000	-	50,000
Motor vehicle mtce	621	160,000	-	160,000	151,318	8,682
Board expenses	851	350,000	-	350,000	330,400	19,600
Printing & Stationery	832	35,000	-	35,000	33,746	1,254
Subscription & Periodicals	842	130,000	-	130,000	120,699	9,301
Telephones	911	20,000	-	20,000	18,250	1,750
Postage	913	500	-	500	450	50
Bank charges	836	30,000	-	30,000	23,340	6,660
Office tea	846	6,000	-	6,000	5,040	960
Consumables	858	70,000	-	70,000	61,455	8,545
Audit Fee	833	348,000	-	348,000	348,000	-
NSSF	951	18,400	-	18,400	18,400	-
Leave Allowance	810	53,604	-	53,604	53,604	-
Paddy Purchases	349	6,000,000	-	6,000,000	6,158,450	(158,450)
White rice Purchases	350	-	-	-	-	-
Marketing /Advertising	843	-	-	-	-	-
Fuel & Lubricants	916	300,000	-	300,000	277,900	22,100
Packing materials	881	250,000	-	250,000	8,136	241,864
Depreciation	54999	350,000	-	350,000	1,248,705	(898,705)

WESTERN KENYA RICE MILLS

Annual Reports and Financial Statements.
For the year ending June 30, 2019.

NIB Admin & Accout. Fee	52010	230,000	-	230,000	213,255	16,745
Legal and Professional Fee		40,000	-	40,000	32,306	7,694
Uniform and Protective clothing		15,000	-	15,000	10,404	4,596
Total Recurrent Budget		14,827,503	-	14,827,503	15,202,173	(374,670)
Surplus (Deficit)		18,508,747	-	18,508,747	(8,093,689)	26,602,436
Capital Budget						
Mill Modernization	40	-	-	-	-	-
Mills Rehabilitation	40	3,000,000	-	-	-	3,000,000
Purchase of computer	52	50,000	-	-	-	50,000
Purchase of photocopier	52	120,000	-	-	-	120,000
New office block	30	5,750,000	-	-	-	5,750,000
Furniture purchases	52	150,000	-	-	-	150,000
Total Capital Budget		9,070,000	-	-	-	9,070,000

ACCOUNTING POLICIES

1 General Information

Western Kenya Rice Mills Ltd is established by and derives its authority and accountability from the Companies Act Cap. 486. The Company is partially owned by the Government (National Irrigation Board) and the farmers under their Co-operative Societies. Which are;

- i Ahero Multi-Purpose Co-op. Society Ltd.
- ii West Kano Farmers Co-op. Society Ltd.
- iii Magombe Multi-Purpose Co-op. Society Ltd.
- iv Cost of sales is calculated from the opening stocks plus purchase minus the closing stock.
- v We provide for bad and doubtful debts that are over 5 years.

The Company's principal activity is processing and marketing of milled white rice and the By-products mainly from Western Kenya Schemes.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

2 Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, impaired assets at their estimated recoverable amounts determined liabilities at their present value. Preparation of financial statements and actuarially in conformity with the International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires the management to exercise judgement in the process of applying the Company's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the company.

The financial statements have been prepared in accordance with the PFM Act, and the International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

3 Application of New and Revised International Financial Reporting Standards

- (i) No relevant new standards and amendments to published standards effective for the year ended 30th June 2018 were used in the year under review.

Standard/Amendment to a standard	Effective date	
IFRS 15: Revenue from Contracts with Customers (Issued 28 May 2014)	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1st Jan 2018	IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows: Identify the contract with the customer Identify the performance obligations in the contract Determine the transaction price Allocate the transaction price to the performance obligations in the contracts. Recognise revenue when (or as) the entity satisfies a performance obligation. Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. However, there were no contracts with customers within the financial year under review.
IFRIC 22: Foreign Currency Transactions and Advance Consideration (Issued 8 December 2016)	Applicable to annual reporting periods beginning on or after 1st Jan 2018	The interpretation addresses foreign currency transactions or parts of transactions where: there is consideration that is denominated or priced in a foreign currency; the entity recognises a prepayment asset or a deferred

		<p>income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and</p> <p>the prepayment asset or deferred income liability is non-monetary.</p> <p>The Interpretations Committee came to the following conclusion:</p> <p>The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.</p> <p>If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.</p> <p>However, there were no contracts with customers within the financial year under review.</p>
<p>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)</p> <p>(Issued 19 January 2016)</p>	<p>Effective for annual periods beginning on or after 1st Jan 2017</p>	<p>Amends IAS 12 Income Taxes to clarify the following aspects:</p> <p>Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.</p> <p>The carrying amount of an asset does not limit the estimation of probable future taxable profits.</p> <p>Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.</p> <p>An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.</p> <p>There were no debt transactions within the financial year under review.</p>
<p>Disclosure Initiative (Amendments to IAS 7)</p> <p>(Issued 29 January 2016)</p>	<p>Effective for annual periods beginning on or after 1st Jan 2017</p>	<p>Amends IAS 7 Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities</p> <p>All the relevant disclosures have been provided in the notes</p>
<p>Clarifications to IFRS 15 'Revenue from Contracts with Customers'</p> <p>(Issued 12 April 2016)</p>	<p>Effective for annual periods beginning on or after 1st Jan 2018</p>	<p>Amends IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.</p> <p>The Company did not have any contracts within the financial year under review.</p>

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (Issued 20 June 2016)	Effective for annual periods beginning on or after 1st Jan 2018	<p>Amends IFRS 2 Share-based Payment to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.</p> <p>There were no Share -based payments during the financial period under review.</p>
Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) (Issued 12 September 2016)	Overlay approach to be applied when IFRS 9 is first applied. Deferral approach effective for annual periods beginning on or after 1st Jan 2018 and only available for three years after that date	<p>Amends IFRS 4 Insurance Contracts provide two options for entities that issue insurance contracts within the scope of IFRS 4:</p> <p>an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;</p> <p>an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach</p> <p>The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.</p> <p>There were no Insurance Contracts during the financial period under review.</p>
Transfers of Investment Property (Amendments to IAS 40) (Issued 8 December 2016)	Effective for annual periods beginning on or after 1st Jan 2018	<p>The amendments to IAS 40 Investment Property:</p> <p>Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.</p> <p>The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.</p> <p>There were no transfers to, or from, investment property to any other use by the management within the financial year under review.</p>
Annual Improvements to IFRS Standards 2014–2016 Cycle (Issued 8 December 2016)	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1st Jan 2018, the amendment to IFRS 12 for annual	<p>Makes amendments to the following standards:</p> <p>IFRS 1 - Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose</p> <p>IFRS 12 - Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</p> <p>IAS 28 - Clarifies that the election to measure at fair value through profit or loss of an investment in an associate or a joint venture that</p>

	periods beginning on or after 1st Jan 2017	is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The company did not engage in any joint venture investments within the financial year under review.
IFRS 16: Leases (Issued 13 January 2016)	Effective for annual periods beginning on or after 1st Jan 2019	IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The company did not engage in any kind of lease transactions during the financial year under review.
IFRS 17 Insurance Contracts (Issued 18 May 2017)	Effective for annual periods beginning on or after 1st Jan 2021	IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021. There were no insurance liabilities at the end of the financial year under review.
IFRIC 23: Uncertainty over Income Tax Treatments (Issued 7 June 2017)	Effective for annual periods beginning on or after 1st Jan 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: Whether tax treatments should be considered collectively Assumptions for taxation authorities' examinations The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates The effect of changes in facts and circumstances There were no tax credits during the financial year under review.
Prepayment Features with Negative Compensation (Amendments to IFRS 9) (Issued 12 October 2017)	Annual periods beginning on or after 1st Jan 2019	Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. The amendment did not affect the business of the company during the financial year under review.
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) (Issued 12 October 2017)	Annual periods beginning on or after 1st Jan 2019	Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

		The amendment did not affect the business of the company during the financial year under review.
Annual Improvements to IFRS Standards 2015–2017 Cycle (Issued 12 December 2017)	Annual periods beginning on or after 1st Jan 2019	<p>Makes amendments to the following standards:</p> <p>IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.</p> <p>IAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.</p> <p>IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.</p> <p>The amendment did not affect the business of the company during the financial year under review.</p>
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) (Issued 7 February 2018)	Annual periods beginning on or after 1st Jan 2019	<p>The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are:</p> <p>If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.</p> <p>In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.</p> <p>The amendment did not affect the business of the company during the financial year under review.</p>
Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018)	Annual periods beginning on or after 1st Jan 2020	<p>Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASB framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.</p> <p>The amendment did not affect the business of the company during the financial year under review.</p>



The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018.

Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are as set out below:-

(a) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the company and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the company's activities, net of the value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Company's activities as described below:

Revenue from the sale of goods and services is recognised in the year in which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Grants from National Government are recognised in the year in which the entity actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

The Company does not receive any grants from the National Government.

Finance income comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method. Though the Company did not receive such income during the year under audit.

Dividend income is recognised in the income statement in the year in which the right to receive the payment is established. However, the company did not receive such income during the year under audit.

Rental income is recognised in the income statement as it accrues.

Other income is recognised as it accrues.

Financial Risk management

(i) Market risk

Market risk is the risk that the fair value of financial instruments will fluctuate because of the changes in the market such as price fluctuations and changes in exchange rate. However, the Company was not exposed to this risk during the year under audit.

(ii) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. The Company did not have any Foreign Currency Risk during the year under review.

(iii) Credit risk

Credit risk is the risk that a customer will not meet his/her financial instrument or customer contract, leading to a financial loss.

The company was not exposed to this risk during the year under audit.

(iv) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations when they fall due. The company limits this risk by conservative use of loan capital.

(v) In-kind contributions

These refers to donations made to the Company in the form of actual goods and/ or services rather than in money or cash terms. These donations may include; vehicles. Equipment or personnel services. Where the financial value received can be reliably determined, the Company includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts. Otherwise, the contribution is not recorded. No such contribution was received in the year under review.

(b) Property, Plant and Equipment

All items of Property, Plant and Equipment are initially measured at cost. After initial recognition they are stated at historical cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life.

The annual rates in use are:

Buildings	4%
Plant & Machinery	12.5%
Workshop Equipment	12.5%
Tools & Equipment	12.5%
Office Machinery	12.5%
Motor vehicles	25% (Straight Line)

A prorated year's depreciation charge is recognised in the year of asset purchase and a full year's depreciation charge is recognized in the year of asset disposal.

Disclosure: The depreciation which had erroneously been calculated against the net book value rather than the cost, has been amended from the amount of Kshs. 343,401 to Kshs. 1,248,705

Depreciation and impairment of property, plant and equipment

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

Intangible assets

Intangible assets comprise purchased computer software licences, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they were available for use, usually over three years. However, the company did not incur such expense in the year under review.

Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.



WESTERN KENYA RICE MILLS

Annual Reports and Financial Statements.
For the year ending June 30, 2019.

NOTE: 2

**WESTERN KENYA RICE MILLS LIMITED
PROPERTY, PLANT & EQUIPMENT AS AT 30 JUNE 2019**

	OFFICE FURN & EQUIP.	BUILDINGS	PLANT & MACHINERY	MOTOR VEHICLES	TOOLS & EQUIPMENT	WORKSHOP & MACHINERY	TOTAL
	KSH	KSH	KSH	KSH	KSH	KSH	KSH
<u>COST:</u>							
AS AT 01.07.2017	447,988	6,836,487	29,994,849	3,229,080	1,230,018	678,735	42,417,157
ADDITIONS							
AS AT 30 - 06 - 2018	447,988	6,836,487	29,994,849	3,229,080	1,230,018	678,735	42,417,157
<u>DEPRECIATION:</u>							
AS AT 1st July 2017	406,767	3,263,443	28,895,205	3,016,280	1,185,126	630,326	37,397,147
CHARGE FOR THE YEAR	8,244	96,569	219,929	212,800	8,978	9,682	556,202
AS AT 30.06.2018	415,011	3,360,012	29,115,134	3,229,080	1,194,104	640,008	37,953,349
N.B.V. AS AT 30.06.2018	32,977	3,476,475	879,715	0	35,914	38,727	4,463,808
<u>COST:</u>							
AS AT 01.07.2018	447,988	6,836,487	29,994,849	3,229,080	1,230,018	678,735	42,417,157
AS AT 30 - 06 - 2018	447,988	6,836,487	29,994,849	3,229,080	1,230,018	678,735	42,417,157
<u>DEPRECIATION:</u>							
AS AT 1st July 2019	415,011	3,360,012	29,115,134	3,229,079	1,194,104	640,008	37,953,349
CHARGE FOR THE YEAR	23,600	273,459	879,715	1	35,914	36,016	1,248,705
AS AT 30.06.2019	438,611	3,633,471	29,994,849	3,229,080	1,230,018	676,024	39,202,054
<u>NET BOOK VALUE:</u>							
AS AT 30th June 2019	9,377	3,203,016	0	-	(0)	2,711	3,215,103
AS AT 30th June 2018	32,977	3,476,475	879,715	0	35,914	38,727	4,463,808

(c) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets. However, the Company does not own any investment property.

(d) Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease. The Company did not acquire any asset under lease during the year under review.

(e) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss. The company did not trade in any interest investments during the year under review.

(f) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value. The company did not trade in any interest investments during the year under review.

(g) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities. The company did not trade in any interest investments during the year under review.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

(i) Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectable amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

(j) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

(l) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project. However, there were no such borrowings within the year under review.

(m) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in the respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

(n) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees. The scheme is administered by an in-house team and is funded by contributions from both the Company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the

National Social Security Act. The under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time.

(o) Provision for staff leave pay

Employees' entitlements to annual leave are recognised as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date. However, no provision is made in the year under review since all leave pay is paid in the same year it is earned.

(p) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. There were no exchange rate differences recognized during the year.

(q) Budget information

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas, the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification Company adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under page 5 of these financial statements.

(r) Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

(s) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

(t) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30th, 2019.

(u) Significant Judgements and Sources of Estimation Uncertainty

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The judgements, estimates and assumptions made in the financial year under review include:

(v) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the

financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

(w) Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- .The condition of the asset based on the assessment of experts employed by the Company
- .The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- .The nature of the processes in which the asset is deployed
- .Availability of funding to replace the assets
- .Changes in the market in relation to the asset

(u) Provisions

Provisions were raised and management did not see the need to make a further provision since the current debtors are active. Additional disclosure of these estimates of provisions is included in Note 4.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

1 EARNINGS PER SHARE

The earnings per share is calculated by dividing the profit after tax by the average number of ordinary shares in issue during the year under review. However, no dividends were declared during the year under review.

2 DIVIDEND PER SHARE

Proposed dividends are accounted for as a separate component of equity until they have been ratified and declared at the relevant Annual General Meeting (AGM). However, no dividends were declared during the year under review.

3 REVALUATION RESERVE

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

4 FAIR VALUE ADJUSTMENT RESERVE

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss. However, there were no such transactions during the financial year under review.

5 RETAINED EARNINGS

The retained earnings represent amounts available for distribution to the entity's shareholders. Undistributed retained earnings are utilised to finance the entity's business activities.

6 INCORPORATION

The entity is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

7 EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non-adjusting events after the reporting period.

8 CURRENCY

The financial statements are presented in Kenya Shillings (Kshs).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2019 (CONTINUED)**

3 INVENTORIES	2018/2019	2017/2018
	KSHS	KSHS
Factory Spares	1,085,321	611,324
General store	103,639	77,822
Paddy stocks	2,235,840	-
Packing Materials	377,290	168,121
Milled Rice	149,600	20,000
By products stores	14,150	-
	<u>3,965,840</u>	<u>877,268</u>
4 TRADE & OTHER RECEIVABLES	2018/2019	2017/2018
	KSHS	KSHS
Farmers total account	-	2,157,930
Staff imprest	90,331	43,158
Salary Advance	43,158	72,345
Trade & Other Receivables	2,080,475	18,660,033
TOTAL	2,213,964	20,933,466
Less: provision for bad debts	(18,251)	(2,175,551)
	<u>2,195,713</u>	<u>18,757,915</u>
5 CASH AND CASH EQUIVALENTS	2018/2019	2017/2018
	KSHS	KSHS
A/c Nos		
KCB Nairobi - Kip.Hse	1107178711 58,235	59,416
KCB Kisumu-Kisumu	1108288707 3,709,318	312,773
Mpesa		200
Cash in Hand	1,897	471
	<u>3,769,450</u>	<u>372,859</u>
6 SHARE CAPITAL	2018/2019	2017/2018
	KSHS	KSHS
Authorised share capital		
420000 shares at 100/- per value		
The shares have been paid up as follows:		
National Irrigation Board	25,200,000	25,200,000
Ahero Multi-Purpose Co-op. Society Ltd	4,910,072	4,910,072
West Kano Farmers Co-op. Society Ltd	2,392,984	2,392,984
Magombe Multi-Purpose Co-op. Society Ltd	2,546,879	2,546,879
	<u>35,049,935</u>	<u>35,049,935</u>
7 RETAINED EARNINGS /(LOSS)	2018/2019	2017/2018
	KSHS	KSHS
Balance b/f	(51,576,126)	(48,994,438)
Prior year adjustment	(7,909,467)	64,700
Excess/(Deficit) for the year	(8,093,688)	(2,646,388)
Balance c/f	<u>(67,579,281)</u>	<u>(51,576,126)</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2019 (CONTINUED)**

8 TAXATION	2018/2019	2017/2018
	KSHS	KSHS
Unpaid balance brought forward	10,440,517	10,508,044
Others	-	(67,527)
BALANCE C/F	10,440,517	10,440,517

The provision is based on 30% corporation tax rate.

The figure shown above is cumulative. The figure of Kshs. 6 7,527 relates to VAT withholding tax which had been withheld from suppliers. The same has now been moved to trade and other payables under note 10.

9 NIB CURRENT ACCOUNT	2018/2019	2017/2018
	KSHS	KSHS
	33,482,549	27,950,094
	<u>33,482,549</u>	<u>27,950,094</u>

These are transactions between Western Kenya Rice Mills Ltd. and National Irrigation Board

10 TRADE & OTHER PAYABLES	2018/2019	2017/2018
	KSHS	KSHS
Audit Fee Provision	1,314,512	966,512
Trade	100,520	550,220
Others	337,355	1,090,698
	<u>1,752,387</u>	<u>2,607,430</u>

This account is used to record trade and other payables not paid by the close of the financial year. It also records provisions.

11 TURNOVER	2018/2019	2017/2018
	KSHS	KSHS
Basmati rice sales	635,290	1,997,415
Sindano rice sales	5,937,100	16,122,620
Bran meal sales	178,900	97,200
Broken rice sales	115,500	181,250
Course bran sales	-	-
Chicken feed sales	15,750	28,500
Basmati paddy sales	-	6,337,500
Sindano paddy sales	-	-
Milling income	225,944	33,565
	<u>7,108,484</u>	<u>24,798,050</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2019 (CONTINUED)**

	2018/2019	2017/2018
	KSHS	KSHS
12 COST OF PRODUCTION		
Sindano paddy to mills	5,235,710	4,049,370
Sindano white rice purchases	-	4,787,250
Basmati Paddy to mills	922,740	8,710,490
Salaries & Wages - Casuals	554,805	555,790
Electricity	411,348	159,900
Plant & Machinery(Factory) Mtce	-	490,561
Depreciation - Tools& w/shop	71,931	18,660
Uniforms & Protective Clothing	10,404	-
Depreciation - Plant & Equipment	879,715	219,929
Packing Materials	8,133	39,120
TOTAL	8,094,785	19,031,070
 13 ADMINISTRATIVE EXPENSES	 2018/2019	 2017/2018
	KSHS	KSHS
Staff Costs		
Salaries and Wages -Regular	2,120,154	2,164,564
NSSF	18,400	14,400
Pension Fund Employer/Gratuity	203,931	911,036
House Allowance	156,000	156,000
Leave & Transfer Allowance	53,604	52,493
Medical expenses (In-patient)	-	50,000
Medical expenses (out-patient)	24,999	24,999
Sub-total	2,577,088	3,373,491
 Adminstration Costs		
Travelling and entertainment	1,508,153	1,394,160
Legal & professional fee	32,306	-
Audit fees	348,000	348,000
Printing and Stationery	33,747	68,876
NIB Administration & Accountancy fee	213,255	743,942
Depreciation-Office Machinery & Furn.	23,600	8,245
Buildings Mtce.- Offices	83,546	35,590
Depreciation- Buildings	273,459	96,569
Motor Vehicles Maintenance	151,318	297,389
Depreciation - Motor Vehicles	-	212,799
Telephone	18,250	119,250
Training expenses	-	13,250
Security Services	241,657	242,329
General Admin. Services	783,723	639,511
Domestic water equipment & supply mtce.	-	-
Office equipment mtce	-	-
Bank Charges	23,340	27,013
Sub-total	3,734,354	4,246,923
 TOTAL	 6,311,442	 7,620,415

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2019 (CONTINUED)**

	2018/2019	2017/2018
	KSHS	KSHS
14 OTHER EXPENSES		
Advertising/ Marketing	-	67,040
Office Tea	5,040	39,297
Subscriptions & periodicals	120,699	81,970
Consumables	61,455	6,076
General expenses	-	-
Show expenses	-	-
Petrol	-	-
Diesel	277,900	410,785
Postages	450	450
Hire of Transport	-	-
TOTAL	465,544	605,618
15 BOARD MEMBERS EXPENSES		
	2018/2019	2017/2018
	KSHS	KSHS
Sitting allowance	127,000	44,000
Accommodation allowance	81,000	24,000
Travel expenses	38,400	97,335
Lunch allowance	84,000	22,000
	330,400	187,335
16 OPERATING EXPENSES		
	2018/2019	2017/2018
	KSHS	KSHS
Administration Expenses	6,311,442	7,620,415
Other Expenses	465,544	605,618
Board Members	330,400	187,335
	7,107,386	8,413,368
17 CAPITAL RESERVE		
	2018/2019	2017/2018
	KSHS	KSHS
Revaluation reserve	-	-
Retained earnings	(67,579,281)	(51,576,126)
Capital reserve	35,049,935	35,049,935
Total Funds	(32,529,346)	(16,526,191)
Total borrowings	33,482,549	27,950,094
Less: cash and bank balances	3,769,447	372,857
Net debt/(excess cash and cash equivalents)	29,713,102	-
Gearing	%	%

18 RELATED PARTY TRANSACTIONS

(a) National irrigation board owns 60 % shares in Western Kenya Rice Mills Ltd. The other 40% is owned by WKRMI farmers. There is an agreement between NIB and the farmers for the former to provide administrative and accountancy services, after which NIB charges for the same at the rate of 3% of the gross revenue for the year.

(b) The company management and the board of directors did not have any related party transactions with the company. However, there were some transactions between the NIB and the Company. This is further disclosed under note (15) of the notes to the financial statements as NIB Administration & Accountancy fee.

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Ref. to Appendix 1

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)

RESPONSES TO THE AUDITOR GENERAL ISSUES ON WESTERN KENYA RICE MILLS LIMITED FOR THE YEAR ENDED 30TH JUNE 2019.

1.0 Property, Plant and Equipment

The property, plant and equipment balance of Kshs. 4,463,808.00 as at 30th June 2018 excludes as similarly reported in the past, an undetermined value of land without title on which the Company's buildings are located in Ahero, Kisumu County. It has not been possible therefore to confirm legal ownership of the land and whether the carrying amount as stated in the financial statements, reflects the fair value of property, plant and equipment as at 30th June 2018.

Management Response

The parcels of land on which these buildings are built are national gazetted parcels under the management of the National Irrigation Board. The buildings stand on trust land. Hence, WKRM does not have a title deed for the land on which its buildings are situated. The pursuit for title deeds for the trust land has faced complex and sensitive issues which are being handled by the management.

2.0 Unaccounted for Inventories in the Financial Statements

The statement of financial position reflects inventories balance of Kshs. 877,268.00 as at 30th June 2018. An examination of stock sheets, however, revealed that the inventory items do not have carrying amounts attached to them. Consequently, it is not clear how the value of Kshs. 877,268.00 disclosed in these financial statements was arrived at.

Under the circumstances, the completeness and accuracy of the inventories balance of Kshs 877,268.00 cannot be confirmed.

Management Response

The inventories in question relates to workshop tools which were purchased in prior years and were expensed within the respective years of purchase. As such, these items are maintained in the stock sheets as a control measure for accountability purposes. On the other hand, the spares were supplied as accompaniment to the milling machines at the time of purchase hence we could

not get their values. In this respect, the management thought it wise not to value these spares separately as this could lead to overvaluation of the machine.

3.0 Unsupported Receivables

The statement of financial position as at 30th June 2018 reflects a balance of Kshs. 18,757,915.00 under trade and other receivables. As disclosed in Note 4 to the financial statements, the balance includes an amount of Kshs. 2,157,930.00 relating to the farmers total account which is a figure brought forward from the previous year and has not been analyzed or supported with any documentation. Consequently, the accuracy and completeness of the debtors' figure of Kshs. 2,157,930.00 cannot be confirmed. Further, the management does not appear to have an ageing policy on debtors.

Management Response

The management has received a commitment from the officials of Ahero Irrigation Scheme Revolving Fund, stipulating that the farmers do not owe Western Kenya Rice Mills Ltd Kshs. 2,157,930.00 and the same has been adjusted in our books.

The aging analysis for debtors is one of the reports that are automatically generated by the ERP System.

4.0 Share Capital

The statement of financial position as at 30th June 2018 reflects share capital of Kshs. 35,049,935.00 whereas records available at the registrar of Companies reflects share amounting to Kshs. 32,428,860.00 thus resulting to a difference of Kshs. 2,621,075.00. Although the management has explained that the difference is as a result of shares acquired by farmers which are however not reflected in the registrar's records. No evidence has been presented for the audit to confirm management's assertion.

In the circumstances, it has not been possible to confirm the accuracy and validity of the additional increase in share capital of Kshs. 2,621,075.00 as at 30th June 2018.

Management Response

The figure of Kshs. 35,049,935 differs from that available at the Registrar of Companies because of the payments which were made by the farmers but the changes were not effected at the registrar's office. For these changes to be effected, the management requires the Board's approval.

In this respect, the Management will in the financial year 2019/2020 engage the Board in approving the engagement of the registrar in order to issue updated share certificates.

5.0 Inter Company Transaction

The statement of financial position reflects a balance of Kshs. 27,950,094.00 under NIB Current Account and as disclosed in Note 8 to the financial statements, the amount relates to transactions between the company and National Irrigation Board (NIB). However, the NIB books reflects an amount of Kshs. 79,331,536.00 on the account of the Company. The resulting difference of Kshs 51,381,442 between the two sets of records has not been explained or reconciled.

Consequently, the accuracy and completeness of the NIB Current Account balance of Kshs. 27,950,094.00 cannot be ascertained.

Management Response

This figure of Kshs. 27,950,094 which appears in the books of the company is included in the books of NIB under the provisions made in the financial year 2017/2018. There is an ongoing reconciliation for the account and once it is completed and the correct position established, the figures will be adjusted in the books of both organizations.

6.0 Failure to Remit Statutory Deductions

The statement of financial position reflects a balance of Kshs. 2,607,430.00 under trade and other payables. As disclosed under Note 9 to the financial statements, the amount comprises of outstanding audit fees, trade creditors and other creditors. Other creditors – Kshs. 1,090,698.00 relates to statutory deductions in respect of NSSF, PAYE and Sacco that had not been remitted to the relevant authorities as of 30th June 2018. No reason has been given for the failure to remit the deductions.

Failure to remit statutory deductions may attract penalties, which have not been provided for in these financial statements.

Management Response

It is true, that the company had not remitted the statutory deductions in respect of NSSF, PAYE and Irrigation Sacco, at the close of the year 2017/2018. During the financial year the company experienced financial challenges as they had supplied Sindano Rice to the Kisumu County Government worth Kshs. 8,295,000.00 which had not been paid for hence the financial instability.

We will adhere to the laid down rules and regulations.

7.0 Current Liabilities – Long Outstanding Tax Remittance

The statement of financial position reflects a balance of Kshs. 10,440,517.00 under taxation as at 30th June 2018 and as disclosed in Note 10 to the financial statements the amount includes unpaid provision for tax on profits made during earlier years dating back to the year 1996. However, penalties and interest in respect of the unpaid taxes have not been provided for in these financial statements. This has, in effect understated the tax provision and loss for the year.

Consequently, the company risks payment of huge penalties and interest over and above the long outstanding unpaid taxes.

Management Response

The figure of Kshs. 10,440,516.51 relates to the provisions made in the financial statements in the early years when the company used to make profits. In order to address Tax Compliance matters for WKRM Ltd., the management engaged the consultancy services of Daniel Mwangi and Associates to ascertain the extent the company has tax obligations with KRA. However, challenges are being experienced as documents relating to the procurement of the milling facility cannot be traced. This is because some time back in the year 2000-2001 a number of records were destroyed through the advice of the National Archives. These records would have enabled the consultant to seek remission of some taxes. However, the consultant is still in consultation with KRA and the management is still waiting for the outcome of the negotiations. More so, in

the recent years, the Company has been making losses in every trading year making it difficult to clear the outstanding liabilities.

8.0 Material Uncertainty in Relation to Going Concern

During the year ended 30th June 2018 the company recorded a loss of Kshs. 2,646,388.00 (2017: a loss of Kshs. 6,881,340.00), which depleted the retained earnings further from negative Kshs. 48,994,438.00 as at 30th June 2017 to negative Kshs. 51,576,126.00 as at 30th June 2018. In addition, the current liabilities of Kshs. 40,998,041.00 exceeded the current assets of Kshs. 20,008,042.00 by Kshs. 20,989,999.00. The company is therefore technically insolvent.

The precarious financial performance and position indicated above is an indication of the existence of a material uncertainty which may cast a significant doubt on the Company's ability to continue as a going concern and to meet its obligations as and when they fall due. The financial statements have been prepared on going concern basis on the assumption that the company will continue to receive financial support from The National Government and its creditors. However, this material uncertainty in relating to going concern and any mitigating measures put in place by the Company's directors to reverse the undesirable precarious financial position has not been disclosed in the notes to the financial statements.

Management Response

Following the liberalization of the economy the Company has been facing stiff competition from both local millers and International business, especially traders from Uganda. This has led to inadequate raw materials (paddy) for milling. Previously, the Company used to get the entire crop of paddy from Ahero, West Kano and Bunyala Irrigation Schemes.

Further, most of the farmers do not deliver their paddy to the Company for processing as per the initial arrangement. With the liberalized market, the farmers are free to sell their produce to any buyer who is willing to pay the highest price. Hence, lack of the raw material for milling has made it tough for the Company.

The variety of rice grown in the region does not have a competitive edge in the market. This is because most of the large scale millers will prefer the basmati variety as compared to the Sindano variety. Only Public Learning Institutions purchase the rice milled by WKRM Ltd.

These institutions suffer from cash flow problems and have a problem of settling their debts in good time thereby denying the Company liquidity to cater for operational needs.

Another challenge faced by the Company is the old age of the Mill. Which has led to low recoveries of the processed grade 1 rice.

Unlike MRM which has diversified sources of income i.e., investment property, WKRM does not have any other alternative income generating activity. Thus, funding has been an issue resulting into the decline in profitability.

The management is optimistic the company will raise over Kshs. 50M as working capital through loans to be able to remain afloat and improve its business objective through paddy purchases, modernizing & improving the milling plant, putting in place a marketing strategy and expansion of market outlets.

9.0 Milling Income-Under Absorptions

Disclosed in Note 11 to the financial statements is a turnover of Kshs. 24,798,050.00 for the year ended 30th June 2018, representing a drop of Kshs. 7,015,328.00 or 22% from the previous year turnover of Kshs. 31,813,378.00. As noted, the turnover trend for the various rice has tremendously gone down. No explanation has been provided by the Company for the reduced turnover.

Further, during the period under review, the Company earned Kshs. 33,565.00 from milling income against a budget of Kshs. 525,000.00 and against prior year performance of Kshs. 155,618.00, representing a 78% drop in milling income and under absorption of 94% against the budget. The audit revealed that the Company has not taken measures to improve its productivity since the type of machinery it uses is inefficient. As a result, the productivity has remained low in the face of rising competition from other millers.

Management Response

The low milling income has been as a result of many factors including;

- The stiff competition from both local millers and International business people, especially from traders from Uganda. Due to liberalization of the rice market farmers are not under obligation to sell their rice to the WKRM Ltd as was previously the case.
- Most of the farmers do not deliver their paddy to the Company for processing as per the initial arrangement. With the liberalized market, the farmers are free to sell their produce to any buyer who is will to pay the highest price. Hence, lack of the raw material for milling has made it difficult to operate the Company optimally.
- Another factor is the old age of the Mill. Which has led to low recoveries of the processed grade 1 rice and this has resulted into many business people shunning away from the Company mill.
- The Company has made losses in successive years. This has made it difficult to upgrade the milling facility.

9.0 Board Expenses

The statement of profit and loss and other comprehensive income reflects board members' expenses of Kshs. 187,335.00 during the year ended 30 June 2018 compared to Kshs. 17,400.00 in the previous year an increase of Kshs. 169,935.00. It has been observed that the board of Western Kenya Rice Mills held only one meeting during the year under review on the 16 September 2018 contrary to Section 8(1) (a) of the State Corporations Act Cap 446. In the absence of board meeting, it has not been clear how the strategic policy and governance issues of the company were managed by the company during the year under review.

Management Response

The Board planned for four meetings during the year. However, it was not possible to hold the meetings for the following reasons:

- i. Financial constraints due to poor performance of the Company arising from the challenges raised above.
- ii. Uncertainty in the officials of the farmers' Societies due to leadership challenges, hence not having official communication on who was to be invited for the meetings.