


REPUBLIC OF KENYA



Enhancing Accountability

REPORT

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 19 SEP 2024	DAY OF THURSDAY
TABLED BY: HON. ROBERT PUKOSE	THE AUDITOR-GENERAL
CLERK AT THE TABLE: VIVIAN WAMBUI	



ON

**MUHORONI SUGAR COMPANY LIMITED
(IN RECEIVERSHIP)**

**FOR THE YEAR ENDED
30 JUNE, 2022**



(IN RECEIVERSHIP)



MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
REPORT OF THE JOINT RECEIVERS/MANAGERS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

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MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
REPORT OF THE JOINT RECEIVERS/MANAGERS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

CORPORATE INFORMATION

JOINT RECEIVER MANAGERS

Harun Kirui
Francis Ooko-Terminated on 22 May 2023

REGISTERED OFFICE

Muhoroni Sugar Company Limited (In Receivership)
P.O Box 2
Muhoroni

BANKERS

Kenya Commercial Bank Limited
P O Box 20
Muhoroni

Standard Chartered Bank Kenya Limited
Kisumu Branch
P.O Box 354
Kisumu

National Bank of Kenya Limited
Kisumu Branch
Kisumu

ADVOCATES

Otieno Ragot & Company Advocates
Al Imram Plaza, 4th Floor
Oginga Odinga Road
P O Box 3051-40100
Kisumu

Kale Maina Budotich
Teleposta Building
Kenyatta Avenue
P O Box 10674-00100
Nairobi

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
REPORT OF THE JOINT RECEIVERS/MANAGERS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

REPORT OF THE JOINT RECEIVER MANAGERS

The Joint Receiver Managers present their report together with the audited financial statements of the company for the year ended 30 June 2022.

PRINCIPAL ACTIVITIES

The principal activities of the company is manufacturing of sugar and the provision of support to sugar cane out-growers.

OPERATIONS OF THE COMPANY

The government, as the major shareholder, plans to divest its stake in the sugar company to improve its performance and competitiveness through privatisation.

RESULTS

	2022	2021
	KSh	KSh
Loss before taxation	(594,551,386)	(393,234,389)
Taxation	-	-
Loss for the year transferred to accumulated deficit	<u>(594,551,386)</u>	<u>(393,234,389)</u>

CORPORATE SOCIAL RESPONSIBILITIES

- 1 Continued with supply of improved quality water to the surrounding community, churches and schools as part of social corporate responsibility.
- 2 Roads rehabilitation and maintenance within Muhoroni Sugar out grower zone was carried out to enhance zonal mobility, but was limited on account of funds.
- 3 Provided health services to the community in collaboration with Ministry of Health, Aphia Plus, OGRA and ICAP. This included:
 - Provision of ARVs to the surrounding community to a total of 369 persons registered.
 - Antenatal care with an annual target of 45 persons.
- 4 In collaboration with the County Government of Kisumu, repaired the road to the Nyayo sub county hospital for easier access by the community.

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITORS

With respect to each receiver/manager at the time this report was approved:-

- (a) There is so far as the person is aware, no relevant audit information of which the Company Auditor is unaware; and
- (b) The person has taken all the steps that the person ought to have taken as a Director so as to be aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

AUDITORS

The Auditors, Mathenge & Associates, have indicated their willingness to continue in office and do so in accordance with the Kenyan Companies Act 2015.

BY ORDER OF THE JOINT RECEIVER MANAGERS



Joint Receiver Manager

Date... 12TH JUNE2024

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
REPORT OF THE JOINT RECEIVERS/MANAGERS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

STATEMENT OF JOINT RECEIVER MANAGERS' RESPONSIBILITIES

The Kenya Companies Act requires the Joint Receiver Managers to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the Joint Receiver Managers to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The Joint Receiver Managers are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenya Companies Act and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

The Joint Receiver Managers accept responsibility for the annual 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 and in the manner required by the Kenyan Companies Act. The Joint Receiver Managers are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The Joint Receiver Managers further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Joint Receiver Managers acknowledge that the continued existence of the company as a going concern depends on continued support from the debenture holders and the government and the success of the measures that the Joint Receiver Managers and the government have put in place to return the company to normal business operations and profitability. The Joint Receiver Managers are of the view that once the planned measures are adopted, the company will successfully return to profitability. In view of the foregoing, the Joint Receiver Managers consider it appropriate to prepare financial statements on a going concern basis.



Joint Receiver Manager

Date 18TH JUNE 2024

REPUBLIC OF KENYA

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HEADQUARTERS
Anniversary Towers
Monrovia Street
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP) FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of set out on pages 04 to 23, which comprise of the statement of financial position as at 30 June, 2022, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and

itemized actual revenue and expenditure for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

I do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Variances in the Financial Statements

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

- (i) The statement of comprehensive income and as disclosed in Appendix I to the financial statements reflects an amount of Kshs.1,603,129,598 in respect of revenue, while the supporting schedules reflects an amount of Kshs.1,862,335,169, resulting to unreconciled variance of Kshs.259,205,571.
- (ii) The statement of comprehensive income and as disclosed in Appendix II reflects an amount of Kshs.32,991,553 relating to other operating income, while the supporting ledgers reflects an amount of Kshs.33,531,553 resulting to an unreconciled variance of Kshs.540,000.
- (iii) Further, the statement of comprehensive income reflects an amount of Kshs.2,098,326,827 relating to cost of sales and as disclosed in Appendix I to the financial statements. The cost of sales differed with ledger balances of Kshs.1,875,059,748 by Kshs.223,267,084.
- (iv) The comprehensive income and as disclosed in Appendix III to the financial statements also reflects administrative expenses totalling Kshs.298,807,287, which differs with the ledger balances totalling Kshs.210,196,882, resulting to an unreconciled variance of Kshs.88,610,406.
- (v) The statement of financial position and as disclosed in Note 13 reflects trade and other receivables balance of Kshs.482,590,834 net of provision of doubtful debts. However, the ledgers provided for audit review reflected a net credit balance of Kshs.147,120,362 resulting to an unreconciled variance of Kshs.629,711,196.
- (vi) The statement of financial position further reflects inventories totalling Kshs.180,013,515, while the general ledger provided for audit reflect an amount of Kshs.334,268,862, resulting to unreconciled variance of Kshs.154,255,347.
- (vii) In addition, the statement of financial position and as disclosed in Note 17 to the financial statements includes trade and other payables amounting

to Kshs.19,532,812,793, while the supporting ledgers amounted to Kshs.18,076,616,028 resulting to an unreconciled variance of Kshs.1,456,196,766.

- (viii) Further, the statement of financial position and as disclosed in Note 16 to the financial statements reflects borrowings balance of Kshs.9,689,313,375, while the supporting ledgers reflected an amount of Kshs.9,519,033,636, resulting to an unreconciled amount of Kshs.170,279,739.

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

2. Unsupported Adjustments

Review of the statement of comprehensive income revealed unexplained adjustments that were passed to various accounts totalling Kshs.781,982,436 as detailed below;

Component	Amount (Kshs.)
PAYE	698,119,978
NSSF	38,895,256
NHIF	44,967,202
Total	781,982,436

However, Management did not provide evidence to support the adjustments including the authorization and explanation of the nature of the adjustments.

In the circumstances, the validity of the adjustments made and the accuracy of the cost of sales could not be confirmed.

3. Unsupported Trade and Other Receivables

The statement of financial position and as disclosed in Note 13 to the financial statements, reflects trade and other receivables net balance of Kshs.482,590,834. However, the following unsatisfactory matters were noted:

- (i) Included in the balance are trade receivables, other receivables and deposits and prepayments of Kshs.67,152,499, Kshs.333,866,714 and Kshs.1,839,713 respectively. However, the supporting ledger details of the debtors' balances together with the relevant dates when the debts were incurred, were not provided for audit review.
- (ii) Management did not provide correspondences with the customers to support efforts made to recover the outstanding amounts from the debtors as required by the State Corporations Act, 2012 Section 15(1) on accountability which states that a Board shall be responsible for the proper management of the affairs of a state corporation.

- (iii) The Note 13 to the financial statements reflect Kshs.154,501,307 as provision for doubtful debts. However, the provision was not backed by any rate or policy, or the account balances being provided for.

In the circumstances, the completeness, accuracy and recoverability of the debt balances could not be confirmed.

4. Cash and Bank Balances

The statement of financial position reflects cash and bank balances of Kshs.6,509,219. However, the balance contains the following anomalies:

- (i) Review of the cash and bank analysis reflected a Standard Chartered Bank deposit account with an overdrawn balance of Kshs.798,000. However, the approval of opening and operating the bank account was not provided for audit review.
- (ii) The cash and bank balance include an amount of Kshs.24,040,278 in respect to six (6) bank accounts and an overdraft of Kshs.848,000 from two (2) other bank accounts. However, the bank reconciliation statements, cashbooks and certificate of bank balances were not provided for audit. This was contrary to Regulation 90(1) of the Public Finance Management (National Government) Regulations, 2015.
- (iii) Further, the two (2) accounts were overdrawn contrary to Regulation 82(7) of the Public Finance Management (National Government) Regulations, 2015 which states that no official Government bank account shall be overdrawn, nor shall any advance or loan be obtained from a bank account for official purposes beyond the limit, authorized by the National Treasury in line with section 28(4) of the Act.
- (iv) The balance includes petty cash account balance of Kshs.6,900 of which the cash survey certificates were not provided for audit verification.
- (v) The cash and bank balances further include negative balance of Kshs.16,689,959. However, the nature of the account could not be confirmed and Management has not explained why the account had a negative balance.
- (vi) Further, Management provided a list of three (3) bank accounts operated by the Company. However, the supporting schedule provided indicated that eight (8) bank accounts were maintained by the Company.
- (vii) Management has not properly disclosed cash and bank balances as per the PSASB template which requires provisions of short appropriate explanations on cash at bank and cash in hand.

In the circumstances, the accuracy and completeness of the cash and bank balance of Kshs.6,509,219 as at 30 June, 2022 could not be confirmed.

5. Long Outstanding and Unsupported Trade Payables

The statement of financial position and Note 17 to the financial statements reflects trade and other payables balance of Kshs.19,532,812,792. Included in the trade payables balance were opening balances detailed as follows;

Payables	Opening Balances (Kshs.)
Cane Transport	451,119,373
Cane Harvesting	130,439,819
Nucleus Estate Contractors	99,359,479
Debtors with Credit Balances	516,241,640
PAYE	60,618,941
NHIF	9,454,850
NSSF	30,859,358

However, Management has not supported the balances with a detailed listing and invoices indicating the specific entities to which the amounts are owed. Further, no ageing analysis in support of trade and other payables had been provided for audit verification.

In the circumstances, accuracy and completeness of trade and other payables balance of Kshs.19,532,812,792 could not be confirmed.

6. Trade Creditors with Debit Balances

The statement of financial position and as disclosed under Note 17 to the financial statements reflects a balance of Kshs.19,532,812,792 in respect to trade and other payables. However, the schedule provided for audit reflected accounts with debit balances amounting Kshs.516,241,640. Management has not explained why the debit balances were included in the payables which implied payment for services or goods yet to be rendered or delivered respectively. Further, inclusion of the trade payables with debit balances is contrary to Paragraph 32 of IFRS 1 which states that an entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS.

In the circumstances, the accuracy and completeness of the trade and other payables could not be confirmed.

7. Outstanding Tax Arrears

The statement of financial position reflects trade payables balance of Kshs.19,532,812,792 as disclosed in Note 17 to the financial statements which includes taxes, penalties and fines of Kshs.16,235,047,671. However, the following observations were made;

- (i) The tax arrears for the year increased by Kshs.229,993,856 from the prior year balance of Kshs.16,005,053,814.
- (ii) The movement schedule provided by Management indicated that the Company accrued tax arrears of Kshs.2,634,683,830 dating back to April, 2011. Out of this part, payments of Kshs.710,786,782 had been made. However, the deductions and remittance of the same was not supported with returns duly acknowledged by Kenya Revenue Authority.

- (iii) Taxes, penalties and fines further includes pre-receivership payables of Kshs.14,321,150,623 whose detailed ageing analysis to support the balance was not provided for audit review.
- (iv) Documents provided by Management vide letter Ref:TNT/CONF 28/03 dated 09 October 2023 from The National Treasury indicated that the Company owe KRA Kshs.3,238,703,456. However, the financial statements reflect Kshs.16,235,047,671 resulting to a variance of Kshs.12,996,344,215 which had not been explained.

In the circumstances, the accuracy and completeness taxes, penalties and fines balance of Kshs.16,235,047,671 could not be confirmed.

8. Borrowings

The statement of financial position reflects a balance of Kshs.9,689,313,375 which, as disclosed in Note 16 to the financial statements comprise of loans issued by the Government of Kenya, loans guaranteed by Government of Kenya and loans from Kenya Sugar Board of Kshs.2,486,940,412, Kshs.904,185,261 and Kshs.2,584,819,282 respectively. The loans which have accrued a huge interest of Kshs.3,713,368,420 were long overdue some dating as far back to 1975 and no repayments were being made as required by Regulation, 42(1)(a) of the Public Finance Management (National Government) Regulations, 2015 which states that debt service payments shall be a first charge and the Accounting Officer shall ensure this is done to the extent possible that the Government does not default on debt obligations.

Further, no loan agreement or application details were provided to confirm how the loans were advanced.

In the circumstances, the completeness, accuracy, and servicing of the borrowings amounting to Kshs.9,689,313,375 could not be confirmed.

9. Unreconciled Payroll Records

As disclosed in Appendix II and III to the financial statements, the cost of sales and administrative expenses includes staff costs under factory, agricultural and administrative units of Kshs.282,726,137, Kshs.70,681,534 and Kshs.151,460,430 respectively totalling Kshs.504,868,101. However, the payroll records for permanent employees and schedules supporting wages to casual workers amounted to Kshs.494,827,104 resulting to an unexplained variance of Kshs.10,040,997. Further, Note 7 to the financial statements, reflects expenditure on staff costs of Kshs.473,625,343 against departmental cost totalling Kshs.504,868,101 resulting in an unreconciled variance of Kshs.31,242,758. No adjustments had been done to correct the variances contrary to IAS 1.15 which states that the financial statements must "present fairly" the financial position, financial performance and cash flows of an entity.

In the circumstances, the accuracy and completeness of the staff costs could not be confirmed.

10. Unsupported Legal and Professional Fees

Appendix III to the financial statements reflects administrative expenses of Kshs.298,807,287 which includes an amount of Kshs.3,743,076 related to legal and professional fees. However, information provided by the Management revealed that the Company engaged legal practitioners to preside over various cases during the year under review and previous years without the involvement of the Attorney General contrary to Section 17 of the Office of the Attorney General Act, 2012. Further, the propriety of the fees paid could not be confirmed since a list of pending legal cases, outstanding legal fees per case, stage of proceedings of each case, fees paid up to date per case, breakdown of legal fees in fee notes and evidence of court attendance, rate as per advocate remuneration roll, statements or ledgers of advocates accounts and case files showing the value of each case were not provided for audit review.

In the circumstances, the accuracy and regularity of the legal fee expenditure amounting to Kshs.3,743,076 could not be confirmed.

11. Unsupported Administrative Expenses

The statement of comprehensive income and as disclosed in Appendix III to the financial statements reflect administrative expenses of Kshs.298,807,287. The expenses include various payments amounting to Kshs.181,191,501 as detailed below;

Item	Amount (Kshs.)
Staff Costs	151,460,430
Joint Receivers Managers Fees and Expenses	4,039,610
Telephone and Faxes	506,915
Other Costs	
Repairs and Maintenance	1,124,624
Electricity Expenses (Residential)	1,430,878
E-Mails	15,070,491
Guest House	1,452,725
Medical Expenses	2,593,330
Charities and Donation	3,512,496
Total	181,191,499

Further, staff costs included Kshs.1,174,200 being travelling expenses for the financial year 2021/2022. However, supporting documents were not provided contrary to Regulation 104 of the Public Finance Management (National Government) Regulations, 2015 which states that all receipts and payment vouchers of public moneys shall be properly supported with a pre-numbered receipt and that payment vouchers shall be supported by the appropriate authority and documentation.

In the circumstances, the accuracy and completeness of administrative expenses of Kshs.298,807,287 could not be confirmed.

12. Unsupported Asset Additions

The statement of financial position and as disclosed in Note 9 to the financial statements reflects property, plant and equipment net book value of Kshs.3,742,431,601 which includes Kshs.5,250,635 in respect to land development and purchase of factory plant and machinery. However, the assets additions were not supported with purchase orders/local service orders, invoices, delivery notes, GRNs, inspection and acceptance committee reports.

In the circumstances, the accuracy and completeness of property, plant and equipment cost of Kshs.3,742,431,601 could not be confirmed.

13. Material Uncertainty on Going Concern

The statement of comprehensive income indicates that during the year under review, the Company incurred an operating loss of Kshs.594,551,386 which raised its accumulated losses from Kshs.28,119,370,989 from the previous financial year to Kshs.28,713,922,375 as at 30 June, 2022. Further, the Company, as reflected in the statement of financial position, had current liabilities totalling Kshs.29,419,971,912 compared to current assets of Kshs.869,780,687 resulting to a negative working capital of Kshs.28,550,191,225.

In the circumstances, these conditions are indicative of the Company's inability to continue as a going concern.

14. Late Submission of Financial Statements

The financial statements for the year ended 30 June, 2022 were submitted to the Auditor-General on 04 December, 2023. This was contrary to Section 47(1) of the Public Audit Act, 2015 which requires that financial statements to be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.

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

15. Unauthorized Engagement of Delegated Auditors

Review of the financial records of the Company revealed that since the Government of Kenya took control of the Company in 1992, the accounts were submitted and audited by the Auditor-General till the financial year 1999/2000. The Company was placed under receivership in 2001 by National Bank of Kenya Limited and Kenya Sugar Board. The Receiver Managers appointed M/s Delloite & Touche to audit the financial statements from the financial year 2000/2001 to 2008/2009 when the bank was paid off by the Government through the Kenya Sugar Board. Kenya Sugar Board continued indicating that the Company was still under receivership and appointed two (2) of its employees as Receiver Managers. The Receiver Managers irregularly appointed M/s Mathenge & Associates to audit the financial statements for the financial years 2009/2010 to 2019/2020 without the approval of the Auditor-General in line with Section 23 of Public

Section 46 of the Public Procurement and Asset Disposal Act, 2015 which requires that no works, goods or services contract shall be paid for before they are executed or delivered and accepted by the accounting officer of a procuring entity. Further, the contract agreements were not provided to confirm that the advance payment was provided for in the contract.

In the circumstances, the payments made in respect of the supply of orders made were therefore irregular and not in compliance with the Public Procurement and Asset Disposal Act, 2015.

19. Staff Advances

As disclosed in Note 13 to the financial statements, the statement of financial position reflects net trade and other receivables balance of Kshs.482,590,834 which includes staff receivables balance of Kshs.37,220,714. However, review of the trade receivables analysis and related records revealed the following anomalies;

- (i) Analysis of personnel records for the period ended 30 June, 2022 revealed that officers had been issued with salary advances of Kshs.3,066,335. However, advances totalling Kshs.1,089,335 had been outstanding for more than three (3) months contrary to Section 5.1.6.2 (VII) of the Human Resource Manual, 2015 which states the staff contingency advances is payable within three (3) months.
- (ii) Further, seventeen (17) officers were issued multiple advances of Kshs.2,169,000 during the year under review before clearing the previous advance contrary to Section 5.1.6.2 (VII) of the Human Resource Manual, 2015. The outstanding salary advance as at year end totalled Kshs.1,453,700. Management did not explain why the advance were still outstanding without the same having been recovered from the respective individual salaries account.

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

20. Management of Staff Imprest

Note 13 to the financial statements reflects trade and other receivables balance of Kshs.482,590,834 which includes a balance of Kshs.37,220,714 in respect of staff receivables. Review of the systems for the management, safeguarding and maintenance of staff receivables records revealed the following anomalies;

- (i) Examination of temporary imprest records revealed that outstanding imprests as at 30 June, 2022 amounted to Kshs.5,084,207 some dating back from 2016. These imprests were, therefore, not accounted for or surrendered by the imprests holders within seven (7) working days after returning to duty station, contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2012.
- (ii) Several officers were issued with multiple imprests before surrendering previous imprest amounting to Kshs.1,453,700 contrary to Regulation 93(4) of the Public

Audit Act, 2015 which requires that delegated auditors should be appointed with the knowledge, consent and approval of the Auditor-General, since Kenya Sugar Board was fully owned Government entity.

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

16. Incorporation Certificate

Review of the Articles of Association and Memorandum of Association revealed that Muhoroni Sugar Company Limited (MUSCO) was incorporated on the 18 October, 1961 as a private company limited by shares under the name East African Sugar Industries with registration No.C.8/61. The shares in the capital of the company were held by seven (7) shareholders with the share capital valued at Kshs.10,000,000 divided into 500,000 ordinary shares of Kshs.20 each. Although Management provided a certificate of change of name from East African Sugar Industries to Muhoroni Sugar Company Limited (MUSCO), Company's ownership documents of the Company's assets including land were still under the name of East African Sugar Industries.

In the circumstances, the ownership of the assets of the Company could not be confirmed.

17. Unsupported Receivership Process

The Company was placed under joint receivership in March, 2001 by the then Kenya Sugar Board (a Directorate of Agriculture and Food Authority) and National Bank of Kenya (NBK) pursuant to debenture instruments registered under them with the main objective of preserving the assets awaiting the approved privatization process. Records of the Company revealed four (4) Joint Receiver Managers have been appointed since 2001. However, documents which initiated the receivership process by the holder of the floating charge, Kenya Sugar Board and the terms of reference were not provided for audit review contrary to Section 534 of the Insolvency Act, 2015.

Further, no evidence was provided to confirm that the appointed Receiver Managers were insolvency practitioners contrary to Section 526 of the Insolvency Act, 2015 which states that a person may be appointed as administrator of a company only if the person is an authorized insolvency practitioner.

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

18. Irregular Payments for Goods Before Delivery

Review of purchase orders and movement schedules under costs of sales revealed that prepaid customers' orders amounted to Kshs.294,897,365. However, the schedule indicated that as at 30 June, 2022, orders amounting to Kshs.163,431,648 were outstanding which ought to have been serviced or refunded for goods and services procured but not received or rendered. No explanation was given for failure by the supplier to supply the equipment promptly and no evidence was provided of any efforts being made by the Management to have the goods or services supplied. This was contrary to

Finance Management (National Government) Regulations, 2015 which prohibits issue of new imprests to officers with outstanding imprest. No explanation was provided by Management for the anomaly.

- (iii) Further, imprest details provided for audit review indicated that Kshs.795,500 was recovered during the year under review. However, Kshs.414,491 was verified as having been recovered resulting to an unsupported recovery of Kshs.383,008.

In the circumstances, the regularity of outstanding imprest balance of Kshs.21,512,623 could not be confirmed.

21. Disclosure of Borrowings and Finance Costs

The statement financial position and Note 16 to the financial statements reflects borrowings balance of Kshs.9,689,313,375. However, the borrowings were reported under current liabilities which are non-current in nature contrary to Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: AG.3/88 Vol. VII (26) dated 09 May, 2023. Further, the statement of comprehensive income reflects a Nil balance in respect of net finance costs. However, the borrowings accrued interest as at year end.

In the circumstances, the presentation of the financial statements does not conform to IPSAS.

22. Non-Compliance with Procurement Procedures

22.1 Supply of Boiler Tank Tubes

Records provided for audit revealed that Management entered into contract with a firm for supply of a seamless boiler tank tubes of diameter 16mm, made of steel 35.8 class II of 6000 metres at a sum of Kshs.6,522,780. The Management used restricted tender method of procurement yet the procurement did not satisfy any of the conditions set under Section 102(1) of the Public Procurement and Asset Disposal Act, 2015. Further, the following unsatisfactory matters were noted:

- (i) Review of the project files and other accompanying tender documents revealed that the tender was not advertised as required by Section 96(2) of the Public Procurement and Asset Disposal Act, 2015.
- (ii) Management sent out the tender document to six (6) bidders instead of at least ten (10) as required by Regulation 89(5) of the Public Procurement and Asset Disposal Regulations, 2020 which provides that the procuring entity shall invite tenders from at least ten (10) persons selected from the list maintained. Further, the procuring entity used an expired list of suppliers for the period covering financial year 2017/2018.
- (iii) Records reviewed indicated that out of the six (6) bids only two (2) were responsive at Kshs.23,866,849 and Kshs.18,998,190 respectively. However, Management negotiated with the second lowest bidder and awarded the contract at a cost of

Kshs.23,866,849. Management did not provide justification for awarding the second lowest bidder. The Supplier declined the award on grounds that the price was VAT exclusive hence unable to accept the offer. Management eventually directly sourced a different firm, changed the scope of the contract and issued a Local Purchase Order (LPO) dated 26 August, 2021 at a sum of Kshs.6,522,780. However, no justification was given for the use of direct procurement method.

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

22.2 Irregular Engagement of Consultants

As disclosed in Appendix III to the financial statements, the statement of comprehensive income reflects administrative expenses of Kshs.298,807,287 out of which an amount of Kshs.3,743,076 was paid in respect of legal and professional fees. Included in legal and professional fees are consultancy fees of Kshs.1,199,125 payable to two consultants attached to production section. Records provided indicated that the two were engaged since June, 2021 with differing renewal periods. However, initial staff requisition forms by the Human Resource Manager were not provided for audit review. In addition, no tender documents and contracts were provided to confirm the method used to procure these consultants. Further, these consultants were not in the Company's list of consultants and it is not clear why Management opted to engage the consultants without due process.

In the circumstances, the propriety of the expenditure totalling Kshs.1,199,125 in respect of consultancy fee for the year ended as at 30 June, 2022 could not be confirmed.

22.3 Direct Procurement of Factory Supplies

During the year under review, the Management accrued expenses totalling Kshs.42,190,962 in respect of supply of boiler parts and sugar packaging wrappers using direct procurement method. According to the Management, the use of the direct procurement method was aimed at mitigating against stock outs of critical items needed by the Company. However, the goods and services were procured through direct procurement even though no evidence was provided that the conditions for use of the method as provided for under Section 103(2) of the Public Procurement and Asset Disposal Act, 2015 had been met.

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

22.4 Procurement above Quotation Threshold

During the year under review, Management engaged firms to supply and deliver for packaging materials and factory equipment worth Kshs.76,187,602. However, Management used Request for Quotation method instead of open tender to procure a machine whose cost was beyond the prescribed threshold of Kshs.3,000,000 for request for quotation. This was contrary to Regulation 26 of the Public Procurement and Asset Disposal Regulations, 2020 which states that the threshold matrix shall be as provided for in the second schedule.

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

23. Human Resource Management

23.1 Staff Serving in Acting Capacity

Review of the payroll and human resources records revealed that one hundred and four (104) officers were serving in acting positions for more than six (6) months and drawing acting allowances. The Management attributed the failure to appoint the employees in substantive positions to the instructions issued by the Ministry of Agriculture, Livestock, Fisheries and Co-operatives through circular Ref: MOEALF&C/CS/ADM/30 dated 07 July, 2020, to the sugar millers that they should not hire any new employees or effect any new promotions or offer additional benefits other than what existing staff were then entitled to. However, this exceeded the statutory duration provided for in the Human Resource Policies and Procedures Manual for the Public Service, 2016 which states that an officer may be appointed in an acting capacity for a period of at least thirty days but not exceeding a period of six months. Further, twenty-seven (27) permanent and casual employees were paid acting allowance in excess of the stipulated 20% of their basic salary contrary to Section C.14(1) of the HRM Policy Manual, 2016.

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

23.2 Payment of Special Duty and Responsibility Allowance

Review of payroll records revealed that officers were paid both special duty allowance and responsibility allowance of Kshs.1,867,176 and Kshs.990,000 respectively in the year ended 30 June, 2022. However, the special duty allowance was paid for more than six (6) months contrary to Section C.15(4) of the Public Service Commission Human Resource Policies and Procedures Manual, 2016, which states that the payment of special duty allowance will not be payable to an officer for more than six (6) months. Further, the payment of the responsibility allowance was contrary to the Salaries and Remuneration Commission (SRC) circular on review of allowances in the Public Service Ref. No. SRC/ADM/CIR/1/13 Vol. III (126) dated 10 December, 2014.

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

24. Lack of a Procurement Plan

The financial statements reflect cost of sales and administrative expenditures expenses which were incurred without a procurement plan contrary to Section 53(2) of the Public Procurement and Asset Disposal Act, 2015 which requires the Accounting Officer to prepare an annual procurement plan within the approved budget prior to commencement of each financial year as part of the annual budget preparation process.

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

25. Lack of a Strategic Plan

The Company did not have a strategic plan as it had expired in June, 2017. Review of the expired plan indicated that the Company did not meet the set objectives including the expansion of factory crushing capacity from 2,200 tonnes of cane per day to 4,000 tonnes cane, annual plant maintenance, return of the Company to profitability and expansion of nucleus estates. Management is yet to indicate when the Strategic Plan will be reviewed and approved which is contrary to Section 68(2)(g) of the Public Finance Management Act, 2012.

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

26. Unsupported Debentures

The Company was placed under joint receivership in March, 2001 by the then Kenya Sugar Board (Directorate of Agriculture and Food Authority) and National Bank of Kenya (NBK) pursuant to debenture instruments registered under them with the main objective of preserving the assets awaiting the approved privatization process. The NBK has since been paid off making the former Kenya Sugar Board (now AFA) the sole debenture holder valued at Kshs.2,272,723,286. However, the statement of financial position and as disclosed in Note16 to the financial statements reflects loans from Kenya Sugar Board at a principal of Kshs.2,584,819,282 resulting to a variance of Kshs.312,095,996 which had not been explained. Further, the unsecured debentures were issued based on future profitability of the Company and assets held. However, this basis to cushion the debenture holder against default is at risk since the Company is not a going concern.

In the circumstances, the debenture holder is at risk since the Company is not a going concern.

27. Lack of Standard Costing

The statement of comprehensive income reflects cost of sales amount of Kshs.2,098,326,827 which, as disclosed in Appendix II to the financial statements, includes an amount of Kshs.1,201,070,380 being the cost of cane supplied. Included in the cost of sales were factory and agricultural costs of Kshs.642,809,478 and Kshs.87,985,391 respectively. However, the following audit issues were noted:

- (i) The Management apportioned staff costs at 56% to factory costs, 14% to agricultural costs and 30% under administration costs. However, the standard costings and an approved policy on cost apportionment of its main product, sugar were not provided for audit review. Therefore, the unit cost that went into producing a kilogram of sugar and the basis of the apportioning staff costs to the departments could not be confirmed.
- (ii) The Management indicated that they used process costing in calculating the cost of sales. However, the process was not supported by the actual activities as the direct labour costs in factory and agriculture department were being apportioned to administration costs contrary to IAS 2 which states that costs of conversion of

inventories include costs directly related to the units of production, such as direct labour.

- (iii) The Management reported total cost of Kshs.1,346,079,263 of cane supplied. However, supporting schedules reviewed revealed that cane milled was valued Kshs.1,201,070,385 resulting to an unexplained cane loss valued at Kshs.145,008,878.
- (iv) Records provided by Management indicated that the Company milled 283,521 tonnes of cane during the year under review and produced 19,632.16 tonnes of bagged sugar resulting to a conversion rate of 14.44 to 1 of the produced sugar. However, the ratio of 1:14.44 was below the Agriculture and Food Authority (AFA) recommended conversion ratio of 1:10.

In the circumstances, the efficiency of the factory was below the standards set by the Industry.

28. Valuation of Assets

The statement of financial position reflects property, plant and equipment value of Kshs.3,742,431,601 as disclosed in Note 9 to the financial statements. Review of the asset register maintained by the Company revealed that motor vehicles with historical cost of Kshs.63,989,653 had been fully depreciated to Nil book values. However, the assets were still in use and the Company continues to derive benefits and incurring operational costs on fuel and maintenance. Further, Management confirmed that the Company's assets were last revalued in October, 2019. However, the report and valuation assets of Muhoroni Sugar Company was not adopted and approved by Management and those in-charge of governance. Additionally, the adjustments of the assets were not supported by authorized and/or authenticated journal entries.

In the circumstances, the value of property, plant and equipment balance reflected in the financial statements could not be confirmed.

29. Management of Inventories

The statement of financial position and Note 12 to the financial statements reflects inventories net balance of Kshs.180,013,515. However, the Management did not provide a stock-taking report or stock sheets in support of total carrying amount of inventories contrary to IAS 2:36 which states that the financial statements shall disclose the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity.

Further, the inventories balance of Kshs.180,013,515 is net of a provision of Kshs.10,602,098 which the Management indicated as obsolete inventories. However, no annual asset disposal plan was provided for audit review.

In the circumstances, the basis of valuing the inventory totalling Kshs.180,013,515 could not be confirmed.

30. Contingent Liabilities

As disclosed in Note 2 to the financial statements, the Joint Receiver Managers evaluate the status of these exposures to contingent liabilities on a regular basis to assess the probability of the Company incurring related liabilities. The status report on litigation matters indicated that cases in court or arbitration were likely to be made against the Company. However, there was no evidence to show that provisions had been made in the financial statements of the Company. Further, the pending cases have not been disclosed in the financial statements as contingent liabilities contrary to IAS 37.14 which states that a provision shall be recognized when an entity has a present obligation (legal or constructive) as a result of a past event.

In the circumstances, provision for contingent liabilities could not be confirmed.

31. Non-Inclusion of Statement of Comparison of Budget and Actual Amounts

Review of the financial statements revealed that the statement of comparison of budget and actual amounts has not been included contrary to the requirements of the reporting template prescribed by the Public Sector Accounting Standards Board (PSASB).

In the circumstances, the financial statements have not been prepared in conformity with the reporting template prescribed by the Public Sector Accounting Standards Board (PSASB).

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

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

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal controls, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion on lawfulness and effectiveness in use of public resources, and on effectiveness of internal controls, risk management and governance.

I am independent of the Muhoroni Sugar Company Limited (In Receivership) 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.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

19 August, 2024


MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
 STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 30 JUNE 2022

	Note	2022 KSh	2021 KSh
REVENUE (APPENDIX I)		1,603,129,598	1,881,889,621
Fair value gain/ (loss) on growing produce	11	<u>-</u>	<u>46,336,234</u>
OPERATING INCOME		1,603,129,598	1,928,225,856
Cost of sales (Appendix I)		<u>(2,098,326,827)</u>	<u>(2,005,325,298)</u>
GROSS LOSS		(495,197,229)	(77,099,442)
Other operating income (Appendix II)		32,991,553	62,158,660
Grant income	4	166,461,577	-
Administrative expenses (Appendix III)		<u>(298,807,287)</u>	<u>(316,806,325)</u>
OPERATING LOSS BEFORE FINANCE COSTS		(594,551,386)	(331,747,107)
Net finance costs	5	<u>-</u>	<u>(61,487,282)</u>
LOSS BEFORE TAXATION	6	(594,551,386)	(393,234,389)
Taxation	8	<u>-</u>	<u>-</u>
LOSS FOR THE YEAR		<u>(594,551,386)</u>	<u>(393,234,389)</u>

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

	Note	2022 KSh	2021 KSh
ASSETS			
NON - CURRENT ASSETS			
Property, plant and equipment	9	3,742,431,601	3,814,181,568
Investments	10	-	-
		<u>3,742,431,601</u>	<u>3,814,181,568</u>
CURRENT ASSETS			
Growing produce	11	200,667,118	166,363,514
Inventories	12	180,013,515	234,225,518
Trade and other receivables	13	482,590,834	501,166,118
Deferred farmers loans and debts	14	-	-
Cash and bank balances		6,509,219	6,345,705
		<u>869,780,687</u>	<u>908,100,855</u>
TOTAL ASSETS		<u><u>4,612,212,288</u></u>	<u><u>4,722,282,423</u></u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	15	55,741,920	55,741,920
Revaluation Reserve		3,850,420,831	3,850,420,831
Accumulated loss		(28,713,922,375)	(28,119,370,989)
Shareholders' deficit		<u>(24,807,759,624)</u>	<u>(24,213,208,238)</u>
NON - CURRENT LIABILITIES			
Borrowings	16	-	-
CURRENT LIABILITIES			
Bank overdraft		-	-
Borrowings	16	9,689,313,375	9,689,313,375
Trade and other payables	17	19,532,812,792	19,064,254,336
Due to related parties	18	197,845,745	181,922,949
		<u>29,419,971,912</u>	<u>28,935,490,661</u>
TOTAL EQUITY AND LIABILITIES		<u><u>4,612,212,288</u></u>	<u><u>4,722,282,423</u></u>

The financial statements on page 4 to 23 were approved by the Joint Receivers Managers on 18th JUNE 2024 and were signed by:



Joint Receiver Manager

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
 STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2022

	Note	Share capital KSh	Revaluation Reserve	Accumulated loss KSh	Total KSh
2021					
At 1 July 2021		55,741,920	3,850,420,831	(27,726,136,600)	(23,819,973,849)
Loss for the year	26	-	-	(393,234,389)	(393,234,389)
At 30 June 2021		<u>55,741,920</u>	<u>3,850,420,831</u>	<u>(28,119,370,989)</u>	<u>(24,213,208,238)</u>
2022					
At 1 July 2021		55,741,920	3,850,420,831	(28,119,370,989)	(24,213,208,238)
Loss for the year		-	-	(594,551,386)	(594,551,386)
At 30 June 2022		<u>55,741,920</u>	<u>3,850,420,831</u>	<u>(28,713,922,375)</u>	<u>(24,807,759,624)</u>

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
 CASH FLOW STATEMENT
 FOR THE YEAR ENDED 30 JUNE 2022

	Note	2022 KSh	2021 KSh
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash generated from operating activities	19	<u>5,414,149</u>	<u>7,982,235</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	<u>(5,250,635)</u>	<u>(9,474,648)</u>
Net cash used in investing activities		<u>(5,250,635)</u>	<u>(9,474,648)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings	16	-	-
Borrowings repaid	16	<u>-</u>	<u>-</u>
Net cash from financing activities		<u>-</u>	<u>-</u>
INCREASE IN CASH AND CASH EQUIVALENTS		163,514	(1,492,413)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		<u>6,345,705</u>	<u>7,838,118</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	19	<u><u>6,509,219</u></u>	<u><u>6,345,705</u></u>

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards.

Adoption of new and revised International Financial Reporting Standards

The company did not early-adopt new or amended standards or interpretations in 2022.

Basis of preparation

The financial statements are prepared on the historical cost basis of accounting as modified to include the revaluation of certain assets.

Revenue recognition

Sales of sugar and molasses are recognised upon delivery or collection of the products by customers and are stated net of taxes, levies and discounts.

Government grant income is recognised when there is reasonable assurance that the company will comply with any conditions attached to the grant and the grant will be received.

All other income earned by the company is recognised on the accrual basis.

Taxation

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on the straight-line method to write off the cost of the assets to their estimated residual values over their estimated useful lives. The annual rates in use are:

Freehold land	Nil
Roads and drainage (developments on land)	2.00%
Buildings	2.00%
Factory, plant and machinery	5.00%
Motor vehicles	25.00%
Tractors and trailers	20.00%
Agricultural equipment	20.00%
Office machines, furniture, fittings and equipment	7.50%
Computer and household equipment	33⅓%

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2022

1 ACCOUNTING POLICIES(Continued)

Inventories

Finished sugar and molasses inventories are stated at the lower of cost and net realisable value. Cost comprises expenditure directly incurred in the manufacturing process and an allocation of normal production overheads attributable to the process. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Sugar in process is converted to units of finished sugar at the estimated cane conversion rate for the year.

Sugarcane in yard is stated at cost.

Spare parts, fertilizers, chemicals and other consumable stores are stated at cost. Cost is calculated on the weighted average basis and includes the direct purchase cost, insurance, freight and other incidental costs.

Growing produce

Growing produce assets (cane plantations) are stated at fair values less estimated point-of-sale costs.

The fair value of growing cane is determined based on the present value of expected net cash flows. The fair value of harvested cane is determined based on the prices of cane existing in the market less point-of-sale costs.

Immature growing cane is valued at cost.

Financial instruments

Financial assets and financial liabilities are recognised in the company's statement of financial position when the company becomes a party to the contractual provisions of the instrument. The company has the following key financial instruments:

Trade and other receivables

Trade and other receivables are carried at their anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Impairment losses are recognised in the income statement after all efforts of recovery have been exhausted.

Term deposits

Term deposits are stated at amortised cost.

Trade payables

Trade payables are stated at their nominal value.

Investments

Unquoted investments are stated at cost less provision for impairment where, in the opinion of the Joint Receivers Managers, there is a permanent diminution in value. Such diminution is charged to the income statement in the year in which it is identified.

Borrowings

Interest bearing loans are recorded at the proceeds received, net of direct costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on the 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.

1 ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

Deferred farmers loans and debts

Deferred farmers' loans and debts relate to advances and loans to cane growers for cane development and are carried at the anticipated realisable value. Impairment losses are recognised in the income statement whenever the carrying amount of the loans exceeds the recoverable amount.

Impairment

At each statement of financial position date, the company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

Cash and cash equivalents

For the purpose of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which were within three months to maturity when acquired; less advances from banks repayable within three months from the date of the advance.

Employee entitlements

Provision for staff leave pay

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated monetary liability for annual leave as a result of services rendered by employees as at the balance sheet date.

Retirement benefits obligations

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme for which the company's obligation is limited to a specified contribution per employee per month. Currently, the contribution is limited to a maximum of KSh 200 per employee per month. The company's contributions are charged to the income statement in the year to which they relate.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2 CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

In the application of the company's accounting policies, which are described in note 1, the Joint Receiver Managers are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key areas of judgment and key sources of estimation uncertainty in applying the company's accounting policies are dealt with below:

Growing produce

In determining the fair value of growing produce, management uses estimates based on historical data relating to yields and prices of sugar. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce potential differences between estimates and actual experience. The significant assumptions used are set out in note 12.

Impairment losses

This involves determination of whether assets are impaired and requires an estimation of the value of the assets.

Property, plant and equipment

Critical estimates are made by the Joint Receiver Managers in determining the useful lives for property, plant and equipment.

Contingent liabilities

The company is exposed to various contingent liabilities in the normal course of business. The Joint Receiver Managers evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the Joint Receiver Managers' evaluation, a present obligation has been established.

3 GOING CONCERN

At 30 June 2020, the Company had a shareholders' deficit of KSh 28,807,759,625 (2021 - KSh 24,213,308,239). The financial statements have, however, been prepared on the going concern basis. This basis may not be appropriate considering that the company is under receivership. The validity of this assumption depends on the success of the various strategic measures the Joint Receiver Managers and the government have put in place to return the company to profitability as well as the company continuing to receive adequate financial support from the debenture holders and other providers of finance to enable it to pay its liabilities as they fall due for the foreseeable future. Should the company be unable to continue trading, adjustments will be required to restate the assets to their realisable values, to reclassify non current assets and long term liabilities to current liabilities and to provide for any further losses and liabilities that may arise.

As stated in the report of the Joint Receiver Managers, the government has, from May 2009, instituted the process of privatization. The Joint Receiver Managers are, therefore, confident that this will return the company to profitability and consequently, the financial statements have been prepared on a going concern basis.

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2022

	2022 KSh	2021 KSh
4 GRANT INCOME		
Government of Kenya non-reimbursable grant income	<u>166,461,577</u>	<u>-</u>
The grant represents direct payments by Government of Kenya to the company's cane and other suppliers.		
5 NET FINANCE COSTS		
Interest accrued on borrowings	<u>-</u>	<u>61,487,282</u>
6 LOSS BEFORE TAXATION		
Loss before taxation is arrived at after charging:		
Staff costs (note 7)	473,625,343	473,818,357
Depreciation of property, plant and equipment	77,000,602	76,763,062
Joint receiver managers fees and expenses	4,039,610	3,711,000
Auditors' remuneration – current year	7,083,600	3,791,700
7 STAFF COST		
Salaries and wages	466,122,253	441,035,737
Other staff costs	1,911,119	26,108,976
NSSF contributions	1,292,800	1,927,800
Medical expenses	<u>4,294,170</u>	<u>4,745,843</u>
	<u>473,625,343</u>	<u>473,818,357</u>
The average number of employees for the company during the year was 821 (2021: 821)		
8 TAXATION		
Tax charge	<u>-</u>	<u>-</u>
No tax liability has arisen due to losses made by the company.		
Deferred tax	<u>-</u>	<u>-</u>
No deferred tax has been recognised due to accumulated tax losses (Note 11).		

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2022

9 PROPERTY, PLANT AND EQUIPMENT

Year ended 30 June 2022

	Freehold land		Land Development	Buildings	Factory Plant and Machinery	Heavy Mobile Machinery	Motor Vehicles	Other Equipment and Fixtures	Total
	land KSh	KSh							
COST / VALUATION									
AT 1 JULY 2021	1,845,650,000	9,577,147	982,748,970	1,124,299,347	-	63,989,653	9,354,301	4,035,619,418	
Additions	-	833,070	-	4,417,565	-	-	-	5,250,635	
At 30 JUNE 2022	1,845,650,000	10,410,217	982,748,970	1,128,716,912	-	63,989,653	9,354,301	4,040,870,053	
DEPRECIATION									
AT 1 JULY 2021	-	4,760,251	39,309,956	112,076,417	-	63,989,653	1,301,573	221,437,850	
Charge for the period	-	208,204	19,654,979	56,435,846	-	-	701,573	77,000,602	
At 30 JUNE 2022	-	4,968,455	58,964,935	168,512,263	-	63,989,653	2,003,146	298,438,452	
NET BOOK VALUE									
At 30 JUNE 2022	1,845,650,000	5,441,762	923,784,035	960,204,649	-	-	7,351,155	3,742,431,601	

Year ended 30 June 2021

	Freehold land		Land Development	Buildings	Factory Plant and Machinery	Heavy Mobile Machinery	Motor Vehicles	Other Equipment and Fixtures	Total
	land KSh	KSh							
COST									
AT 1 JULY 2020	1,845,650,000	8,527,147	982,748,970	1,117,229,000	-	63,989,653	8,000,000	4,026,144,770	
Additions	-	1,050,000	-	7,070,347	-	-	1,354,301	9,474,648	
At 30 JUNE 2021	1,845,650,000	9,577,147	982,748,970	1,124,299,347	-	63,989,653	9,354,301	4,035,619,418	
DEPRECIATION									
AT 1 JULY 2020	-	4,568,708	19,654,977	55,861,450	-	63,989,653	600,000	144,674,788	
Charge for the period	-	191,543	19,654,977	56,214,967	-	-	701,573	76,763,060	
At 30 JUNE 2021	-	4,760,251	39,309,954	112,076,417	-	63,989,653	1,301,573	221,437,848	
NET BOOK VALUE									
At 30 JUNE 2021	1,845,650,000	4,816,896	943,439,016	1,012,222,930	-	-	8,052,728	3,814,181,570	

The assets of the company have been pledged as security for various loan facilities advanced to the company. The Kenya Sugar Board also has a floating charge over all the assets of the company for various loans granted to the company over the years (note 17).

The cost of land is for 6,038 acres initial held by the Company. 1,375 acres were transferred to various individuals in the 1980s and 1990s and no adjustments have been made in the Company's books to reflect the disposal.

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2022

	2022 KSh	2021 KSh
10 INVESTMENT		
Unquoted equity investment at cost	583,180	583,180
Less provision for impairment	<u>(583,180)</u>	<u>(583,180)</u>
	-	-

The unquoted equity investment relates to an investment of 29,159 shares in Kenya Grain Growers Co-operative Union Limited (now Kenya Farmers Association) at KSh 20 per share.

11 GROWING PRODUCE

Standing cane crop:		
At the beginning of the year	166,363,514	73,691,045
Additions for the year at cost	<u>48,427,671</u>	<u>8,481,206</u>
	214,791,185	82,172,250
Decrease due to harvesting	<u>(14,124,067)</u>	<u>37,855,029</u>
	<u>200,667,118</u>	<u>120,027,279</u>
(Loss)/gain in fair value attributed to price change	-	(3,881,889)
(Loss)/gain in fair value attributed to physical change	<u>-</u>	<u>50,218,123</u>
Fair value (loss)/gain during the year	<u>-</u>	<u>46,336,234</u>
Carrying amount at end of the year	<u>200,667,118</u>	<u>166,363,514</u>
Net (loss)/gain on growing produce assets		
Standing cane crop	<u>-</u>	<u>46,336,234</u>

Significant assumptions made in determining the fair values of standing cane crop are:

- The valuation is based on cane price of KSh 3,700 (2022 - KSh 3,800) per ton.
- Cane of 6 months and below is assumed to be immature and has no determinable market value. Immature cane is stated at cost. Mature cane has been stated at fair value less point of sale costs.

Nucleus Estate growing cane is not insured against fire. No provision has been made in the financial statements for possible losses in the event of any burnt cane which cannot be salvaged.

	2022 KSh	2021 KSh
12 INVENTORIES		
Plant and machinery spares	146,801,965	203,481,338
Diesel stock	975,666	(2,516,537)
Petrol stock	<u>(436,253)</u>	<u>(762,299)</u>
Sugar and molasses	41,664,291	43,015,170
Cane in yard	<u>1,609,944</u>	<u>1,609,944</u>
	190,615,613	244,827,616
Less: Provision for obsolete inventories	<u>(10,602,098)</u>	<u>(10,602,098)</u>
	<u>180,013,515</u>	<u>234,225,518</u>

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2022

	2022 KSh	2021 KSh
13 TRADE AND OTHER RECEIVABLES		
Trade receivables	67,152,499	123,591,769
Other receivables	605,320,644	490,600,822
Deposits and prepayments	1,839,713	2,583,713
Staff receivables	<u>(37,220,714)</u>	<u>38,891,121</u>
	637,092,141	655,667,425
Less: provision for doubtful debts	<u>(154,501,307)</u>	<u>(154,501,307)</u>
	<u>482,590,834</u>	<u>501,166,118</u>

14 DEFERRED FARMERS LOANS AND DEBTS

Total loans and debts receivable	872,344,647	872,344,647
Less provision for doubtful debts	<u>(872,344,647)</u>	<u>(872,344,647)</u>
	-	-

The deferred loans and debts comprise advances and loans to cane growers for cane development and are to be recovered from cane proceeds.

	2022 KSh	2021 KSh
15 SHARE CAPITAL		
Authorised, issued and fully paid: 2,787,096 ordinary shares of KSh 20 each	<u>55,741,920</u>	<u>55,741,920</u>

16 BORROWINGS

	Principal borrowings KSh	Interest accrued KSh	Total borrowings KSh	Total borrowings KSh
Loans issued by the Government of Kenya:				
a) Ministry of Finance-Treasury loans	2,442,598,412	1,519,627,527	3,962,225,939	3,962,225,939
b) Ministry of Agriculture	<u>44,342,000</u>	<u>60,858,774</u>	<u>105,200,774</u>	<u>105,200,774</u>
	<u>2,486,940,412</u>	<u>1,580,486,301</u>	<u>4,067,426,713</u>	<u>4,067,426,713</u>
Government of Kenya guaranteed loans :				
c) World Bank	151,049,893	288,788,514	439,838,407	439,838,407
d) Stork Sugar of Netherlands loans	302,528,309	575,091,337	877,619,646	877,619,646
e) Paris Club Rescheduled arrears	<u>450,607,059</u>	<u>387,623,029</u>	<u>838,230,089</u>	<u>838,230,089</u>
	<u>904,185,261</u>	<u>1,251,502,880</u>	<u>2,155,688,141</u>	<u>2,155,688,141</u>
Total Government of Kenya loans	<u>3,391,125,673</u>	<u>2,831,989,181</u>	<u>6,223,114,854</u>	<u>6,223,114,854</u>
Loans from Kenya Sugar Board				
f) Various	<u>2,584,819,282</u>	<u>881,379,239</u>	<u>3,466,198,521</u>	<u>3,466,198,521</u>
Total borrowings	<u>5,975,944,955</u>	<u>3,713,368,420</u>	<u>9,689,313,375</u>	<u>9,689,313,375</u>
Adjustment to loans to balance with Loan statements Due for settlement within 1 year			<u>9,689,313,375</u>	<u>9,689,313,375</u>
Due for settlement after 1 year			-	-

16 BORROWINGS (Continued...)

- a) Ministry of Finance-Treasury loans totalling KSh 2,442,598,412 are not secured and were advanced to the Company at various dates as follows:
- Factory expansion loans of KSh 19,100,235 were disbursed in 1973 at 6% interest rate p.a. The loans were to be repaid over a period of 30 semi-annual instalments with the first instalment falling due on 1 July 1975.
 - Cane development loan of KSh 5,000,000 was disbursed in 1993 at 12% p.a. interest rate, repayable in 20 equal semi-annual instalments commencing 31 December 1992.
 - Farmers loan amounting to KSh 35,800,000 had no specified terms and conditions. However, it was agreed that the loan be adopted at 12% interest rate p.a. and be fully repaid by 31 March 2005.
 - National Bank of Kenya loan amounting to KSh 2,382,698,177 relates to various overdrafts facilities advanced to the company over the years to meet working capital requirements paid off by the government in 1999 and 2007. The total amount is overdue.
- b) Ministry of Agriculture loans totalling KSh 44,342,000 are not secured and were advanced at various dates and were to be used for cane development and factory rehabilitation as follows:
- Cane development loan of KSh 10,000,000 was advanced in 1977 to be repaid in 20 equal semi-annual instalments at 10.5% interest rate p.a. The first instalment was falling due on June 1983.
 - Factory rehabilitation and modernisation loan of KSh 28,742,000 was advanced in 1988, and was to be repaid in 10 equal annual instalments, with the first instalment falling due on June 1991. The loan was at 11% interest p.a.
 - The other cane development loan of KSh 5,600,000 was advanced in 1991 at 11% interest rate p.a., repayable in 20 equal semi-annual instalments. The first instalment was due in January 1991.
- c) The World Bank loan was for sugar rehabilitation under the supervision of the Government of Kenya. The loan was advanced in 1984 at 10.51% and was repayable in 30 equal semi-annual instalments of KSh 5,034,996.43 commencing 15 July 1984 and was to be completed in July 1999. The loan was guaranteed by the Government of Kenya
- d) The Stork Sugar of Netherlands loan was for factory renovation and modernisation. The loan was US\$ 19,200,000 designated as KSh 302,528,310. It was advanced to the company in 1975 to be repaid at 10.5% interest rate, over a period of eight years. The loan was guaranteed by the Government of Kenya.
- e) Paris Club Rescheduled Arrears of US\$ 5,839,910 arose out of rescheduling of the various loan arrears in 1993 at the Paris Club. The loan was designated in US\$ and has been revalued to KSh 450,607,060. The loan is subject to interest at 7% p.a. and is repayable in 14 equal semi-annual instalments of US\$ 417,136 from 15 June 1994 to 15 December 2000. The loan was guaranteed by the Government of Kenya
- f) The loans from Kenya Sugar Board (KSB) under the Sugar Development Fund (SDF) related to payments made by the Board in respect of cane development, purchase of agricultural equipment, factory rehabilitation and the payment of farmers' arrears. The loans were disbursed between the periods 1992 and 2017. The loans are secured by floating charges over all company assets and the interest rates range from 3% to 6% per annum

MOVEMENT IN BORROWINGS	2022 KSh	2021 KSh
At beginning of the year	9,689,313,375	9,627,826,093
Accrued interest	-	61,487,282
Exchange differences	-	-
Loans advanced	-	-
Loans repaid	-	-
At end of the year	<u>9,689,313,375</u>	<u>9,689,313,375</u>
	<u>9,689,313,375</u>	<u>9,689,313,375</u>

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2022

	2022	2021
	KSh	KSh
17 TRADE AND OTHER PAYABLES		
Trade payables	1,374,728,488	1,083,453,107
Taxes, penalties and fines	16,235,047,671	16,005,053,814
Other payables and accruals	586,904,952	626,087,751
Statutory payables	937,685,455	951,213,437
Gratuity provision	363,029,793	363,029,793
Leave pay provision	35,416,434	35,416,434
	<u>19,532,812,793</u>	<u>19,064,254,336</u>

18 TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. During the year, the following transactions were entered into with related parties:

	2022	2021
	KSh	KSh
a) Purchases from related parties		
Kenya Sugar Board		
Interest on loan	<u>-</u>	<u>61,487,282</u>

Kenya Sugar Board holds a charge over the assets of Muhoroni Sugar Company Ltd and has placed the company under statutory management.

Miwani Sugar Company (1989)Limited (in Receivership)		
Purchase of milling cane	<u>23,471,276</u>	<u>23,471,276</u>

Miwani Sugar Company (1989)Limited (in Receivership) is related to Muhoroni Sugar Company Limited by way of common ownership and statutory management.

b) Sales to related parties		
Agro Chemical and Food Company Limited		
Molasses	<u>3,103,684</u>	<u>3,103,684</u>

Agro Chemical and Food Company Limited is related to Muhoroni Sugar Company Limited by way of common ownership.

c) Amounts due to related parties		
Miwani Sugar Company (1989)Limited (in Receivership)	<u>197,845,745</u>	<u>181,922,949</u>

Chemelil Sugar Company Limited is related to Muhoroni Sugar Company Limited by way of common ownership.

d) Compensation of key management personnel		
The remuneration of the Joint Receiver Managers and other members of key management during the year was as follows:		
Joint receiver managers remuneration		
Fees and other emoluments	<u>4,039,610</u>	<u>3,711,000</u>
Other members of key management		
Salaries and other benefits	<u>16,501,429</u>	<u>16,501,429</u>

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2022

	2022 KSh	2021 KSh
19 NOTES TO THE CASH FLOW STATEMENT		
a) Reconciliation of loss before taxation to cash generated from operations		
Loss before taxation	(594,551,386)	(393,234,390)
Prior year item - depreciation		76,119,480
Depreciation	77,000,602	76,763,062
Finance costs on long term loans (note 4)	-	61,487,282
Loss before working capital changes	<u>(517,550,784)</u>	<u>(178,864,566)</u>
Working capital changes:		
Decrease in inventories	54,212,003	(47,649,192)
(Increase)/decrease in trade and other receivables	18,575,284	(159,253,285)
Decrease in growing produce	(34,303,604)	(92,672,469)
Increase in deferred farmers loans and debts	-	-
(Decrease)/increase in trade and other payables	468,558,456	484,483,259
Movement in related party balances	<u>15,922,796</u>	<u>1,935,334</u>
Cash generated from operations	<u>5,414,149</u>	<u>7,979,081</u>
b) Analysis of cash and cash equivalents		
Cash and bank balances	<u>6,509,219</u>	<u>6,345,705</u>
The overdraft is a book balance.		

20 CAPITAL COMMITMENT

The company had no capital commitments as at 30 June 2020.

21 CONTINGENT LIABILITIES

The company faces several court cases currently in court, mainly from suppliers, employees, farmers and others.

1. The claims from 102 suppliers totalling to Kshs. 52,779,720.43 currently in court
2. The claims from 16 employees totalling to Ksh s125,742,159 currently in court
3. The claims from 10 farmers totalling to Kshs 572,159 currently in court
4. A land claim by Koguta Clan LR No 3977 and 3978 , currently in court

22 FINANCIAL RISK MANAGEMENT

The company's principal financial instruments comprise cash and cash equivalents, receivables and payables. These instruments arise directly from its operations. The company does not enter into derivative transactions.

The company's activities expose it to a variety of financial risks, including credit risk, liquidity risks, market risks and operational risks. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance. The Receivers/Managers have overall responsibility for the establishment and oversight of the company's risk management framework.

MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The objective of market risk management is to manage and control market risk exposure within acceptable levels, while optimizing on the return on the risk.

22 FINANCIAL RISK MANAGEMENT (Continued...)

(i) Interest rate risk

Interest rate risk is the risk that the future profitability and/or cash flows of financial instruments will fluctuate because of changes in the market interest rates. The company's policy is to manage its interest costs by relying primarily on overdraft facilities with its bankers. All other borrowings for specific projects or investments are negotiated on the basis of a fixed rate of interest. The company is therefore not significantly exposed to interest rate risk.

The interest movement in the financial asset is negligible and any sensitivity analysis on these instruments would not be representative of the inherent risks associated with the instruments.

(ii) Foreign currency exchange risk

Foreign exchange risk arises from future investment transactions and recognized assets and liabilities. The company's policy is to record transactions in foreign currencies at the rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange in effect at the reporting date. All gains or losses on changes in currency exchange rates are accounted for in the statement of profit or loss.

The company operates wholly in Kenya and its assets and liabilities are reported in local currency. The company had no significant foreign currency exposure as at 30 June 2022.

CREDIT RISK

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligation.

Credit risk arises from trade and other receivables, cash and cash equivalents held with banks and amounts due from related parties. The company allows credit facilities to customers with a high credit rating and also places funds with recognised financial institutions with strong credit ratings. In addition most of the customers pay in advance and therefore the company does not consider the credit risk exposure to be significant.

LIQUIDITY RISK

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations from its financial liabilities.

Management have arranged for diversified funding sources, both short term and long term, to meet the company's obligations as and when they fall due.

OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the company's operations.

The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2022

23 CAPITAL RISK MANAGEMENT

The primary objective of the company's capital management is to ensure that the company complies with capital requirements and maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The capital structure of the company consists of debt, which includes borrowings, cash and cash equivalents and equity which comprises issued capital and retained earnings. The company has continued receiving funding from the debenture holder, Kenya Sugar Board, for its capital requirements.

24 INCORPORATION AND ULTIMATE HOLDING ENTITY

The company is incorporated and domiciled in The Republic of Kenya under the Companies Act. It is a subsidiary of Agricultural Development Corporation, which is wholly owned by the Government of The Republic of Kenya. Agricultural Development Corporation is also incorporated and domiciled in The Republic of Kenya under the Agricultural Development Corporation Act and the State Corporations Act

25 CURRENCY

These financial statements are prepared in Kenya Shillings (KSh).

26 PRIOR YEAR ADJUSTMENTS

The prior year adjustments relate to accrued interest on loan balances owed to or guaranteed by the Government of Kenya which had been suspended in 2009 following confirmation of the company's debt by Treasury in December 2012. The National Treasury has however issued a confirmation as at 30 June 2020 indicating interest accrued to that date. Interest for the period 2010 to 2019 has been recognised during the year necessitating restatement of prior year financial statements. The effect of the restatement on those financial statements is summarised below.

	Effect on year ended 30 June 2019 KSh
Effect on opening balances for the year ended 30 June 2019	
Increase in interest expense	3,022,998,063
Increase in exchange differences	<u>139,515,846</u>
	<u>3,162,513,909</u>
Increase in borrowings	<u>3,162,513,909</u>
Decrease in equity	<u>(3,162,513,909)</u>
Adjustments for 2019	
Increase in interest expense	335,888,674
Increase in exchange differences	<u>7,289,960</u>
	<u>343,178,633</u>
Total effect on 2019	
Total increase in borrowings	<u>3,505,692,542</u>
Total decrease in equity	<u>(3,505,692,542)</u>

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
 DETAILED INCOME STATEMENT
 FOR THE YEAR ENDED 30 JUNE 2022

	Appendix	2022 KSh	2021 KSh
REVENUE			
Sugar sales		1,554,685,412	1,806,221,821
Molasses sales		48,443,093	75,666,217
Bagasse sales		1,093	1,583
Total sales		<u>1,603,129,598</u>	<u>1,881,889,621</u>
COST OF SALES			
Cane purchases	II	(1,201,070,380)	(1,337,039,961)
Factory costs	II	(809,271,055)	(590,607,122)
Agricultural costs	II	(87,985,391)	(77,678,216)
Inventory movement		-	-
		<u>(2,098,326,827)</u>	<u>(2,005,325,299)</u>
GROSS LOSS		(495,197,229)	(123,435,678)
Other operating income	II	32,991,553	62,158,660
Grant income		166,461,577	-
Administrative expenses	III	(298,807,287)	(316,806,325)
Finance costs		-	(61,487,282)
LOSS BEFORE TAXATION		<u>(594,551,386)</u>	<u>(439,570,625)</u>
Reconciliation of results based on actual cost of biological assets and agricultural produce was necessary so as to result at fair valuation of biological assets and agricultural produce:			
		2022 KSh	2021 KSh
LOSS BEFORE TAXATION AS ABOVE		(594,551,386)	(439,570,625)
Fair value adjustment		-	46,336,234
LOSS BEFORE TAXATION AS PER INCOME STATEMENT		<u>(594,551,386)</u>	<u>(393,234,391)</u>

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
 DETAILED INCOME STATEMENT
 FOR THE YEAR ENDED 30 JUNE 2022

	2022 KSh	2021 KSh
CANE PURCHASES		
Registered out growers cane	1,159,517,987	1,271,787,020
Nucleus estate cane	41,552,393	65,252,941
	<u>1,201,070,380</u>	<u>1,337,039,961</u>
FACTORY COSTS		
Staff costs	282,726,137	278,042,780
Other factory costs	32,916,186	42,093,616
Depreciation of factory plant and buildings	56,435,846	56,214,967
Stocks impairment	-	-
Plant spares and maintenance	379,923,997	120,420,860
Electricity and water costs	17,217,716	48,246,981
Fuels and lubricants	13,975,215	11,376,122
Packaging materials	26,075,959	34,211,795
	<u>809,271,055</u>	<u>590,607,121</u>
AGRICULTURAL COSTS		
Staff costs	70,681,534	70,415,929
Other agricultural costs	17,095,653	7,070,743
Depreciation of agricultural equipment	208,204	191,543
	<u>87,985,391</u>	<u>77,678,216</u>
OTHER OPERATING INCOME		
Other miscellaneous income	28,656,250	49,136,907
Land development and preparation	-	-
Cane transport	-	(68,000)
Seed cane sales	-	12,335,116
Milling cane	564,075	-
Sale of scrap metal	12,740	389,856
Interest on outgrowers	3,758,488	349,781
Winch recoveries	-	15,000
Hire of tractors and lorries	-	-
Interest income	-	-
	<u>32,991,553</u>	<u>62,158,660</u>

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
 DETAILED INCOME STATEMENT
 FOR THE YEAR ENDED 30 JUNE 2022

	2022 KSh	2021 KSh
ADMINISTRATIVE EXPENSES		
Staff costs	151,460,430	150,891,277
Other costs	60,818,605	25,584,651
Joint Receivers Managers fees and expenses	4,039,610	3,711,000
Insurance	13,634,942	106,703
Interest and penalties on tax	5,197,736	
Bad and doubtful debts	-	-
Depreciation	20,356,552	20,356,552
Security	14,988,712	15,503,263
Gratuity provision	16,785,997	16,628,579
Leave pay provision movement	5,000	-
Bank charges	186,112	16,734
Provision for interest and penalties on overdue taxes		91,213
Prior yearv adjustment		76,116,427
Audit costs	7,083,600	3,791,700
Telephone and faxes	506,915	200,027
Legal and professional fees	3,743,076	3,808,198
	<u>298,807,287</u>	<u>316,806,325</u>
INTEREST AND PENALTIES ON OVERDUE TAXES		
Provision for interest and penalties on overdue taxes	<u>5,197,736</u>	<u>-</u>



1950

1951