
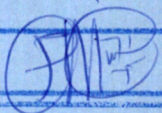


REPUBLIC OF KENYA

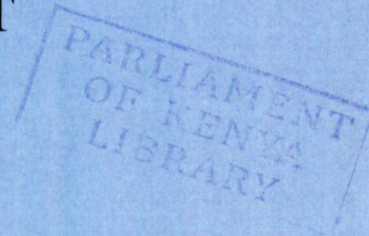


OFFICE OF THE AUDITOR-GENERAL



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REPORT



OF

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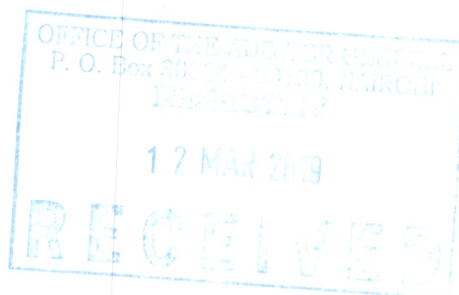
ON

THE FINANCIAL STATEMENTS OF  
MWEA RICE MILLS LIMITED

FOR THE YEAR ENDED

30 JUNE 2018

# **MWEA RICE MILLS LIMITED**



## **ANNUAL REPORTS AND FINANCIAL STATEMENTS**

**30<sup>TH</sup> JUNE 2018**

**Prepared in accordance with the accrual basis of accounting method under the  
International Finance Reporting Standards (IFRS)**

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## **COMPANY PROFILE**

### **Background**

Mwea Rice Mills Ltd. (MRM) is a limited liability company owned by National Irrigation Board (55%) and the Mwea Rice Growers Multipurpose Co-operative Society Limited (45%). The Company was incorporated in 1967 under the Companies Act Cap 486.

### **Principal Activities**

The major activities of MRM Ltd are buying, processing, marketing and storage of paddy from the Mwea Irrigation Scheme. The company has two milling units with an installed capacity of 5 tones per hour which is sufficient to handle the entire paddy produced in Mwea Irrigation settlement and adjoining regions. The company also boasts of long experience in processing and marketing of the basmati (Pishori) milled rice and the by – products. Which are mainly: Broken rice, Chicken feed and Rice bran

The company's major client is National Cereals and Produce Board. As a way of positioning itself in readiness for privatization, the company has ventured in purchasing of paddy from farmers, milling and marketing to two major supermarkets chains. These are, Uchumi and Tuskys.

## **BOARD OF DIRECTORS**

The directors who served the entity during the year are listed under pages iv to ix.

### **MR. MUDZO NZILI- CHAIRMAN**

Mr. Mudzo was appointed as the Chairman to the Board on 5<sup>th</sup> 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.

**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 Mwea Rice Mills Ltd.

**MR. JOSEPH GATHIMBA KIBABAI, NON- EXECUTIVE DIRECTOR**



Mr. Joseph Gathimba Kibabai joined the Company's Board in May 2017. He has since been a Non-Executive Director of the Company's Board of Directors. He sits on the Company's Board by virtue of being a Director of Rice Growers Multi-Purpose Cooperative (MRGM) the other shareholder, which is the umbrella body of Mwea Farmers with shares in MRM Limited.

He is a long serving director of the MRGM Cooperative Board having joined in March 2000. He was elected as the Board Member and the treasurer. The position he continued to hold up to April 2017 when he was elected as the Chairman of the MRGM Cooperative Board.

Mr. Gathimba brings vast knowledge, experience and leadership gained from the Expansive Mwea Rice Growing area. He occupies the position in the Board by virtue of his position as a Director of the Mwea Rice Growers Multi-Purpose Cooperative Society (MRGM). His current occupation is commercial rice farming.



**MR. HARISSON MUTUGI MATHINDI, NON-EXECUTIVE DIRECTOR**

Mr. Harisson Mutugi Mathindi joined the Company's Board in May 2008. He sits on the Board by virtue of being a Director of rice Growers Multi-Purpose Cooperative Society (MRGM) director.

He is a long serving Director of MRGM having joined the society as Vice Chairman in March 2000, a position he continues to hold up to date. He previously worked with the Ministry of Health from 1973 to 1998. Mr. Mutugi brings vast knowledge, experience and leadership gained from the Expansive Mwea Rice Growing region.

He occupies the position in the board by virtue of his position as a Vice Chairman of the MRGM, which is the other shareholder of MRM Limited. His current occupation is commercial farming.

**MR. CHARLES KAIRU – ALTERNATE TO PRINCIPAL SECRETARY, MINISTRY OF FINANCE, NON-EXECUTIVE DIRECTOR**



Treasury.

Mr. Charles Kairu was appointed to the Bboard on 14<sup>th</sup> October, 2015 as alternate Director to the Cabinet Secretary, National Treasury. He is holder of a Master Degree in Development Economics from Williams College, USA and a Bachelor 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

**STEPHEN IKUA, REPRESENTATIVE OF THE PARENT MINISTRY, AGRICULTURE AND IRRIGATION.**



years.

Mr. Ikua is the Irrigation Secretary Ministry of Agriculture, Livestock, Fisheries and Irrigation and represents the Principal Secretary, State Department of Irrigation in the Board.

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

## **FIDUCIARY OVERSIGHT ARRANGEMENTS**

### **AUDITORS**

**Kenya National Audit Office  
P.O Box 30084-00100  
NAIROBI, KENYA**

### **LAWYERS**

**Liliani G. Kimani  
Fortis Suites, 2<sup>nd</sup> Floor  
NAIROBI**

### **BANKERS**

**Barclays Bank of Kenya  
Queensway house  
P.O. Box 30011  
NAIROBI.**

**Barclays Bank of Kenya  
P.O. Box 88  
EMBU.**

**Kenya Commercial Bank  
P.O. Box 393  
WANGURU.**

### **REGISTERED OFFICE**

**Head Office  
Unyunyuzi house- building  
Lenana Road  
P.O. Box 30372-00100**

### **FACTORY**

**Wanguru  
P.O. Box 80  
WANGURU**

## **SECRETARIAT MANAGEMENT**

The Secretariat team comprises of the General Manager and top management as follows:

### **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 National Irrigation Board.

### **MR. DANIEL ATULA MASATIA - DEPUTY GENERAL MANAGER - OPERATION AND IRRIGATION MANAGEMENT SERVICES.**



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.

**MR. DENNIS BANDA AROKA - LLB (HONS.) EMBA, FCPS (K) - COMPANY SECRETARY**



Mr Dennis Banda Aroka is the Company Secretary of National Irrigation Board and MRM. 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.

## CHAIRMAN'S STATEMENT

The Financial year 2017/18 was quite challenging for Mwea Rice Mills Ltd following the wide spread drought that affected most parts of the country leading to a marked shortage of paddy supply in the market. The general business environment was also affected by prolonged electioneering period. The company's sales turnover for the period declined from Ksh.48 million to 37.3 million. The cost of sales reduced from Ksh.40.4 million to 29.3 million while the profit after tax dropped from Ksh.1.0 million in the previous year to Ksh.0.98 million. Under the circumstances the company remained resilient and I remain extremely positive and confident about the future of this company.

Mwea Rice Mills ltd is continually evaluating investment opportunities in new products and business models targeted at existing and emerging markets that fits our resources and expertise. Coupled with this, we are constantly seeking improvements and ways to leverage our production and marketing processes.

The mills however continue to face a number of challenges among them being;

- i. High cost of power which has really affected our overall operational costs. Currently the cost of electricity account to more than 50% of our total production cost.
- ii. Unfair trade competition from the cheap imported rice that dominates the lower segment of the local market and this also negatively affects our efforts in the market place and;
- iii. Stiff marketing competition from the local rice brands in the market

The board is in the process of addressing some of the above challenges so that MRM can achieve its objectives in the milling and marketing of rice.

In conclusion, I am grateful to my fellow Directors for their unwavering support and guidance. I also take this opportunity to express my gratitude to all our consumers, business partners, employees and stakeholders who have shown their trust in us and have extended their constant support. I believe that together we will move forward and achieve stipulated objectives, goals and vision.

Sign:  .....

Date: .....12/03/2019.....

**MR. MUDZO K. NZILLI**

**CHAIRMAN, MWEA RICE MILLS LTD**

## **REPORT OF THE MANAGING DIRECTOR**

It is my pleasure to present the summary of our performance for the period ending 30th June, 2018 with a key focus on the Mills operations and efficiencies, product marketing, and our staff. As indicated in the Chairman's Statement, the financial year 2017/18 proved a challenging one for Mwea rice mills on the back of various setbacks at the macro level, among them the impact of wide spread drought and prolonged electioneering period in our key markets. Sales turnover declined from Ksh.48million to Ksh.37.3million. The decrease in turnover is attributed to the shortage of paddy during the year under review.

As also noted, the cost of sales decreased from Ksh.40.4million to Ksh.29.3million while the profit after tax dropped from Ksh.1.0 million in the previous year to Ksh.0.98 million. Looking ahead, we expect that our concerted focus on marketing will yield positive gains across the markets in which we operate.

The year 2017 was a challenging year for the company because of inconsistent paddy supply due to the drought that affected rice production in the schemes as well as the prolonged electioneering period. This made it difficult for the mill to purchase paddy for milling due to inadequate supply thereby affecting its operations. The high cost of power also affected our overall operational costs. Currently the cost of electricity account to more than 50% of our total cost of production. To address this challenge, we are engaging with Kenya Power for a review of the current power tariff.

We also face unfair trade competition from the cheap imported rice that dominates the lower segment of the local market and this also negatively affects our efforts in the market place, therefore to remain competitive we will be lobbying to the governments through the National Assembly to consider minimizing on the volumes of imported rice in order to cushion local production.


As we look forward into the future, we will ensure that we grow business with our customers by maintaining our tradition in delivering customer value and experience of the superior quality of Mwea Pishori Rice. We will ensure that we understand the changing consumer behavior and create convenience in business as well as ensure that we offer good quality products and services at all times.

Finally, it is important to note that, MRM 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.

As I reflect on the accomplishments of the year ended 30th June, 2018, I am grateful for the unwavering support of all our shareholders. I also take this opportunity to appreciate the Board, Management and employees, who have performed above and beyond expectations to

ensure that we continue to deliver quality rice on time, in full and in line with our core values. Our customers have over the years continued to enjoy our array of products and for that we are grateful. We promise to continually work to address their ever evolving needs. We also appreciate our suppliers, other business partners and regulators for their invaluable support. Finally, I extend my gratitude to my fellow directors for their contribution and commitment to the Company.

Sign: .....



Date: .....12/03/2019.....

**MR. GITONGA MUGAMBI**

**MANAGING DIRECTOR, MWEA 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. 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, as a result of which, company can raise capital efficiently and effectively.
- ❖ It lowers the capital cost.
- ❖ There is a positive impact on the share price.

At Mwea 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 MRM Ltd and conducts the business and operations of MRM Ltd with integrity and in accordance with generally accepted corporate practices, in a manner based on transparency, accountability and responsibility.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Company's turnover decreased from Ksh. 48,072,156 to Ksh.37, 348,145 in the current year under review. This represents 22% decrease when compared with the previous year. On the other hand, cost of sales decreased from Ksh.40, 426,155 in the previous year to Ksh.29, 322,767 in the current year under review, representing 28% decrease. Further, the operational costs increased from Ksh. 17,398,439 in the previous year to Ksh. 18,917,075 in the current year under review, representing 9% increase. From the chart, it is also indicated that the profits for the year decreased from Ksh.1, 003,870 to Ksh. 981,830 representing 2% decrease in profits. This information is highlighted in figure 1 below, in the form of a bar chart.

The Company's unfavorable performance is associated with the climatic change where by the country was hit by the drought which resulted to poor yields for the farmers. As a result, there was no sufficient raw material of paddy for the Company. The negative performance can also be attributed to the availability of cheap imported rice in the market. The other reason is that despite the availability of cheap imported rice, the cost of production for our local rice has remained high. Hence, making the price for the raw material for the Company to be very high. Which results to high production cost.

Furthermore, the performance of the mill has been depressed due to heavy cost of milling due to power tariff change by KPLC which led to additional cost of production. The drought that took place during the year negatively impacted on the production of paddy leading to shortage in supply market. This led to less milling as the mills had to reduce milling hours during the period. However, the company is working on the strategies which will allow it to continue being the dominant miller in the area. The future plan of the company is bright as there are assets whose focus is being directed to boost income especially the buildings in Nairobi that have been receiving depressed income.

Likewise, due to the good quality of rice that is being milled, efforts are being put in place to market the product in new markets.

In order to turnaround the business of the Company, the management has plans of coming up with both short term and long term business plans. With the completion of the Thiba dam project, it is viewed that water will be made available leading to better yields for the farmers. Hence, enhancing the availability of the raw material at a considerable price to the Company.

**Figure 1: X Axis represents Ksh. In Millions**



## **CORPORATE SOCIAL RESPONSIBILITY**

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.

In the past years the Company has been involved in Social responsibilities such as feeding programmes for the disadvantaged children. Unfortunately, due to some financial constraints in the current financial year under review, the Company was not able to serve the community.

### **The potential benefits of CSR to companies include:**

- ❖ Better brand recognition.
- ❖ Positive business reputation.
- ❖ Increased sales and customer loyalty.
- ❖ Operational costs savings.
- ❖ Better financial performance.
- ❖ Greater ability to attract talent and retain staff.
- ❖ Organizational growth.
- ❖ Easier access to capital.

### **Four Types of Corporate Social Responsibility**

- ❖ Environmental Responsibility. Environmental sustainability initiatives enacted by businesses generally focus on two main areas: limiting pollution and reducing greenhouse gases.
- ❖ Philanthropic Initiatives
- ❖ Ethical Business Practices
- ❖ Economic Responsibility.

## **REPORT OF THE DIRECTORS**

The directors submit this report together with the financial statements for the year ended 30th June 2018 which show the state of the Mwea 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 Mwea Settlement Scheme.

### **Results**

The results of the Company for the year ended 30th June. 2018 are set out on pages 1 to 4 of the financial statements.

### **Dividends**

Subject to the approval of the shareholders, the Directors recommended and approved the payment of first and final dividends of Ksh. 3m for the year ended 30th June. 2018. Directors

The members of the Board of Directors who served during the year are shown on pages iv to ix. The Board of Directors for the Company comprises of the Chairman who is also the Chairman of the NIB's Board of Directors, three representatives of the PS- National Treasury, Ministry of Water & 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 for NIB, the Chairman and the Vice Chairman of the Mwea Rice Growers Multi- Purpose Co-operative Society (MRGM). The farmers' representatives' directorship only ceases once they stop serving in those capacities for the Society.

### **Auditors**

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

By Order of the Board

Sign.....

Mr. Dennis Banda Aroka

Company Secretary

Date:.....

## STATEMENT OF DIRECTOR'S RESPONSIBILITY

Section 81 of the Public Finance Management Act, 2012 and Companies Act, 2015 require the Directors to prepare financial statements in respect of Mwea 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 of the Company. The Directors are also 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 the end of the financial year (period) ended on 30<sup>th</sup> June. 2018. 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 financial year ended 30<sup>th</sup> June. 2018, 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.


### Approval of the financial statements

The *Company's* financial statements were approved on 12/03/2019 and signed on its behalf by:

Sign  -----

**Director: Joseph Gathimba Kibabai**

DATE 12/03/2019 -----

Sign  -----

**Director: Harisson Mutugi Mathindi**

DATE 12/03/2019 -----

# REPUBLIC OF KENYA

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Fax: +254-20-311482  
E-Mail: oag@oagkenya.go.ke  
Website: www.kenao.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON MWEA RICE MILLS LIMITED FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Mwea Rice Mills Limited set out on pages 1 to 22, which comprise the statement of financial position as at 30 June 2018, and the statement of 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 matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Mwea Rice Mills Limited as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act, 2015.

#### Basis for Qualified Opinion

##### 1. Property, Plant and Equipment

##### 1.1. Fully Depreciated Assets

The property, plant and equipment balance of Kshs.33,475,101 as at 30 June 2018 includes also as previously reported, a balance of Kshs.9,156,781 relating to buildings which were fully depreciated but had not been revalued. International Accounting Standard No.16 provides that, revaluations shall be carried out with sufficient regularity to ensure that the carrying asset amounts do not differ materially from those which would be determined using fair values at the end of the reporting period.

As a result of the omission, it has not been possible to confirm that the balance of Kshs.33,475,101 represents fair value of the property, plant and equipment of the Company as of 30 June 2018.

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*Report of the Auditor-General on the Financial Statements of Mwea Rice Mills Limited for the year ended 30 June 2018*

## **1.2. Undervaluation of Land in Wanguru (Mwea)**

The property, plant and equipment balance of Kshs.33,475,101 reflected in the statement of financial position and as disclosed in Note 2 to the financial statements includes a piece of land which was acquired in 1992 at a cost of Kshs.280,000. The land has never been revalued contrary to International Accounting Standard No.16 which requires sufficient regularity in revaluation of property, plant and equipment to ensure the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

A survey of the price of land in Kirinyaga County revealed that a quarter of an acre costs approximately Kshs.4 million. The approximate area reported in the financial statements is 1.62 hectares which is equivalent to 4.0014 acres. From the foregoing, it means therefore that the land has an approximate valuation of Kshs.32 million.

In the circumstances, it is not possible to confirm that the property, plant and equipment balance of Kshs.33,475,101 is fairly stated.

## **2.0. Investment Property**

### **2.1. Valuation of Investment Property**

As reported in the previous year and disclosed under Note 3 to the financial statements, the investment property of balance Kshs.109,731,138 as at 30 June 2018 is carried in the financial statements at the amount that was valued in 2009. This is contrary to the provisions of the International Accounting Standards No.16. The standard requires an entity that elects to use revaluation model as the measurement model of fixed assets to ensure that the assets are revalued regularly so as to reflect the fair value at the end of each reporting period.

Consequently, it has not been possible to confirm whether the carrying value of Kshs.109,731,138 as stated in the financial statements reflect the fair value of the investment property.

### **2.2. Properties Without Ownership Documents**

The investment property of Kshs.109,731,138 disclosed in Note 3 to the financial statements includes houses (Mansionettes) located in Kilimani area near the National Irrigation Board Headquarters along Lenana road, Nairobi and a residential building located in Mwea. However, ownership documents provided for audit review shows that the land on which the houses in Nairobi are situated is in the name of TAWS LTD while the title deed to land on which the building in Mwea sits is in the name of the original owners (some of the owners have since gone ahead to subdivide the parcel and transferred ownership to other parties as new owners).

Consequently, the validity and ownership of the investment properties amounting to Kshs.109,731,138 cannot be confirmed.

### **3.0. Trade and Other Receivables**

#### **3.1. Continental Credit Finance (in liquidation)**

The statement of financial position reflects a balance of Kshs.32,356,518 under trade receivables as at 30 June 2018. As disclosed in Note 5 to the financial statements, the balance includes an amount of Kshs.16,815,053 held in a fixed deposit account in Continental Credit Finance (in liquidation). Although the management has made a full provision for the balance whose recoverability remains doubtful, no explanation has been provided on the action taken to recover the amount from the Receiver Manager. It has been noted also that the last correspondence between the Company and the Official Receiver and Provisional Liquidator was in February 2010.

It has not been possible under the circumstances to ascertain the fair value and recoverability of the amount of Kshs.16,815,053.

#### **3.2. Trade Debtors**

Note 5 to the financial statements also discloses a balance of Kshs.32,211,273 under trade debtors due from individuals and state organizations, including the National Cereals and Produce Board. Included in the balance of Kshs.32,211,273 is a long outstanding amount of Kshs.25,535,131 relating to 2016/2017 and earlier years. No efforts appear to have been made to collect the long outstanding amount.

Further, no analysis has been provided for the trade debtors balance Kshs.6,676,142 relating to the year under review. In addition, the trade debtors balance of Kshs.32,211,243 as at 30 June 2018 includes an amount of Kshs.13,420,060 due from National Irrigation Board, while the books of account of the Board show an amount of Kshs.22,821,503. No reconciliation or explanation has been provided for the variance of Kshs.9,401,443.

Consequently, the validity, accuracy and completeness of the trade debtors balance of Kshs. 32,211,273 cannot be confirmed.

### **4.0. Long-term Liabilities**

#### **4.1. Capital Fund for Mill Rehabilitation**

Note 12 to the financial statements indicates that the Company has a long outstanding liability of Kshs.52,610,534 under the capital fund for mill rehabilitation component. According to Note 12, Mwea Rice Mills used to process rice for the National Irrigation Board and a levy based on kilograms milled used to be charged for the purposes of rehabilitating the mills. The levy was later stopped when the Board opted to shed-off none core business such as processing and marketing of rice. The amount of levy collected had accumulated to Kshs.52,610,534 as at the time the levying was ceased. The period under which the levy was collected is however not disclosed.

Consequently, the validity, accuracy and completeness of the capital fund mill rehabilitation liability of Kshs.52,610,534 cannot be confirmed.

#### **4.2. Government Proposed Levy**

The statement of financial position reflects a balance of Kshs.74,647,904 under long term liabilities as at 30 June 2018, and as disclosed in Note 13 to the financial statements includes a Government proposed levy balance of Kshs.22,037,370 that has remained unsettled for more than 29 years. Further, the Company has no credit policy to regulate credit management. In addition, no documentary evidence has been provided to support the liability.

Consequently, the validity, accuracy and completeness of the proposed government levy liability of Kshs.22,037,370 cannot be confirmed.

#### **5. Cost of Sales**

The statement of profit and loss and other comprehensive income for the year ended 30 June 2018 reflects cost of sales of Kshs.29,322,767 in the year under review. Included in the cost of sales is paddy to mills cost of Kshs.2,524,903, which had an unexplained journal figure of Kshs.26,311,000 on 30 June 2018.

Consequently, the accuracy cost of sales totalling Kshs.29,322,767 for the year ended 30 June 2018 cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Mwea Rice Mills Ltd in accordance with ISSAI 30 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. Except for the matters described in the Basis for Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections, I have determined that there are no key audit matters to communicate in my report.

#### **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 Qualified Opinion and 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**

#### **1.0. Under Collection of Revenue**

Mwea Rice Mills Limited owns Mansionette houses along Lenana road and Leaders House within Nairobi CBD. The Mansionette houses are occupied by MFI staff while Leaders House is occupied by various tenants. Audit review of records relating to the rent chargeable and collected has revealed the following unsatisfactory matters:

#### **1.1. Rental Income**

As reported in the previous period, Mwea Rice Mills Limited owns twenty-three houses along Lenana Road in Nairobi. They are consisting ten four-bedroom houses, with five of them partitioned into two bedroomed units and hence occupied by two tenants each, nine three-bedroom and four one-bedroom houses. Further, enquiries revealed that the tenants repaired the gymnasium during financial year 2015/2016 and deducted the costs of the repairs from rent payable each month yet no rent is collected from the gymnasium.

As reported in the previous year, in comparison with the market rates which range between Kshs.150,000 and Kshs.200,000 for such houses, the rent is grossly

understated as the Company currently collects Kshs.490,050 on monthly basis from all the units.

Further, the audit revealed that there is no current and up to date lease agreement between the Company and MFI. This therefore has left the management of the property in the hands of the tenant.

## **1.2. Investment Income**

Leader House which is within Nairobi CBD houses various tenants carrying out different business activities. The rental income from the building which earned the Company investment income of Kshs.2,058,446 during the period under review is grossly understated considering the market rate of the properties around the area. Further, the Company has not instituted mechanisms of dealing with the property with regard to maintenance and management as there is no lease agreement between the Company and the various tenants. As such the tenants either do not pay rent on time or do not pay at all.

## **1.3. Contract with the National Cereals and Produce Board**

Included in the trade debtors figure of Kshs.32,211,243 is an amount of Kshs.3,457,643 owing from the National Cereals and Produce Board. This amount arose pursuant to a contract entered into between the Board and Mwea Rice Mills Limited on 1 August 2014 for paddy storage and office accommodation. This contract expired on 1 August 2016 but has not been renewed to date. However, the Board continues to occupy the offices and go-downs of the Company, and for the year ended 30 June 2018, the outstanding rent for the year was Kshs.1,104,000. In absence of an enforceable contract, it is not clear whether the amount will be recoverable.

## **Basis for Conclusion**

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 INTERNAL CONTROLS EFFECTIVENESS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and 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 internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and 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, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's statement of financial position and statement of comprehensive income are in agreement with books of account; and
- (iv) In my opinion the information given in the report of the directors on page **xix**, is consistent with the financial statements.

### **Responsibilities of Directors and Those Charged with Governance**

The directors are 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 directors 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, the directors are responsible for assessing the ability of Mwea Rice Mills Limited to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the 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 directors are 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 financial reporting process, reviewing the effectiveness of how the entity 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**

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 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 directors.
- Conclude on the appropriateness of the directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Mwea Rice Mills Limited 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 Mwea Rice Mills Limited to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the directors 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 directors 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.



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

**Nairobi**

**21 March 2019**

**MWEA RICE MILLS LIMITED**  
**STATEMENT OF PROFIT AND LOSS AND OTHER**  
**COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30TH JUNE 2018**

	NOTES	2017/2018 KSHS	2016/2017 KSHS
<b>Turnover</b>	15	37,396,490	48,072,156
Cost of sales	16	(29,322,767)	(40,426,155)
		<hr/>	<hr/>
Gross profit/(Loss)		<b>8,073,723</b>	<b>7,646,001</b>
<b>Other Income</b>	17	4,306,920	3,447,742
<b>Investment income</b>	18	7,939,046	7,738,796
Administrative expenses	19	(15,017,593)	(14,920,946)
Other expenses	20	(3,149,669)	(2,132,293)
Board Members Expenses	22	<hr/> (758,505)	<hr/> (345,200)
<b>Profit before Taxation</b>		<b>1,393,922</b>	<b>1,434,100</b>
Tax provision (30%)		<hr/> (418,176)	<hr/> (430,230)
Profit for the year		<hr/> <b>975,745</b>	<hr/> <b>1,003,870</b>

**MWEA RICE MILLS LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30TH JUNE 2018**

<b>ASSETS</b>	<b>NOTES</b>	<b>2017/2018</b>	<b>2016/2017</b>
		<b>KSHS</b>	<b>KSHS</b>
<b><u>NON CURRENT ASSETS</u></b>			
Property, plant & Equipment	2	33,475,101	39,414,737
Investment Property	3	109,731,138	114,784,536
		<b>143,206,240</b>	<b>154,199,273</b>
<b><u>CURRENT ASSETS</u></b>			
Inventories	4	81,988,303	49,279,484
Trade and Other Receivables	5	32,356,518	25,641,814
Cash and Cash Equivalent	6	37,472,133	67,399,269
Kenya Revenue Authority	7	1,952,021	1,952,021
		<b>153,768,975</b>	<b>144,272,588</b>
<b>TOTAL ASSETS</b>		<b>296,975,215</b>	<b>298,471,861</b>
<b><u>CAPITAL FUNDS, RESERVES &amp; LIABILITIES</u></b>			
Share Capital	8	5,000,000	5,000,000
General Reserve	9	8,700,000	8,700,000
Revaluation Reserve	10	109,438,311	114,491,708
Accumulated Profit/(Loss)	11	50,541,099	52,565,354
		<b>173,679,411</b>	<b>180,757,062</b>
<b><u>LONG-TERM LIABILITIES</u></b>			
Capital Fund for Mill Rehabilitatic	12	52,610,534	52,610,534
Government proposed levy * 13		22,037,370	22,037,370
		<b>74,647,904</b>	<b>74,647,904</b>
<b><u>CURRENT LIABILITIES</u></b>			
Trade and Other Payables	14	48,647,900	43,066,895
		<b>48,647,900</b>	<b>43,066,895</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>296,975,215</b>	<b>298,471,861</b>
The financial statements were approved by the Board on <u>12/03/2019</u> And signed on its behalf by:			
Sign <u>[Signature]</u>	Sign <u>[Signature]</u>	Sign <u>for [Signature]</u>	
<b>MR. JOSEPH K. KIGOTHO</b>	<b>MR. GITONGA MUGAMBI</b>	<b>MR. MUDZO KUHENDERWA NZILI</b>	
<b>SENIOR ACCOUNTANT-</b>	<b>MANAGING DIRECTOR</b>	<b>CHAIRMAN</b>	
<b>ICPAK M/NO. '17191</b>			
DATE <u>12/03/2019</u>	DATE <u>12/03/2019</u>	DATE <u>12/03/2019</u>	

**MWEA RICE MILLS LTD**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2018**

	Share Capital Kshs	General Reserves Kshs	Accumulated Profits	Capital Fund Kshs	Revaluation Reserves Kshs	Total Kshs
<b>As at 1st July 2016</b>	5,000,000	8,700,000	51,561,484	52,610,534	119,532,372	237,404,390
Profit and Loss account			1,003,870		-	1,003,870
Amortization			-	-	5,040,664	5,040,664
<b>At 30 June 2017</b>	<b>5,000,000</b>	<b>8,700,000</b>	<b>52,565,354</b>	<b>52,610,534</b>	<b>114,491,708</b>	<b>233,367,596</b>
<b>As At 1 July 2017</b>	<b>5,000,000</b>	<b>8,700,000</b>	<b>52,565,354</b>	<b>52,610,534</b>	<b>114,491,708</b>	<b>233,367,596</b>
Profit and Loss account			975,745		-	975,745
Amortization				-	5,053,397	5,053,397
Dividends Prov./ Paid			-	3,000,000	-	3,000,000
<b>As at 30 June 2017</b>	<b>5,000,000</b>	<b>8,700,000</b>	<b>50,541,099</b>	<b>52,610,534</b>	<b>109,438,311</b>	<b>226,289,944</b>

# MWEA RICE MILLS LTD

## STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30TH JUNE. 2018

	NOTES	2017/2018 KSHS	2016/2017 KSHS
<b><u>Cash Flows From Operating</u></b>			
<b><u>Activities</u></b>			
Surplus	11	975,745	1,003,870
<b>Adjustment for non cash items</b>			
Depreciation	21	5,939,636	5,919,089
<b>Net cash from operating activities</b>		<b>6,915,381</b>	<b>6,922,959</b>
<b><u>Working Capital changes</u></b>			
- (Increase)/Decrease in Inventories		(32,708,818)	11,335,495
- (Increase)/Decrease in Receivables		(6,714,704)	(8,554,480)
- Increase/(Decrease) in Payables		5,581,005	1,141,623
<b>Net cash generated from operating activities</b>		<b>(26,927,136)</b>	<b>10,845,597</b>
<b><u>Cash Flows From Investing</u></b>			
<b><u>Activities</u></b>			
Additions on (computers/Furn.)		-	161,132
<b>Net cash generated from Investing activities</b>		<b>-</b>	<b>161,132</b>
<b><u>Cash Flows From Financing</u></b>			
<b><u>Activities</u></b>			
Dividends Paid		(3,000,000)	-
<b>Net cash generated from financing activities</b>		<b>(3,000,000)</b>	<b>-</b>
Net increase/(decrease) in Cash & Equivalent for year		(29,927,136)	10,684,466
Cash & Cash Equivalent at the beginning of the year		67,399,269	56,714,803
<b>Cash &amp; cash equivalent at the end of the year</b>	<b>6</b>	<b>37,472,133</b>	<b>67,399,269</b>

**RECURRENT BUDGET FOR MRM LTD FOR THE FINANCIAL YEAR 2017/2018**

**1. BUDGETED INCOME FOR THE FINANCIAL YEAR 2017/2018**

PARTICULARS	QUANTITY (KG)	UNIT PRICE KSHS	AMOUNT (KSH)
Income from commercial milling services	6,000,000	2.50	15,000,000
Rice Bran	500,000	12.00	6,000,000
Rice sales (5,000 x75Kg Bags) at 50% recovery	150,000	130.00	19,500,000
Broken Rice	2,000	50.00	100,000
Storage income from NCPB and MIAD			1,914,000
Rental income from staff Houses in			1,569,000
Investment income ( Leader House			7,748,796
<b>TOTAL INCOME</b>			<b>51,831,796</b>

1. RECURRENT BUDGET DETAILS FOR THE FINANCIAL YEAR 2017/2018				VARIANCE
DESCRIPTION	VOTE	BUDGET FOR FINANCIAL YR 2017/2018 (KSHS.)	ACTUALS FOR 2017/2018 (KSHS.)	(KSHS.)
Expected Income (A)		51,831,796	49,642,456	2,189,340
Salaries & Wages Administration	961	3,000,000	2,951,476	48,524
House Allowance		230,000	210,000	20,000
Casual Wages	957	7,300,000	7,221,701	78,299
Gratuity		150,000	147,805	2,195
Inpatient Med Exp	838	500,000	-	500,000
Outpatient Med Exp	838	26,000	25,599	401
Uniforms	849	20,000	18,100	1,900
Marketing/Advertising expenses	843	310,000	302,992	7,008

Travelling, Meals & Accommodation	847	3,600,000	3,596,369	3,631
Electricity Expenses	914	9,800,000	9,722,679	77,321
General mtce -buildings	731	400,000	392,289	7,711
Office mtce- buildings	733	180,000	173,526	6,474
Stores mtce - buildings	732	150,000	143,620	6,380
Staff Houses mtce	734	25,000	23,112	1,888
Maissonates & Leader House mtce	735	1,900,000	1,794,000	106,000
P & M maintenance - Mills Spares	645	2,000,000	1,949,339	50,661
Motor Vehicle maintenance	615	1,300,000	1,287,065	12,935
Bicycle Allowance	619	10,000	9,900	100
Travelling Expenses Board Members	851	800,000	758,505	41,495
Printing & Stationery	832	500,000	481,139	18,861
Rate & Rents/Licences	841	970,000	968,341	1,659
Subscriptions & Periodicals	842	120,000	115,310	4,690
Telephone/postages expenses	911	200,000	191,500	8,500
Legal & Professional fees	839	43,000	40,000	3,000
Security Services	714	2,000,000	1,899,437	100,563
Bank Charges	836	130,000	132,795	-2,795
Admin & Accountancy fee		1,600,000	1,489,274	110,726
Audit Fee	833	348,000	348,000	0
NSSF		22,000	21,600	400
Leave Allowance		70,000	68,647	1,353
Paddy Purchases	116	2,600,000	2,524,903	75,098
Basmati rice Purchases	117	2,500,000	2,264,750	235,250
Diesel Cost	916	500,000	451,091	48,909
Oils & greases	918	1,400	1,275	125
Bags & Other Packing Material	881	380,000	355,270	24,730

Office Tea expenses	846	180,000	166,942	13,058
Computer Expenses	854	24,000	22,450	1,550
Office Machinery maintenance	852	40,000	38,100	1,900
Other expenses	853	450,000	420,784	29,216
Depreciation		6,000,000	5,939,635	60,365
<b>TOTAL EXPENDITURE (B)</b>		<b>50,379,400</b>	<b>48,669,319</b>	<b>1,710,081</b>
Surplus /Deficit (A- B)		<b>1,452,396</b>	<b>973,137</b>	

**2. CAPITAL BUDGET FOR THE FINANCIAL YEAR 2017/2018**

DESCRIPTION	VOTE	BUDGET FOR THE FY 20172018 (KSHS.)		
7 Tones Tipper Lorry		7,000,000	-	7,000,000
Office Furniture		555,000	-	555,000
Office Equipment		400,000	-	400,000
Go down Stores		8,500,000	-	8,500,000
Double Cab pick-up		5,100,000	-	5,100,000
<b>TOTAL</b>		<b>21,555,000</b>	<b>-</b>	<b>21,555,000</b>

## ACCOUNTING POLICIES

### 1 General Information

Mwea Rice Mills Ltd was 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-55%) and the farmers under their Co-operative Society (Farmers Amalgamated Society-45%).

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 of certain items of property, plant and equipment, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. Preparation of financial statements 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 International Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

### 3 Adoption of New And Revised Standards

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

Standard/Amendment to a standard	Effective date	Impact
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	<p>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:</p> <ul style="list-style-type: none"> <li>Identify the contract with the customer</li> <li>Identify the performance obligations in the contract</li> <li>Determine the transaction price</li> <li>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</li> </ul> <p>However, there were no contracts with customers within the financial year under review.</p>

Standard/Amendment to a standard	Effective date	Impact
IFRIC 22: Foreign Currency Transactions and Advance Consideration(Issued 8 December 2016)	Applicable to annual reporting periods beginning on or after 1st Jan 2018	<p>The interpretation addresses foreign currency transactions or parts of transactions where:</p> <p>there is consideration that is denominated or priced in a foreign currency;</p> <p>the entity recognises a prepayment asset or a deferred 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>
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) (Issued 19 January 2016)	Effective for annual periods beginning on or after 1st Jan 2017	<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>
Disclosure Initiative (Amendments to IAS 7) (Issued 29 January 2016)	Effective for annual periods beginning on or after 1st Jan 2017	<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>
Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Issued 12 April 2016)	Effective for annual periods beginning on or after 1st Jan 2018	<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>

Standard/Amendment to a standard	Effective date	Impact
<p>Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (Issued 20 June 2016)</p>	<p>Effective for annual periods beginning on or after 1st Jan 2018</p>	<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>
<p>Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) (Issued 12 September 2016)</p>	<p>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>	<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>
<p>Transfers of Investment Property (Amendments to IAS 40) (Issued 8 December 2016)</p>	<p>Effective for annual periods beginning on or after 1st Jan 2018</p>	<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>

Standard/Amendment to a standard	Effective date	Impact
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 periods beginning on or after 1st Jan 2017	<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 an investment in an associate or a joint venture that 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.</p> <p>The company did not engage in any joint venture investments within the financial year under review.</p>
IFRS 16: Leases (Issued 13 January 2016)	Effective for annual periods beginning on or after 1st Jan 2019	<p>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.</p> <p>The company did not engage in any kind of lease transactions during the financial year under review.</p>
IFRS 17 Insurance Contracts (Issued 18 May 2017)	Effective for annual periods beginning on or after 1st Jan 2021	<p>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.</p> <p>There were no insurance liabilities at the end of the financial year under review.</p>
IFRIC 23: Uncertainty over Income Tax Treatments (Issued 7 June 2017)	Effective for annual periods beginning on or after 1st Jan 2019	<p>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:</p> <p>Whether tax treatments should be considered collectively</p> <p>Assumptions for taxation authorities' examinations</p> <p>The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</p> <p>The effect of changes in facts and circumstances</p> <p>There were no tax credits during the financial year under review.</p>

Standard/Amendment to a standard	Effective date	Impact
<p>Prepayment Features with Negative Compensation (Amendments to IFRS 9) (Issued 12 October 2017)</p>	<p>Annual periods beginning on or after 1st Jan 2019</p>	<p>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.</p> <p>The amendment did not affect the business of the company during the financial year under review.</p>
<p>Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) (Issued 12 October 2017)</p>	<p>Annual periods beginning on or after 1st Jan 2019</p>	<p>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.</p> <p>The amendment did not affect the business of the company during the financial year under review.</p>
<p>Annual Improvements to IFRS Standards 2015–2017 Cycle (Issued 12 December 2017)</p>	<p>Annual periods beginning on or after 1st Jan 2019</p>	<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>
<p>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) (Issued 7 February 2018)</p>	<p>Annual periods beginning on or after 1st Jan 2019</p>	<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>

Standard/Amendment to a standard	Effective date	Impact
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 IASC 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 Company did not early - adopt any new or amended standard in the year 2018.

**4 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;

- (i) 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.
- (ii) 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.

- (iii) 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 review.
- (iv) Dividend income is recognised in the income statement in the year in which the right to receive the payment is established. The company received dividend income of Ksh. 3,000,000 during the year under review.
- (v) Rental income is recognised in the income statement as it accrue.

(vi) Other income is recognised as it accrues.

#### (vi) Financial Risk management

##### 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.

##### 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.

##### 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.

##### Liquidity risk

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

#### b 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.

#### © 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 assets 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.

#### (d) 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% p.a
Plant and Machinery	12.5% p.a
Office Equipment and Furniture	12.5% p.a
Motor Vehicles	25% p.a
Workshop Tools	33.5% p.a
Investments (Leader Hse & Maisonnettes)	4% p.a
Computers	33.5% p.a

The company migrated from manual assets register to ERP System in the financial year 2014/2015. To avoid double depreciation charge for the assets for the years that they had been subjected to depreciation, the management opted to adopt the NBV as at 30th June, 2014 as opening balances to be subjected to depreciation. Hence, for all the assets, NBV as at that time were adopted and straight line depreciation method adopted.

#### (d) 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.

## MWEA RICE MILLS LIMITED

NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 30TH JUNE 2018

### 2. PROPERTY, PLANT & EQUIPMENT

	BUILDINGS	PLANT & MACHINERY	WORKSHOP TOOLS	SEWERAGE DISPOSAL	MOTOR VEHICLES	FURNITURE & EQUIPMENT	COMPUTERS	LAND	TOTAL
	KSHS.	KSHS.	KSHS.	KSHS.	KSHS.	KSHS.	KSHS.	KSHS.	KSHS.
<b><u>COST:</u></b>									
AS AT 01.07.2016	13,016,330	157,963,263	202,461	2,080,313	1,980,000	1,742,427	2,604,952	280,000	179,869,746
<b>AS AT 30.06.2017</b>	<b>13,016,330</b>	<b>157,963,263</b>	<b>202,461</b>	<b>2,080,313</b>	<b>1,980,000</b>	<b>1,742,427</b>	<b>2,604,952</b>	<b>280,000</b>	<b>179,869,746</b>
<b><u>DEPRECIATION:</u></b>									
AS AT 01.07.2016	9,827,064	120,986,763	202,437	-	1,666,751	1,263,344	602,294.22	-	134,548,653
CHARGE FOR THE YEAR	148,223	4,597,643	4	-	156,624	166,470	837,392.00	-	5,906,356
<b>AS AT 30.06.2017</b>	<b>9,975,287</b>	<b>125,584,406</b>	<b>202,441</b>	<b>-</b>	<b>1,823,375</b>	<b>1,429,814</b>	<b>1,439,686</b>	<b>-</b>	<b>140,455,009</b>
<b>N.B.V 30.06.2017</b>	<b>3,041,043</b>	<b>32,378,857</b>	<b>20</b>	<b>2,080,313</b>	<b>156,625</b>	<b>312,613</b>	<b>1,165,266</b>	<b>280,000</b>	<b>39,414,737</b>
<b><u>COST:</u></b>									
AS AT 01.07.2017	13,016,330	157,963,263	202,461	2,080,313	1,980,000	1,742,427	2,604,952.40	280,000	179,869,746
<b>AS AT 30.06.2018</b>	<b>13,016,330</b>	<b>157,963,263</b>	<b>202,461</b>	<b>2,080,313</b>	<b>1,980,000</b>	<b>1,742,427</b>	<b>2,604,952</b>	<b>280,000</b>	<b>179,869,746</b>
<b><u>DEPRECIATION:</u></b>									
AS AT 01.07.2017	9,975,287	125,584,406	202,441	-	1,823,375	1,429,814	1,439,686.22	-	140,455,009
CHARGE FOR THE YEAR	148,223	4,599,994	4	-	156,624	166,473	868,317	-	5,939,636
ELIMINATION OF ACCM. DEP. ON DISPOSALS	-	-	-	-	-	-	-	-	-
<b>AS AT 30.06.2017</b>	<b>10,123,510</b>	<b>130,184,400</b>	<b>202,445</b>	<b>-</b>	<b>1,979,999</b>	<b>1,596,287</b>	<b>2,308,004</b>	<b>-</b>	<b>146,394,645</b>
<b><u>NET BOOK VALUE:</u></b>									
<b>AS AT 30.06.2018</b>	<b>2,892,820</b>	<b>27,778,863</b>	<b>16</b>	<b>2,080,313</b>	<b>1</b>	<b>146,140</b>	<b>296,949</b>	<b>280,000</b>	<b>33,475,101</b>
<b>AS AT 30.06.2017</b>	<b>3,041,043</b>	<b>32,378,857</b>	<b>20</b>	<b>2,080,313</b>	<b>156,625</b>	<b>312,613</b>	<b>1,165,266</b>	<b>280,000</b>	<b>39,414,737</b>

**(e) Intangible assets**

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

**(f) 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.

**(g) 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.

**(h) 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.

**(i) 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 traded at the Nairobi Securities Exchange. The bonds are interest income upon the bond's disposal or maturity. Fixed interest investments are freely measured at fair value through profit or loss. The company did not trade in any interest investments during the year under review.

**(j) 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.

**(k) 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.

**(l) 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.

**(m) Trade and other receivables**

Trade and other receivables are recognised at fair values less allowances for any uncollectible 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 for recovery have been exhausted.

**(n) 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 or same taxable entity and the same taxation authority.

**(o) 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.

**(p) 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.

**(q) 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 respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

**(r) 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 company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Ksh. 200. per employee per month.

**(s) 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.

**(t) 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.

**(u) 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 the 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.

**(v) 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.

**(w) Comparative figures**

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

**(x) 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 30, 2018.

**5 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:

**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.

**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

**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 5.

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.

**6 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.

**7 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.

**8 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.

**9 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.

**10 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.

**11 INCORPORATION**

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

**12 EVENTS AFTER THE REPORTING PERIOD**

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

**13 CURRENCY**

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2018**

**3 INVESTMENT PROPERTY**

	2017/2018	2016/2017
	KSHS	KSHS
<b>Cost/Revaluation</b>		
As at 1st July 2016	183,500,000	183,500,000
As at 30th June 2017	<b>183,500,000</b>	<b>183,500,000</b>
<b>Depreciation</b>		
As at 1st July 2016	63,662,067	58,608,670
Revaluation	5,053,397	6,585,358
Charge for the year	-	573,409
As at 30th June 2017	<b>68,715,464</b>	<b>63,662,067</b>
<b>N.B.V as at 30th June 2017</b>	<b><u>114,784,536</u></b>	<b><u>119,837,933</u></b>
<b>Cost/Revaluation</b>		
As at 1st July 2017	183,500,000	183,500,000
As at 30th June 2018	<b>183,500,000</b>	<b>183,500,000</b>
<b>Depreciation</b>		
As at 1st July 2017	68,715,464	63,662,067
Charge for the year on revaluation	5,053,397	5,053,397
As at 30 <sup>th</sup> June 2018	<b>73,768,862</b>	<b>68,715,464</b>
<b>N.B.V as at 30<sup>th</sup> June 2018</b>	<b><u>109,731,138</u></b>	<b><u>114,784,536</u></b>
<b>N.B.V as at 30th June 2017</b>	<b><u>114,784,536</u></b>	<b><u>119,837,933</u></b>

Revaluation of Maisonettes & Leader house was done in June 2009 by the office of Commissioner of Lands

**4 INVENTORIES**

	2017/2018	2016/2017
	KSHS	KSHS
Spare parts	16,933,927	15,542,285
Bags and packing materials	2,755,633	2,645,308
General store	142,041	152,954
Rice paddy	52,057,800	25,846,800
Milled Rice	10,037,300	5,032,920
Stationery Store	61,601	59,217
	<b><u>81,988,302</u></b>	<b><u>49,279,483</u></b>

**5 TRADE AND OTHER RECEIVABLES**

	2017/2018	2016/2017
	KSHS	KSHS
Trade debtors	32,211,273	25,535,131
Staff debtors	83,037	44,475
Interest from Bank receivable	3,606,821	3,606,821
Refundable deposits	80,920	80,920
Continental Credit Finance (under receivership)	16,815,053	16,815,053
	<b><u>52,797,104</u></b>	<b><u>46,082,400</u></b>

**LESS PROVISION FOR DOUBTFUL DEBTS**

Provision on interest from deposits	3,606,821	3,606,821
Provision on trade debtors	18,712	18,712
Provision on Continental Credit Finance	16,815,053	16,815,053
	<b><u>20,440,586</u></b>	<b><u>20,440,586</u></b>
	<b><u>32,356,518</u></b>	<b><u>25,641,814</u></b>

The non current deposits were deposited with Continental Credit Finance Limited which has since been placed under receivership. The recovery of the deposits still remain uncertain.

Other Receivables includes KRA and Continental Credit Finance.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2018**

	2017/2018	2016/2017
	KSHS	KSHS
<b>6 CASH &amp; CASH EQUIVALENT</b>		
BBK QUEENSWAY (NBI) A/C 0945035838	35,882,696	29,495,493
BBK (EMBU) A/C 1189193	-	8,095
KCB Wanguru A/C 1103971387	902,038	37,129,796
Cash in hand - factory imprest	687,399	765,885
	<u>37,472,133</u>	<u>67,399,269</u>

	2017/2018	2016/2017
	KSHS	KSHS
<b>7 TAXATION (KRA)</b>		
Balance brought forward	(1,952,021)	(1,952,021)
Balance carried forward	<u>(1,952,021)</u>	<u>(1,952,021)</u>

Since the tax of Ksh. 8,784,785 was calculated and agreed by the tax consultant and KRA, the amount was transferred to the debtors' account. However the balance to date is Ksh. 1,952,021.

	2017/2018	2016/2017
	KSHS	KSHS
<b>8 SHARE CAPITAL</b>		
Authorised and fully paid 250,000 ordinary shares of Kshs 20/= each. The shareholding is as follows :	5,000,000	5,000,000
National irrigation Board - 55%		
Mwea Rice Mills Ltd - 45%		

**9 GENERAL RESERVE**

The Company used to transfer part of its profits made to the general Reserve and would utilise such reserves to pay dividends when the Company made losses. An amount of Kshs 8,700,000.00 remains unutilized to-date.

	2017/2018	2016/2017
	KSHS	KSHS
<b>10 REVALUATION RESERVE</b>		
Revaluation of Maisonettes	82,953,766	86,560,887
Revaluation of Leader House	31,537,942	32,971,485
Depreciation of Revalued assets	(5,053,397)	(5,040,664)
Net book Value	<u>109,438,311</u>	<u>114,491,708</u>

	2017/2018	2016/2017
	KSHS	KSHS
<b>11 ACCUMULATED PROFIT/(LOSS)</b>		
Balance b/f	52,565,354	51,561,484
Dividends	(3,000,000)	-
Profit/( loss) for the year	975,745	1,003,870
Balance c/f	<u>50,541,099</u>	<u>52,565,354</u>

The Company Directors declared payment of Ksh. 3,000,000 dividends within the financial year under review.

**12 CAPITAL FUND FOR MILL REHABILITATION**

Capital Fund Ksh. 52,610,534.00 for mill rehabilitation is a levy based on kilograms of rice milled for the National Irrigation Board by Mwea Rice Mills. The levy was to be used for rehabilitating the mills. The Board has since shed off non-core functions like processing and marketing of rice and therefore, the levy is no longer chargeable.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

<b>13 NON- CURRENT LIABILITY</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
Government proposed levy **	22,037,370	22,037,370
	<u>22,037,370</u>	<u>22,037,370</u>

Government Proposed levy was a levy imposed on Mwea Rice Mills Ltd to be paid to the National Irrigation Board. The levy was to help the Board meet the Development Loan Principal and Interest Repayments. However, the levy was stopped in 1988 when the National Irrigation Board started marketing rice.

<b>14 TRADE AND OTHER PAYABLES</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
Audit fees provision	696,000	696,000
Staff Liabilities	790,068	
Tax provision	2,069,563	1,651,386
NIB current account (Inter-company - Creditor)	43,549,705	40,410,431
Trade	1,542,564	309,077
	<u>48,647,900</u>	<u>43,066,895</u>

<b>15 TURNOVER</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
Basmati paddy sales	-	3,360
Broken rice sales	46,000	1,106,780
Basmati packets sales	11,923,850	22,897,872
Bran meal sales	4,467,315	5,143,749
Chicken feed sales	378,100	967,600
Milling income	20,581,225	17,952,796
	<u>37,396,490</u>	<u>48,072,156</u>

<b>16 COST OF SALES</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
Paddy to mills	2,524,903	12,083,242
Salaries and Wages- Casuals	7,099,724	6,432,468
Salaries and Wages- Production/ Overtime	121,977	362,993
Electricity	9,722,679	7,317,504
Buildings mtce -General	392,289	539,259
Buildings mtce - Stores	143,620	121,093
Depreciation - Buildings	148,223	148,223
P & M Maintenance - miscellaneous	410,913	928,089
Depreciation - Equipment	4,599,994	4,597,643
Bags and Packing materials	355,270	1,123,728
P & M Maintenance - mill 5	996,386	2,547,204
P & M Maintenance - mill 6	542,040	1,163,302
Basmati white rice purchases	2,264,750	3,061,408
	<u>29,322,767</u>	<u>40,426,155</u>

<b>17 OTHER INCOME</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
Rental Income	2,096,550	1,955,950
Miscellaneous Income	182,639	211,792
Interest Income	4,800	5,000
Storage Income	2,022,931	1,275,000
	<u>4,306,920</u>	<u>3,447,742</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

	2017/2018	2016/2017
	KSHS	KSHS
<b>18 INVESTMENT INCOME</b>		
Gross Income	7,939,046	7,738,796
	<u>7,939,046</u>	<u>7,738,796</u>
<b>19 ADMINISTRATION EXPENSES</b>		
<b>(a) Staff costs</b>		
Salaries and Wages- Regular	2,951,476	3,095,073
Medical Expenses	25,599	31,796
House allowance	210,000	227,500
Leave & transfer allowance	68,647	73,340
Salaries & Wages-Gratuity	147,805	255,046
NSSF	21,600	30,200
sub-total	<u>3,425,127</u>	<u>3,712,955</u>
<b>(b) Administrative costs</b>		
Printing and Stationery	481,139	1,056,182
Travelling Expenses	3,596,369	3,318,189
Telephone, Postages and Sundries	191,500	217,900
Building mtce- offices	173,526	46,994
Legal & Professional fees/consultancy	40,000	185,600
Audit fees	348,000	348,000
Security services	1,899,437	1,509,089
Licences	57,600	31,900
Administration & accountancy fee	1,489,274	1,777,761
Computer expenses	22,450	54,000
Motor vehicle Mtce.	1,287,065	491,173
Office Machinery Expenses	38,100	
Buildings mtce - Staff houses	23,112	142,834
Uniforms	18,100	75,000
Buildings mtce - Leader houses	-	1,867,426
Buildings mtce - massionettes	1,794,000	-
Bank charges	132,795	85,944
sub-total	<u>11,592,467</u>	<u>11,207,991</u>
<b>Total</b>	<u>15,017,593</u>	<u>14,920,946</u>
	2,607.81	
<b>20 OTHER EXPENSES</b>		
Depreciation on Vehicles	156,624	156,624
Office Tea	166,942	163,429
Subscriptions and Periodicals	115,310	100,440
Bicycles mtce	9,900	7,200
Furniture & Fittings -depreciation	166,473	166,470
Marketing	302,992	73,900
General repairs & mtce	-	620
Depreciation on Computer & Accessories	868,317	837,392
Oills & Grease	1,275	5,825
Diesel	451,091	607,656
Depreciation (Maiso & Leader Hs)	-	12,733
Sewarage(Workshop)Depreciation	4	4
Rates	910,741	-
<b>Total</b>	<u>3,149,669</u>	<u>2,132,293</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

21 DEPRECIATION CHARGE FOR THE YI	2017/2018	2016/2017
	KSHS	KSHS
Fixed Assets Movement schedule	5,939,636	5,906,356
Charge on Leader hse.	-	12,733
	<u>5,939,636</u>	<u>5,919,089</u>

22 BOARD MEMBERS EXPENSES	2017/2018	2016/2017
	(KSHS)	(KSHS)
Sitting Allowance	292,000	210,000
Accommodation allowance	72,000	40,000
Travel Expenses	282,505	13,200
Lunch Allowance	112,000	82,000
Total	<u>758,505</u>	<u>345,200</u>

**23 RELATED PARTY TRANSACTIONS**

(a) National irrigation board owns 55 % shares in Mwea Rice Mills. The other 45 % is owned by Mwea farmers. there is an agreement between NIB and 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's board of directors and the management did not have any related party transactions with the company within the year under audit. However, there are some transactions between the Company and the NIB. as shown in note 14.

**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	M an ag e m	Focal Point person to resolve the issue (Name and	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)