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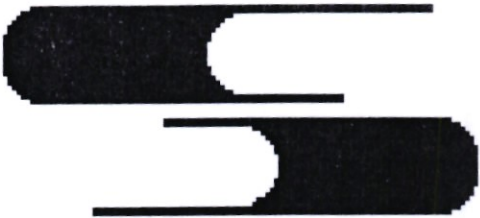
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ESTHER WARD

THE AUDITOR-GENERAL

ON

CHEMELIL SUGAR COMPANY LIMITED

**FOR THE YEAR ENDED
30 JUNE, 2023**



CHEMELIL SUGAR COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2023**

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

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Chemelil Sugar Company Limited

Annual Reports and Financial Statements
For the year ended June 30, 2023

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KEY ENTITY INFORMATION

Background information

Chemelil Sugar Company was established in 1965 as a private limited Company and later became a Parastatal in 1974. It is currently a Parastatal under the Ministry of Agriculture, Livestock, Fisheries and Cooperatives - State Department of Crop Development. The Company is domiciled in Kenya and is located along Awasi - Nandi Hills Road in Muhoroni sub-County of Kisumu County, approximately 50 kilometres from Kisumu City.

Principal Activities

The principal activity of the Company is to manufacture sugar and co-products from sugarcane and to establish and manage sugarcane plantations. Its vision is to be the Company of choice in the production and marketing of sugar as well as in sugarcane development in the region. The Company's core objectives include cane development, factory capacity utilization, marketing and distribution, environmental management and corporate citizenship.

Directors

The following were the Directors serving during the year/period after the appointment on 14th April 2023 via gazette notice No. 4841 and No 4847 respectively.

- | | |
|--|---------------------------------------|
| 1. Eng. John Nyambok | – Chairman |
| 2. Ms. Jacqueline Kotonya | – Ag Managing Director |
| 3. Mrs. Mary Simat | – Independent Director |
| 4. Mr. Samuel Ogolla bonyo | – Independent Director |
| 5. Mr. Henry Ntongai Mitu | – Independent Director |
| 6. Mr. David Kiplagat Kitur | – Independent Director |
| 7. Ms. Ms Enrichah Apiyo Dulo | – Independent Director |
| 8. Mr. John Kipyegon Chesiror | – Independent Director |
| 9. State Department for crop Development | – Alternate, Ms. Agnes Chepng'eno soi |
| 10. Inspector- General (Corporations) | – Alternate, Mr. George Ombua |

Chief Officers

- | | |
|---------------------------|--------------------------------|
| 1. Ms. Jacqueline Kotonya | – Ag Managing Director |
| 2. CPA Steven Aluoch | – Head of Finance (Ag) |
| 3. Mr. Jorim Osewe | – Head of Agriculture (Ag) |
| 4. Mr. Joseph Kiilu | – Head of Factory (Ag) |
| 5. Mr. Constance Webale | – Head of Human Resources (Ag) |
| 6. Ms. Linda Kiplagat | – Marketing Manager |
| 7. Mr. Henry K Sigei | – Internal Audit Manager (Ag) |

Corporate Secretary

Image Registers
P.O. Box 9287- 00100
Nairobi, Kenya.

Corporate Headquarters

P.O. Box 177-40107
Awasi-Nandi Hills Road
Muhoroni, Kenya

Chemelil Sugar Company Limited

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KEY ENTITY INFORMATION (Continued)

Corporate Contacts

Telephone : (254) 020-2031883/4/5

E-mail: chemelil@swiftkisumu.com/chemelil.mdsoffice@gmail.com

Website: www.chemsugar.go.ke

Corporate Bankers

1. Kenya Commercial Bank Limited
P.O. BOX 17-40100
Kisumu, Kenya
2. Co-operative Bank of Kenya Limited
P.O BOX 301511-40100
Kisumu, Kenya


Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

Principal Legal Advisers

1. Migos Ogamba & Company
P.O. Box 17- 40100
Nairobi, Kenya.
2. Otieno Ragot & Company
P. O. Box 3051 – 40100
Kisumu, Kenya.

THE BOARD OF DIRECTORS




DIRECTOR'S NAME	KEY QUALIFICATIONS AND EXPERIENCE
<p>1. Eng. John Nyambok Chairman</p>	
<p>2. Ms. Jacqueline kotonya Ag Managing Director</p> 	<p>Bachelor of science degree in Chemistry, Certificate in Environmental Impact Assessment and Environmental Audit, ISO 14001 Lead Auditor certification - EMS, ISO9001 Auditor certification - QMS, ISO 22000 Auditor Certification-Food safety Management Systems, HACCP Certification, Training in Occupational Health & Safety, Training in Energy Management, Training in Kaizepen Principles, Training in Performance Appraisal</p>
<p>3. Mrs. Mary Simat Independent Director</p>	
<p>4. Mr. Samuel Ogolla bonyo Independent Director</p>	
<p>4.Mr. Henry Ntongai Mitu Independent Director</p>	



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<p>5. Mr. David Kiplagat Kitur Independent Director</p>	
<p>6. Ms. Ms Enrichah Apiyo Dulo (Independent Director)</p>	
<p>7. Mr. John Kipyegon Chesiror (Independent Director)</p>	
<p>8. Ms. Agnes Chepng'eno soi Alternate Director</p>	
<p>9. Mr. George Ombua Alternate Director</p>	
<p>10. Abdul Heleem K moha Representative, Image Registrars, Company</p>	

MANAGEMENT TEAM

MANAGER'S NAME	KEY QUALIFICATIONS AND EXPERIENCE
 <p>Ms. Jacqueline Kotonya BSc (Chemistry), AWSE, EIK</p>	<p>Ag Managing Director. Bachelor of science degree in Chemistry, Certificate in Environmental Impact Assessment and Environmental Audit, ISO 14001 Lead Auditor certification - EMS, ISO9001 Auditor certification - QMS, ISO 22000 Auditor Certification-Food safety Management Systems, HACCP Certification, Training in Occupational Health & Safety, Training in Energy Management, Training in Kaizepen Principles, Training in Performance Appraisal</p>
 <p>Mr. Joseph Mutisya Kiilu BSc (Food Sc. & Technology)</p>	<p>Head of Factory (Ag) Bachelor of Science in Food Science & Post harvest Technology.</p>
 <p>Aluoch CPA Steven Aluoch</p>	<p>Head of Finance Bachelor of Commerce (Accounting option), CPAK Member No. 12004</p>
<p>Mr. Jorim Osewe BSc. (Agriculture)</p>	<p>Head of Agriculture (Ag) Bachelor of Science Degree in Agricultural Engineering, ERB (Graduate Engineer No. B4934)</p>

<p>Ms. Constance Webale BBM (Human Resource Mgt), CHRP(K)</p>	<p>Head of Human Resource (Ag) Certified Human Resource Professional - CHRP-K, Associate Member, Institute of Human Resource Professionals - IHRM (Member No. 08984), Bachelor of Business Management (HR Management option), Diploma in Human Resource Management, Certified Employee Relations Professional</p>
<p> Mr. Japheth Ojwang BBM (Purchasing & Supplies), Dip BA, KISM, CIPS</p>	<p>Supply Chain Manager (Ag) Bachelor of Business Management (Purchasing & Supplies management), Diploma in Business Administration, KISM Member No. 70741</p>
<p> Ms. Lindah J. Kiplagat MBA (Strategic Mgt), BBA (Marketing), MSK</p>	<p>Marketing Manager</p>

CHAIRMAN'S STATEMENT

OVERVIEW

Despite the Sugar Industry's continued general sugarcane deficit, the cane supply in Nyando sugar belt during the 2022/2023 financial year was much better compared to a number of preceding year(s) owing to the effect of the annual maintenance done in the year 2022/2023 and Sugar selling price was also generally stable and high during the year being supported by government control over sugar imports. The main set back that curtailed the Company's performance during the year under review was frequent breakdowns of key machinery in the factory due to ageing plant. The plant had not undergone major maintenance since the year 2013.

OPERATIONS

The volume of cane milled reduced to 252,603 tonnes down from 276,853 processed in the previous year. This was mainly because of the shortage of the raw material due high drought experience in the year 2022/2023. Unlike the preceding years. The average conversion ratio was 14.54 tonnes of sugarcane to one tonne of sugar compared to 16.14 in the previous year. The Company sold a total of 16,558.46 tonnes of sugar compared to 17,246.18 tonnes sold in 2021/2022. Accordingly, the gross turnover rose to Kshs. 1,905 million compared to Kshs. 1,472 million achieved in the previous year mainly because of the high price of sugar and molasses.

RESULTS

The Company posted reduced loss of Kshs 76 million compared to the loss of Kshs 694 million in the previous year.

TAX CONTRIBUTION

The Company continued to be one of the large tax payers to the government. During the financial year, the Company accrued/paid Kshs. 304 million in VAT compared to Kshs. 235million the year before.

CORPORATE SOCIAL RESPONSIBILITY

Despite constrained cash flows the Company continued to play its role as a responsible corporate citizen. The key focus areas during the year under review were education, health, sanitation and environment. Through its own sponsored Chemelil Sugar primary and secondary schools and by supporting a number of other public schools within Chemelil zone, the Company continued to empower the population in the community. The Company also operates a health facility which supports the community's health, through its MCH and general healthcare services.

DIVIDENDS

The company remains committed to its primary objective of maximization of Shareholders' fund and in giving a return on investment through payment of dividends. However, due to the low performance for the year, loss incurred and the aforementioned financial constraints, the Company was not in a position to pay dividends. Measures are being put in place and this situation is likely to change in the coming years and dividends shall be paid accordingly.

PERFORMANCE CONTRACT

The company entered into a negotiated performance contract with the Government of Kenya for the year 2022/2023 by setting targets in line with the Strategic plan 2022/2023-2026/2027 and the Approved Budget for 2022/2023. The Company did not achieve its profitability target for 2022/2023 given the conditions it operated in but there is strong and positive indication of improved performance towards achieving and surpassing our boundaries of success.

Chemelil Sugar Company Limited

Annual Reports and Financial Statements For the year ended June 30, 2023

REVIEW OF CURRENT AND FUTURE BUSINESS OUTLOOK

Access to adequate quality raw material and stability of market sugar price remain the key determinants of the Company's operational performance. The company continues to engage and/or contract farmers for cane supply. Improvement in cane availability is being pursued through planting of high sucrose and early maturing cane within the nucleus estate and improving extension services to farmers. Continued support to farmers with subsidized Gok farm inputs and implements is on-going. All these efforts are aimed at improving the quantity and quality of sugarcane for milling. The cane testing unit which will peg cane payment on sucrose content thus ensuring the company gets value for money is almost complete.

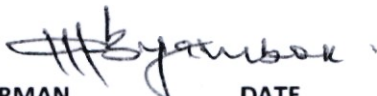
The Company's 5-year strategic plan 2022/2023-2026/2027 had targeted to increase cane yield from 48 TCH to 80 TCH and to mill 871,000 tons annually by the year 2026/2027. Though these targets were not achieved in the year under review, it is envisaged that the Government commitment to privatization of the five public sugar mills will inject new funds to revitalise factory efficiency and mitigate the inadequate cane availability and supply to the factory. The process is expected to enhance competitiveness, profitability and sustainability of the Company. The company is also keen on cost controls and improved corporate communications policy to ensure it has support from all stakeholders.

The government appointed a taskforce to review and advise on the design, development and implementation of the sugar industry price stabilization framework which has looked into ways of stabilizing the incomes of different players in the sugar value chain going forward. The implementation of recommendations by this task force is expected to sanitize the regulatory regime, control sugar importation and create a level playing ground for all in the industry.

The COMESA safeguard measures were also extended to February 2023. The Company's generally improved performance levels should enable it compete when that time lapses. The Company will continue to enhance factory efficiency and increase the branded sugar production. Cost management initiatives will continue to be implemented to return the company to profitability. More land in the catchment area is being put under cane to meet the factory optimum requirements and irrigation project is being enhanced to increase cane yield. The cane development program will continue into the next year where a further 3,000 hectares are targeted.

APPRECIATION

Much gratitude goes to all our cane farmers who have stood with us during these difficult times. We also thank our suppliers, the Commodity Fund and the National Government for the loans given to us, cane transporters, cane development contractors and the sugar customers for their valued support in the last one year. Finally, sincere thanks to the management and staff for their hard work and continued commitment to Company goals even during the difficult times experienced for the better part of the year. There is all optimism that we shall all improve our performance to meet our targets for future Company sustainability.



CHAIRMAN.....DATE.....

REPORT OF THE CHIEF EXECUTIVE OFFICER

It gives me pleasure once again to present this report on the performance of Chemelil Sugar Company Limited for the year ended 30th June 2023

OVERVIEW

Even though there was positive effort towards restricting sugar importation which helped sustain good sugar prices in the market, the Company's revenue generation and cash inflows were affected by low production arising mainly from cane shortage and loss of production time due to factory breakdowns. The shortage of raw material was due to drought and the breakdowns caused by the aging plant adversely affected throughput and conversion ratios. Other operational challenges included low agricultural machinery availability and low cane yields.

PERFORMANCE REVIEW

I. Financial Performance

The overall result of the year was an operating loss of KShs. 76 million compared to a loss of KShs.694 million recorded in the previous year. This is because after the annual maintenance done in the year 2021/2022 the factory performance improved greatly to an extent the company realised a profit in the 2nd and 3rd quarter of the FY 2022/2023 of KSh 184,788,898 and KSh43,864,058.36 respectively and also there was no provision of penalties and interest on tax since we had overprovided in the previous years.

The net turnover for FY 2023 increased to KShs.1,905 million down from KShs.1,472 million in FY 2022. This comprised KShs.1,752 million from sugar and KShs.153 million from molasses.

A decreased gross loss of KShs.581 million was attributed by good company performance in the 1st and 2nd quarter of the year due to improvement in factory efficiency after the annual maintenance carried out in the year 2022/2023. And also, the favourable sugar and molasses price in the market during the year under review.

II. Agricultural Operations

Cane delivered to factory during the year totalling 252,603 was 8.8% lower than 276,853 delivered in the previous year. The average pol (sucrose in cane) was 11.01% (2022-11.08%). The decrease in quantity is attributed to the shortage in supply of raw material. This is in addition to the relative low factory intake of sugar cane due to slow supply of raw material. The Nucleus Estate contributed 70,396 (27.9%) while 182,207 was sourced from farmers within Chemelil zone. The price of cane per ton increased by 16% to KShs 5300 compared up from KShs. 4563 in FY 2022. Cane pricing committee was involved in setting minimum cane price based on prevailing ex-factory price of sugar.

Weather conditions during the year was favourable for cane production as the cane zone received relatively low rainfall mean of 1053.94mm (2022-1782.9mm) although slightly lower than the long term mean of 1,855.2mm. However, cane yields increased to an average of 47.43 TCH compared to 35.86 the previous year due to improved maintenance in the nucleus estate.

Chemelil Sugar Company Limited

Annual Reports and Financial Statements For the year ended June 30, 2023

REPORT OF THE CHIEF EXECUTIVE OFFICER (Continued)

Cane development program exceeded the target as a total of 552.4 ha was ploughed, harrowed and fenced against target of 400ha. Area planted was 552.4 ha against a target of 400 ha. Fertilizer supply for planting and top dressing was low at 100 bags due to financial constraints.

During the year, a lot of effort was expended to engage farmers and other industry stakeholders to appraise them on the Company and industry challenges and initiatives.

I. Factory Operations

The factory milled a total of 252,603 tons of cane in the year under review compared to 276,853 tons milled in FY 2022. Of these 182,207 tons of cane representing 73% came from farmers while 70,396 tons representing 27% was received from the Nucleus Estate. In the previous year, 246,624 tons of cane milled came from farmers while 30,229 tons came from the Nucleus Estate. The amount paid to farmers for cane supply was Kshs.849 million (2022-Kshs 1,061 million).

The cane supplied was milled at a conversion ratio of 14.54 (2022-16.14) tonnes of cane to 1 ton of sugar to produce 16,558.47 tons of sugar compared to 17,150.38 tons produced in FY 2022, this production represents 5.4% decrease compared to the previous year. A better performance was experienced in the second and third quarters but there was a decrease in supply of raw material in part of 3rd and 4th quarter leading to cane accumulation hence increase in the conversion ratio

A total of 978 tonnes of sugar representing 6% of sugar produced was branded. Sugar quality remained high as the Company complied with the Kenya Bureau of Standards (KEBS) requirements for Standardization Mark for brown sugar.

II. Sales and Commercial Activities

The Company sold a total of 16,558.46 tonnes of sugar compared to 17,246.18 tonnes sold in 2021/2022. The average net prices per ton of sugar and molasses were Kshs105,812.84 (2022-Kshs. 82,866) and Kshs.17,313.73 (2021-Kshs. 3,403) respectively. The 27.7% increase in average net sugar price was due to enhanced government control over sugar importation which reduced the sugar glut situation in the market. The 408% increase in average net molasses price in FY high demand.

Most companies have increased their branding levels for better margins and key supermarkets have followed by shifted towards in-house branding thus intensifying competition. The Company's branding level remains lower than most competitors basically due to low investment in branding. The Company intends to expand its sugar branding capacity to increase availability of branded packs in the market and secure some shelf space in local supermarkets going forward.

QUALITY MANAGEMENT

Chemelil Sugar Company Limited has maintained an effective Quality Management System (QMS) across all departments of the Company. This is part of the strategic business decisions intended to improve and sustain the overall performance of the Company's business processes, products and services.

CORPORATE SOCIAL RESPONSIBILITY

During the year under review, the Company continued to play its role as a responsible corporate citizen with key focus on education, health, sanitation and environment. Through sponsorship of Chemelil Sugar primary and secondary schools and by supporting a number of other public schools within Chemelil zone, the Company continued to empower the population. Majority (88%) of the candidates who sat KCSE at Chemelil Academy in 2021 attained university entry grade. Chemelil Sugar primary candidates for the same year was ranked the best in the zone and very highly in Kisumu County.

The Company operates a Health Centre that supports staff and the local community through provision of health care services, preventive health campaigns, education and screening facilities. During the year under review, the Company commissioned water supply to the local community from Chemelil Academy's solar powered borehole water supply system.

REPORT OF THE CHIEF EXECUTIVE OFFICER (Continued)

The Company maintains a tree nursery which supplies tree seedlings for planting in the non-caneable parts of the Company's expansive nucleus estate as well as for supply to farmers and the community in pursuit of 10% government tree cover policy. Tree seedlings were supplied during the year under review.

HUMAN CAPITAL INVESTMENT

The Company's HR strategy remains focused on building a strong unified team with excellent skills and the resilience necessary to return the Company to prosperity. We believe that our people are the lifeline of the Company's business and that strategic investment in the people enables us attract and retain a highly skilled workforce. The Company's commitment to continuous training and development remains strong despite prevailing financial constraints.

LITIGATION, DISPUTE RESOLUTION AND COMPLIANCE

During the year, the Company continued to be vigilant to maintain compliance with laws legislated and government policy directives issued at both national and county levels. The internal legal compliance environment has continuously been evaluated in order to mitigate against any legal exposure in a timely manner.

The Company will continue to explore options available to ensure that operational disputes are minimised and that alternative dispute resolution mechanisms are embraced as a way of resolving most of the current and future litigations while ensuring that the interests of all parties and stakeholders are fairly taken into account.

INFORMATION AND COMMUNICATION TECHNOLOGY

The Company completed the upgrade of its Sun System to version 6.4 during the first quarter of the financial year. This came with improvement of existing modules and introduction of new ones including purchasing module, inventory module, sales module and fixed assets module and involved significant computerization/automation of erstwhile manual processes.

During the rest of the financial year, the emphasis has been on process improvements and benefits realization by building user capacity and driving utilization of the ICTs in order to realise and sustain competitive advantage. The progress is good and better efficiency in information management is expected going forward.

APPRECIATION

On behalf of Management and staff, I wish to express my gratitude to all our stakeholders for their valued support over the period. Key among them are cane farmers who have stood with us during these difficult times and have now redoubled their efforts in cane farming. I also wish to thank our sugar customers, materials suppliers and service providers, the Sugar Directorate and Ministry of Agriculture, Livestock and Cooperatives for their continued support and also the President for appointing the Board of Directors to give guidance and oversight during the coming financial years. Finally, I thank the management and staff for their hard work and continued commitment to the Company.

Jacqueline Kotonya

Jacqueline Kotonya DATE 05/03/2024

Ag MANAGING DIRECTOR

CORPORATE GOVERNANCE STATEMENT

Corporate Governance is a key element contributing to Chemelil Sugar Company Limited Business success and sustenance. To this end, the company has implemented the Mwongozo Code of Governance as the Corporate Governance blue print for State Corporations.

The Board of Directors

Chemelil Sugar Company's Board of Directors provide strategic direction to the Company through oversight, review and guidance as well as setting the strategic and policy direction for the realization of the overall Company's strategic objectives.

The Board is normally comprised of independent, non-executive Directors, including the Chairman. The Directors are given appropriate and timely information so that they can maintain full and effective control over all strategic, financial, operational and compliance issues of the Company. All the non-executive Directors on the Board are independent of management and free from any business or other relationship which could materially compromise the exercise of their independence.

The Board offers oversight and review matters related to their duties including the Company's strategy, financial performance, corporate governance, ensuring sound maintenance of internal control systems and risk management.

Board Meetings

The Board of Directors meet quarterly in accordance with Board schedules as stipulated in the Mwongozo Code of Governance, in order to monitor the Company's planned strategy and review of the financial performance. Specific reviews of management performance, operational issues and future planning are also undertaken. The Board has a calendar for meetings and matters reserved for it. The directors receive appropriate and timely reports to facilitate informed deliberations and decision making.

Board Committees

The Board has four standing committees with specific delegated authorities and terms of reference. These are Audit Committee, Finance and Human Resource Committee and Strategy and Technical Committee. The Board Committees meet at least once on quarterly basis. The respective committee Chairpersons present their reports to the full Board at the quarterly meetings. The details of these committees and their membership of the Directors' appointed are highlighted below; -

1. Audit Committee

Members

Mr. John Chesiror	-Chairman
Mr. Samuel Ogolla Bonyo	-Member
Ms. Enricah Dulo	-Member

Role and Functions

The Committee meets quarterly or as maybe necessary. Its responsibilities include; the review of interim and full year financial statements so as to ensure compliance with accounting standards and other disclosure requirements; the maintenance of the Company's system of accounting and internal controls; liaison with the external auditors of the Company and putting into effect their recommendations. The external auditors, internal auditors and the Company management may be called to attend any meetings of the Committee to clarify any issue as required by the Committee.

2. Human Resource and Finance Committee

Members

Ms. Mary Simat	-Chairperson
Mr. Henry Mitu	-Member
Ms. Chepng'eno Soi	-Member

Role and Function

The Human Resources and Finance Committee meets quarterly and is mandated to review financial performance and human resource policies of the company on a regular basis. It also makes suitable recommendations to the Board on executive management appointments among other issues.

3. Risk, Governance and Compliance Committee (Continued)

Ms. Enricah Dulo	Chairperson
Ms. Mary Simat	Member
Mr. Henry Mitu	Member
Mr. David Kitur	

Role and function

The committee meets on need basis to review the operational and strategic issues such as cost management, diversification and information technology needs of the company and make recommendations to the Board on suitable long-term strategies for the company.

4. Strategy and Technical Committee

Mr. Samuel Ogolla Bonyo	Chairperson
Mr. David Kitur	Member
Mr. John Chesiror	Member

The Board appoints other committees as and when required. During the year under review no Board or Board Committee meetings were held.

Communication with Shareholders

The Company is committed to ensuring that shareholders and stakeholders are provided with full and timely information about its performance. This is usually done through the distribution of the Company's Quarterly and Annual Reports to the National Treasury, Parliament and Parent Ministry on quarterly and yearly basis. In this regard, the Company complies with its obligations on good corporate governance practices as contained in Mwongozo Code of Corporate Governance.

Chemelil Sugar Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2023

Board Evaluation and Performance

The Board conducts an annual evaluation to assess its effectiveness in discharging its mandate. The process entails self-evaluation for each director, evaluation of the Chairman of the Board on the overall Board interactions and conduct of business and the Chief Executive Officer. This is facilitated by State Corporations Advisory Committee (SCAC).

Conflict of Interest

All Directors are required to inform the Board of any conflicts or potential conflict of interest they may have in relation to particular items of the business, in which case they are required to absent themselves from the deliberations and decisions on those matters, unless resolved that they remain.

CORPORATE GOVERNANCE STATEMENT (Continued)

Mwongozo Code of Governance

The Company has implemented the Mwongozo Code of Governance for State Corporations which was issued by the Presidency. The Company has re-aligned its Code of Conduct to the Leadership and Integrity Act 2012. All the Directors, management and employees are required to uphold.

Risk Management Report

Section 3.2 (a) of the Mwongozo code of conduct requires that the Board ensure the development of a policy on Risk Management. In compliance therefore, the Company is developing the Enterprise Risk Management Framework and the Risk Register.

Management is accountable to the Company for designing, implementing and monitoring the process of risk management and integrating it into the day to-day activities while the Board will be responsible for the adoption or upgrading of the risk management plan. Risk management is the primary responsibility of line management.

MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance

The Company returned a net loss before tax of Kshs. 76 million basically because of inefficiencies of the factory and shortage of raw material. This was a better performance compared to the previous year in which the Company posted a net loss of Kshs.694 million. This was mainly attributed by improvement in efficiency of the factory after the 2022/2023 maintenance and higher stable sugar price within the year under review.

Other operations were also adversely affected by constrained cashflows in the 3rd quarter and 4th quarter of the year. Although the Company's reputation of accurate cane weighment was maintained, it could not sustain consistent weekly payments to keep the credit period below 2-3 weeks and some farmers could not continue preferring Chemelil Sugar as the destination for their cane. The company was only able to pay 100% of the salaries for 7 month i.e September to march 2023. In the 3rd quarter, cane supply declined and it became more difficult to continue honouring negotiated supply and payment schedules with most key suppliers using the little revenues generated from the relatively inefficient milling.

Given that the government had shown interest in reviving sugar sector and already bills have been tabled in parliament for writing off of debts owed to the government and payments of the outstanding bills, we believe that the going concern of the company is guaranteed.

Key Projects or Investments Decisions

One of the key projects during the year was “the factory out of crop maintenance” funded by the government of Kenya to the tune of Kshs 135 million. This maintenance which ended on 27th August 2022 addressed mainly the challenges at the mills and boilers areas of the factory although there were critical repairs touching other key areas as well. A similar level of maintenance had been undertaken 6 years before in 2016.

The other projects during the year were building of one dormitory and two ablution blocks at Chemelil Sugar Academy valued at 2.7 million. These projects have enhanced students’ enrolment at the school.

Compliance with Statutory Requirements

As an ISO certified Company, compliance with statutory and regulatory requirements form part of our routine concerns for which regular management vigilance applies. These include but not limited to annual manufacturing license, business licenses, occupational safety requirements, environmental compliance and statutory taxes. In exceptional circumstances where the Company falls behind in statutory payments, the Company engages actively with the relevant authority with the aim of establishing the most effective remedial arrangement that is acceptable within the regulator’s legal provisions.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The existing statutory obligations in which payments have fallen in arrears include the following:

No	Institution/Description	Principal Amount in Arrears (Kshs.M)	Comment
1.	Kenya Revenue Authority (Tax arrears)	3,741	Settling has been done via writeoff2023/2024
2.	National social security fund	15	Settling at Kshs.0.8m monthly
3.	National hospital insurance fund	27	Settling at Kshs 0.8m monthly
4.	CSCL Staff Pension Scheme (Contributions)	134	Suspended deductions temporarily
5.	Kisumu and Nandi County Govts (Cess)	54	Engagement ongoing
	Total	2,557	

Major Risks facing the Company

The major risks facing the Company are tabulated in the table below:

No	Risk	Likelihood	Impact	Risk rating	Risk Response
1.	Sugarcane shortage	5	5	25	Timely cane payment; Cane development in Company farm
2.	Factory breakdown	5	4	20	Strategic on-the-run maintenance
3.	Solvency/detrimental creditor actions	3	5	15	Strategic engagements; Settlement schedules
4.	Industrial instability	3	4	12	Regular consultations; JIC Arbitration
5.	Adverse market price fluctuation	5	2	10	Weekly surveys and reviews

Chemelil Sugar Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2023

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

The Company appreciates the importance of the community and the environment within which it operates and recognises that by managing and improving the social, environmental and economic impacts of its day-to-day operations, there is opportunity to increase public confidence and satisfaction, reduce/prevent negative impacts on the environment. Accordingly, the Company takes deliberate measures to serve the community and uplift their standard of living. The business model strives to ensure that the return on investment is shared with stakeholders to the possible extent.

In the 2022/2023 financial year, the Company undertook various Corporate Social Responsibility (CSR) programs by offering the following:

- Sponsorship of schools
- Hosting and making donations to schools, orphanages and churches.
- Supporting community projects
- Donation of tree seedlings for environmental conservation

Health

The health of the community and farmers within chemelil sugar zone is a matter of crucial importance to CSCL. The Company has engaged staff and the community in a number of activities that will work towards a healthy population. The Company has nurtured a working partnership with local NGOs, CBOs and staff to help the community cope with health-related challenges.

As part of its Corporate Social Responsibility program, the Company operates a Health Centre that provides health care services, preventive health campaigns and health education and screening facilities to employees and the local community. The health facility extends its services to the surrounding community through provision of health services such as:-

- Comprehensive Care Centre (CCC)
- Voluntary Male Circumcision (VMC)
- Maternal Child Health Care (MCH)
- Family Planning (FP)
- Consultation
- Referral
- Nursing care
- Laboratory Diagnosis
- Drug dispensing
- Prevention and Management of HIV/AIDS

Education

Education continues to be a vital component of the lifeline of the community in which CSCL operates. The Company has an elaborate school education programme with an annual budget of approximately Kshs.70 million.

The Company runs two schools (Chemelil Sugar Academy and Chemelil Sugar Primary School) and hosts two other public primary schools (Factory Primary School and Chemelil B1 Primary School).

Water and sanitation

The Company supplies clean water for domestic use to the housing estates where its staff and other tenants live. Life would be unbearable in the living quarters if there was no reliable water supply. Basically, the Company harvests underground water by use of boreholes which is pumped to overhead tanks for distribution to the estate.

During the year under review, the Company commissioned water supply to the community from a solar powered borehole water supply system installed at Chemelil Academy. This was an opportunity to impact on the society through CSR.

Chemelil Sugar Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2023

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2023 which show the state of the Company's affairs.

Principal activities

The principal activities of the company continue to be manufacturing and marketing of sugar and co-products from sugarcane and establishment of sugarcane plantations.

Results

The results of the entity for the year ended June 30, 2023 are set out on page 1. Below is summary of the profit or loss made during the year.

	2023 Kshs	2022 Kshs
Loss before tax	(76,381,270)	(694,894,756)
Tax		
Loss for the year	(76,381,270)	(694,894,756)

Dividends

The directors do not recommend the declaration of a dividend for the year 2023 (2023 Shs-Nil).

Directors

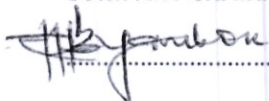
The members of the Board of Directors who served during the year are shown on page 1.

Independent 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

COMPANY CHAIRMAN

 DATE.....2024

Chemelil Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act (Cap. 486), Section 81 of the Public Finance Management Act, 2012 and (section 14 of the State Corporations Act require the directors to prepare financial statements which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results for that year. It also requires the directors to ensure the Company maintains proper accounting records which disclose, with reasonable accuracy, the financial position of the company. They 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 ended on June 30, 2021. 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 entity; (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 annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, consistent with previous years and in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act (Cap 486). The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the company which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the system of internal controls.

The Directors accept responsibility for the Company's annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the Kenyan Companies Act (Cap 486), the PFM Act, 2012 and the State Corporations Act. The Directors are of the opinion that the Company's annual financial statements give a true and fair view of the Company's transactions during the financial year ended June 30, 2023, 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 annual financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

Approved by the board of directors on 26/01/2024 2024 and signed on its behalf by:



.....
CHAIRMAN



.....
MANAGING DIRECTOR

REPUBLIC OF KENYA

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Enhancing Accountability

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON CHEMELIL SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Chemelil Sugar Company Limited set out on pages 1 to 66, which comprise of the statement of financial position as

at 30 June, 2023, statement of comprehensive income, statement of changes in equity, statement of cash flows and the statement 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 effect 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 the Chemelil Sugar Company Limited as at 30 June, 2023, 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 Public Finance Management Act, 2012 and the Companies Act, 2015.

Basis for Qualified Opinion

1. Inaccuracies in Revenue from Sale of Sugar

The statement of comprehensive income reflects an amount of Kshs.1,905,376,406 on revenue for the year, which, as disclosed in Note 6 to the financial statements relates to net sale of sugar of Kshs.1,752,097,822 and net sales of molasses of Kshs.153,278,583. Further, the report by the Chief Executive Officer indicate that the Company produced and sold 16,558.46 tons of sugar at a price of Kshs.105,812.84 per ton. However, records provided for audit show that the Company sold 16,552.73 tons of sugar at a total price of Kshs.1,752,873,122 resulting to an unreconciled and unexplained variance of Kshs.775,300.

In the circumstances, the completeness and accuracy of the reported income on sale of sugar totaling to Kshs.1,905,376,406 could not be confirmed.

2. Unsupported Cost of Sales

The statement of comprehensive income reflects an amount of Kshs.1,814,496,898 in cost of sales for the year. Further, and as disclosed in Note 7 to the financial statements, cane from out growers is valued at the cane price paid to farmers, while cane from nucleus estate is valued at the fair value less point of sale cost recognized during the latest valuation plus cost of harvesting and transporting the cane to the factory. However, although Management has provided the prices as directed by Agriculture and Food Authority (AFA), it has not provided a record of all the sugar cane bought. In addition, Management has not demonstrated how the costs per kilogram unit of sugar was accumulated for the nucleus farm.

In the circumstances, the completeness and accuracy of the reported cost of sales of Kshs.1,814,496,898 could not be confirmed.

3. Bank and Cash Balances

The statement of financial position reflects a bank and cash balance of Kshs.50,213,524 which, as disclosed in Note 26 to the financial statements includes bank balances of Kshs.49,713,524. Review of the cash count report as at year end reflected total cash float of Kshs.1,250,000 which comprises a cash float of Kshs.750,000 and Kshs.500,000 being cash lost in transit. No efforts appear to have been made to recover the cash lost in transit.

In the circumstances, the accuracy of bank and cash balance of Kshs.50,213,524 could not be confirmed.

4. Unaccounted for Staff Receivables

The statement of financial position reflects an amount of Kshs.240,164,569 in trade and other receivables which, as disclosed in Note 23a to the financial statements reflects gross trade and other receivables balance of Kshs.752,142,158. The amount includes staff receivables of Kshs.24,506,205 whose warrants and other supporting documents were not provided for audit review.

In the circumstances, the recoverability of the staff receivables amounting to Kshs.24,506,205 is doubtful.

5. Revaluation of Fully Depreciated Assets

The statement of financial position and as disclosed in Note 19 to the financial statements reflects a balance of Kshs.4,924,481,706 in respect to property, plant and equipment. However, review of fixed assets register and Note 19 to the financial statements revealed that assets with a historical cost of Kshs.76,290,485 had been fully depreciated. Further, the assets were still in use at the farm and ought to have been subjected to revaluation in line with IAS 16.31 which states that revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date.

In the circumstances, the accuracy of property, plant and equipment balance of Kshs.4,924,481,706 could not be confirmed.

6. Outstanding Tax Arrears

The statement of financial position reflects trade and other payables balance of Kshs.5,781,941,954 which, as disclosed in Note 34 to the financial statements includes tax arrears due to the Kenya Revenue Authority (KRA). However, the following observations were made.

- i. The tax movement schedule provided for audit reflected net VAT payable of Kshs.886,516,931 while the financial statements reflected a balance of Kshs.1,084,691,037 resulting to an unexplained variance of Kshs.198,174,106.

- ii. The tax arrears for VAT, PAYE, Withholding Tax, Sugar Development Levy and Molasses Levy payable increased by Kshs.95,602,178 from the prior year balance of Kshs.2,331,689,786 to Kshs.2,425,291,964. The non-payment of the taxes has resulted to an accumulated interest and fines of Kshs.1,313,777,324.
- iii. Documents provided by Management contained a letter Ref: TNT/CONF 28/03 dated 9 October, 2023 from The National Treasury which indicated that the Company owes Kenya Revenue Authority (KRA) Kshs.2,796,494,123. However, the financial statements reflect an amount of Kshs.3,263,076,351 resulting to a variance of Kshs.466,582,228 which was not explained or reconciled. Management has indicated that the amounts will be credited to the Company's records in the year 2023/2024.
- iv. No deferred taxation has been provided for in the financial statements as required by IAS 12 on income tax and as disclosed in Note 33 to the financial statements.

In the circumstances, the taxes payable may be understated and continued failure by the Company to settle the respective taxes may lead to continued penalties.

7. Long Outstanding Balances

7.1 Account Receivables

The statement of financial position and as disclosed in Note 23a to the financial statements reflects trade and other receivables of Kshs.240,164,569 which is net off provision for impairment of Kshs.511,977,589. Review of the ageing analysis of the gross trade and other receivables balance of Kshs.752,142,158 revealed that debtors amounting to Kshs.535,628,397 or 71% had been outstanding for more than 120 days which casts doubt on the effectiveness of the debt management in the Company. Further, no demand notes or letters were provided for audit as evidence on measures taken to recover the debts due to the Company. In addition, Note 23a to the financial statements reflects an amount of Kshs.511,977,589 as provision for impairment. However, the rate or policy supporting the impairment provision were not provided for review.

7.2 Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.5,781,941,954 which, as disclosed in Note 34 to the financial statements, includes trade payables-creditors' balance of Kshs.283,212,664 which had been long outstanding. This was contrary to Regulation 150(1) of the Public Procurement and Asset Disposal Regulations, 2020 which requires that subject to availability of funds and after proper certification of goods, works or service prompt payments are made within 60 days from date of receipt of invoice. In addition, review of payments to various suppliers indicated that current year's suppliers were paid before settlement of long outstanding creditors which implied that Management did not treat old creditors as a first charge during the financial year 2022/2023, contrary to The National Treasury in Circular No.10/2020 issued on 16 June, 2020.

Further, the Company accrued a total amount of Kshs.358,265,755 in respect of farmers arrears who supplied cane which were not settled in the year under review but were carried forward to 2023/2024 financial year. No sufficient explanation was provided for the failure to prioritize payment of trade payables during the year under review which exposes the Company to the risk of litigation, interest and penalties with the continued delay in settling these payables.

7.3 Long-Term Payables (Borrowings)

The statement of financial position reflects borrowings balance of Kshs.3,687,977,903 under non-current liabilities, which, as disclosed in Note 31 to the financial statements, comprises principal amount of Kshs.2,626,916,872 and interest of Kshs.1,061,061,031. Examination of documents revealed that these were loans advanced from the Commodities Fund under the Sugar Development Fund which were long overdue, and no repayments were made during the year under review.

The principal amount of Kshs.2,626,916,872 includes an unsecured non-current loan refundable with no interest of Kshs.40,000,000, received through the Agricultural Development Corporation and the Commodities Fund in May, 2017. Review of documents provided for audit revealed that the Company pledged to pay Kshs.6,000,000 per month and clear the debt by April, 2019. Although the corporations had sent out demand letters for repayment of this amount owed, Management has not provided any evidence of servicing the loan which has contributed to an increase in the long-term liabilities.

In the circumstances, the recoverability of the account receivables amounts of Kshs.240,164,569 and the ability of the Company to settle its loan obligations and trade payables balances of Kshs.3,687,977,903 and Kshs.5,781,941,954 respectively could not be confirmed.

8. Ordinary Share Capital

The statement of financial position and as disclosed in Note 27 to the financial statements reflects ordinary share capital balance of Kshs.211,591,620 which comprise of 10,579,581 issued and fully paid ordinary shares of Kshs.20 par value each. However, the Company's Articles of Association of 1998 indicate that the share capital of the Company is Kshs.173,215,620 divided into 8,660,781 shares of Kshs.20 each resulting to an unexplained variance of Kshs.38,376,000.

In the circumstances, the accuracy of the ordinary share capital balance of Kshs.211,591,620 could not be confirmed.

9. Unreconciled Grants from National Government

The statement of comprehensive income and as disclosed in Note 9 to the financial statements reflects grants from National Government of Kshs.135,043,862. The grants

were paid by the Government of Kenya through the Agriculture and Food Authority (AFA) to various suppliers during the year for maintenance, materials supplied and services rendered during and after the out of crop factory maintenance. However, records provided from the AFA reflected a total of Kshs.135,590,831 paid to the farmers and suppliers resulting to a variance of Kshs.546,969. Further, liabilities defrayed by the Company could not be identified in the financial records and the Management has not provided explanations on the same.

In the circumstances, the accuracy and completeness of the grant of Kshs.135,043,862 could not be confirmed.

10. Unsupported Board Expenses

The statement of comprehensive income and as disclosed in Note 13 to the financial statements reflects administrative expenses of Kshs.341,094,032. The expenditure includes an amount of Kshs.1,430,919 in respect of directors' emoluments. However, the expenditure was not supported with minutes of meetings of the Board of Directors. Further, review of the documents revealed that the Company had nine (9) Board members. However, four (4) or 44% members of the Board belong to one ethnic community contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008.

In the circumstances, the regularity and completeness of the expenditure of Kshs.1,430,919 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Chemelil Sugar Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion

Emphasis of Matter

Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects total revenue amounting to Kshs.2,116,423,779 against final budget of Kshs 3,384,900,524 resulting to a shortfall of Kshs 1,708,476,779 or 45% of the budgeted revenue. The shortfall was mainly attributed to low sales of 16,558 tons of sugar against the budget of 47,420 tons due to low production attributed to maintenance of the plant in July and August. Similarly, the Company had budgeted to spend Kshs.3,615,897,542 but utilized an amount of Kshs.2,192,805,049 resulting to an under expenditure of Kshs.1,423,092,493 or 39% of the budget. The under expenditure mainly occurred under use of goods and services. The shortfall and under absorption imply that the Company's planned activities were not realized in the year under review.

Report of the Auditor-General on Chemelil Sugar Company Limited for the year ended 30 June, 2023

Review of the itemized budget revealed that actual on comparable basis amounts of Kshs.600,365,003 in respect of other payments was higher than the budgeted amount of Kshs.363,898,878, yet there was no evidence of approvals to cover the excess budget.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

2. Avoidable Interest on Delayed or Late Payments

Review of litigations and court awards records revealed that legal suits have led to significant outstanding payables, interest and penalties. Sampled court awards revealed that the Company owed suppliers a total amount of Kshs.29,153,851 which has accrued interest amounting to Kshs.8,872,186 as a result of delayed payments as analyzed below:

Supplier Category Analysis Code	Initial Invoice Posting Dated	Purchase Invoices (Kshs)	Interest and Other Charges (Kshs)	Total (Kshs)
61LY003	13-Jan-18	3,610,760	197,320	3,808,080
61OI001	10-Oct-11	4,279,561	2,259,489	6,539,049
61OT005	6-Aug-18	466,058)	1,838,143	2,304,200
61PA018	1-May-12	1,305,059	609,414	1,914,474
61PO004	1-Oct-15	46,770	859,194	905,964
61PR003	2-Aug-13	2,486,353	1,430,813	3,917,166
61RI001	22-Jul-13	16,328,415	1,305,015	17,633,430
61SA005	7-Jul-15	445,240	372,799	818,039
61ST017	2-May-14	185,636	-	185,636
Total		29,153,851	8,872,186	38,026,037

Review of the invoices indicated that they have been outstanding for a long period of time with some dating back to 2011/2012 financial year. The payment of interest on defrayment of delayed payments leads to loss of funds which could have been avoided.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section 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. Non-Compliance with Procurement Procedures

The statement of comprehensive income reflects cost of sales amount of Kshs.1,814,496,898 which, as disclosed in Note 7 to the financial statements, includes agriculture and manufacturing costs of Kshs.140,186,633 and Kshs.703,385,236 respectively. However, review of the procurement process revealed the following anomalies:

- i. Management awarded and incurred expenditure amounting to Kshs.17,124,039 in favor of seven (7) firms. However, the expenditure was not supported with relevant documents including evidence of letters of appointment of opening and evaluation committee members, their reports, the professional opinion of the head of procurement function and the Local Service Orders (LSOs). This was contrary to the requirements of Regulation 91(2) of the Public Procurement and Asset Disposal Regulations, 2020 which states that the Accounting Officer or such other person delegated in writing by that Accounting Officer shall, and for the purposes of the procurement process, appoint (a) an ad hoc opening committee in accordance with Section 78 of the Act.
- ii. The entity did not receive and evaluate at least three (3) bidders for the request for quotation for supply and delivery of fuel under LPOs no. 4906 and no. 4464 amounting to Kshs.3,180,000 and Kshs.496,921 respectively contrary to Section 106(2)(d) of Public Procurement and Asset Disposal Act, 2015.
- iii. During the year under review, the Company procured mechanical spares and fuel at a cost of Kshs.10,248,721 using direct procurement method contrary to the Public Procurement and Asset Disposal Regulations, 2020. No evidence was provided to support that the conditions for use of the method as provided under Section 90 and 91 of the Public Procurement and Asset Disposal Regulations, 2020 had been met.

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

2. Non - Adherence to Signed Contract Agreements

Management entered into various contracts in respect of provision of security services, cleaning services, insurance services and supply and delivery of sugar packaging bags at a total cost of Kshs.106,533,613. However, the accrued payments due to the supplier amounted to Kshs.14,452,829 as at 30 June, 2023 which was contrary to Regulation 139 of the Public Procurement and Asset Disposal Regulations, 2020 which requires the procuring entity to make prompt and timely payments to a contractor that meets its contractual obligations.

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

3. Human Resource Payroll and Records

3.1 Payroll Complement Data

Payroll data provided revealed that the Company has categorized its staff into five (5) groups namely; executive, supervisory, junior, union and contracted staff who are on different payroll systems. However, a comprehensive payroll audit could not be performed as complementary data on payroll which details vital by products such as dates of birth and first appointment and bank details were not provided for review. Further, there was a possibility of a staff member being in two different payrolls in a year in cases where the officer gets promoted.

In addition, the payroll function was domiciled in the Finance Department and there was no linkage between the employee bio-data and the financial data in the system contrary to the Human Resource Policies and Procedures Manual for the Public Service of May, 2016, Section A.13 (1) which states that; to ensure effective human resource management, each Ministry/State Department shall constitute a Ministerial Human Resource Management Advisory Committee and a Ministerial Performance Management Committee whose functions shall entail recommendations to the Authorized Officer regarding and including management of skills inventory, establishment and complement control and payroll management.

3.2 Lack of Human Resource Plans

The Company operated without Human Resource Plans and Annual Recruitment Plan as required by Section B2 of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which requires every department to prepare human resource plans out of which annual recruitment plans will be developed and forwarded to the Public Service Commission at the beginning of each financial year to enable it plan to fill the vacancies. Without the plans in place, it was not possible for the Company to know the recruitment needs and fill the vacancies as required, hence optimum delivery of the services and achievement of the Company objectives may not have been achieved.

3.3 Staff Serving in Acting Capacity

Review of the payroll and human resource records revealed that one hundred and twenty-one (121) officers out of the total four hundred and thirty-five (435) staff had been serving in acting positions for more than 6 months and drawing acting allowances. This exceeded the statutory duration provided for in the Human Resource Policies and Procedures Manual for the Public Service, 2016 which states that an officer may be appointed in an acting capacity for a period of at least thirty days but not exceeding a period of six months.

3.4 Appointments to Acting Capacity

During the year under review seventeen (17) staff served in acting capacity in Job Group 'M' or its equivalent Grade 24. However, the essential documents for acting appointment which includes, draft indent for advertisement of the vacant post and a seniority list of officers including accounts of their performance were not forwarded to the Public Service Commission (PSC) as required before the appointment contrary to Section B.3 (4) of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which states that all recommendations for acting appointments in Job Group 'M' and above shall be accompanied by a draft indent for advertisement of the vacancy and shall be forwarded to the PSC.

Further, forty-nine (49) officers were performing duties of posts that were more than two (2) grades higher than their substantive grades. This was contrary to the provisions of Section C 15(3) of the Public Service Commission Human Resource Policy and Procedures Manual for the Public Service, 2016 where officers shall not be called upon to perform duties of a post that is more than two (2) grades higher than the officer's substantive grade.

3.5 Non-Compliance with Ethnic and Gender Requirements

As reported in the prior year, review of the payroll records revealed that the Company had a total of 435 permanent and pensionable staff members. However, an examination of staff personal records indicates that 205 or 47% of the staff belong to one ethnic community in the County contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008.

Further, Human Resource records revealed that during the year under review, out of the 435 staff members, 355 or 82% of the workforce were male, which was contrary the Section B.22 (2) of the Public Service Commission Human Resource Policies, 2016.

3.6 Training Undertaken Without Needs Assessments

The statement of comprehensive income and Note 13 reflects administrative costs amounting to Kshs.341,194,032 which includes staff training expenses of Kshs.2,105,616. However, review of the operations of the Human Resource Section revealed that the Company did not have a comprehensive training needs assessment contrary to Section 33 of the Public Service Recruitment and Training Policy which requires that all trainings be based on comprehensive training needs assessment carried

out on annual basis. Without a comprehensive training needs assessment, the propriety of the training expenses could not be confirmed.

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

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. IT Control Weaknesses

As reported in the previous year, the Company did not have an IT strategic committee, an IT strategic plan which supports business requirements and ensures that IT spending remains within the approved IT strategic plan, formally approved IT security policy to ensure data confidentiality, integrity and availability, documented and tested emergency procedures. This was contrary to the Code of Governance for State Corporations Guidelines Chapter 3 and the National Treasury Circular No. 03/2009; Ref: MOF/IAG/033(75).

In the circumstances, it was not possible to ascertain how the Company planned to achieve its IT strategic objective.

2. Internal Audit Function

Review of the 2022/2023 work plan revealed that the internal audit function targeted eight (8) audit areas. However, it was noted that the audit covered only three (3) which includes human resource and payroll, stores and field workshop audits. In the absence of a proper functioning internal audit unit, monitoring and review of the effectiveness of the internal audit process, review of internal controls, risk management systems and financial statements among other functions did not occur which may have affected good corporate governance in the Company.

In circumstances, the Company did not benefit from the assurance and advisory services from the internal audit function.

3. Non-Functional Audit Committee

Information provided indicated that the Company had established an Audit Committee of the Board. However, during the year under review, the Committee did not deliberate on any of the reports prepared by the internal audit department. The dormancy of the Audit Committee constituted weak internal controls which could have resulted to poor governance and possibility of financial loss.

In the circumstances, the Company did not benefit from the oversight from the Audit Committee.

4. Lack of a Strategic Plan

Review of documents revealed that the Company did not have a strategic plan as the prior one had expired. Management explained that there was a committee formulating a new strategic plan. However, the plan was at draft level which is yet to be presented to the Board for approval.

In the circumstances, the Company is operating without a strategic plan contrary to Section 68(2)(g) of the Public Finance Management Act, 2012, and it was not possible to determine if operations were carried out towards the strategic objective of the Company.

5. Grounded Motor Vehicles and Machineries

Review of the status of the Company's fleet of motor vehicles and machineries revealed that twenty-nine (29) motor vehicles and heavy machinery out of an inventory list of ninety-seven (97) representing 30% of the entire fleet, were grounded and unserviceable. Further, a report of the fleet management section indicated that the machinery availability for the month of June, 2023 stood at 50%. In addition, thirty-nine (39) motor vehicles with an undetermined value had been bonded and lying at the field workshop for more than nine (9) years with no indication of whether there were plans to dispose the vehicles, which continue to depreciate. Management did not also prepare an annual disposal plan. In the circumstances, effectiveness of mechanisms in safeguarding motor vehicles and machines could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Report of the Auditor-General on Chemelil Sugar Company Limited for the year ended 30 June, 2023

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

Responsibilities of Management and Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance but

is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on


Report of the Auditor-General on Chemelil Sugar Company Limited for the year ended 30 June, 2023

the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease being a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

21 March, 2024

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2023

FOR THE YEAR ENDED 30 JUNE 2023				
	Note	2022/2023	2021/2022	Restated 2020/2021
		Kshs	Kshs	Kshs
REVENUES				
Revenue	6	1,905,376,406	1,472,817,728	2,211,521,653
Cost of sales	7	1,814,496,898	1,958,695,060	2,217,841,943
Gross profit/(loss)		90,879,508	(485,877,332)	(6,320,290)
Fair value gain on biological assets	8	62,657,122	106,870,056	38,569,784
OTHER INCOME				
Grants from the National Government	9	135,043,862	182,017,971	-
Interest income	10	226,631	360,974	518,630
Other Income	11	14,047,758	14,418,061	12,803,407
Other gains/(losses)	11	(6,971,031)	(3,063,294)	(6,174,775)
Total		142,347,221	193,733,713	7,147,263
OPERATING EXPENSES				
Selling and distribution expenses	12	12,324,213	14,007,603	10,442,772
Administrative expenses	13	341,094,032	473,096,653	502,885,881
Finance Costs	14	18,846,876	22,516,936	78,000,260
Total	15	372,265,121	509,621,192	591,328,913
PROFIT/(LOSS) BEFORE TAXATION		(76,381,270)	(694,894,756)	(551,932,156)
INCOME TAX EXPENSE/(CREDIT)	16	-	-	-
PROFIT/(LOSS) AFTER TAXATION		(76,381,270)	(694,894,756)	(551,932,156)
OTHER COMPREHENSIVE INCOME				
Fair value through comprehensive income		-	-	-
Surplus or deficit on revaluation of PPE		-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(76,381,270)	(694,894,756)	(551,932,156)
		=====	=====	=====
Earning/(Loss) per share – basic and diluted	17	(7.22)	(65.68)	(52.17)
Total Comprehensive Earning/(Loss) per share – basic and diluted	17	(7.22)	(65.68)	(52.17)
Dividend per share	18	-	-	-

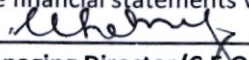
Chemelil Sugar Company Ltd

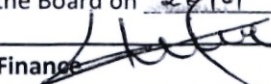
Annual Reports and Financial Statements
For the year ended June 30, 2023

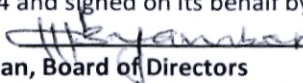
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023

	Note	2023 Kshs	2022 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	19	4,924,481,706	5,056,793,211
Biological Assets	21	64,649,949	108,775,443
Staff receivables due after one year	23(c)	-	-
Total Non-Current Assets		4,989,131,655	5,165,568,654
Current Assets			
Inventories	22	288,021,416	248,346,056
Trade and other receivables	23(a)	240,164,569	249,545,905
Tax recoverable	24	14,608,376	14,608,376
Bank and cash balances	26	50,213,524	41,681,834
Total Current Assets		593,007,885	554,182,171
TOTAL ASSETS		5,582,139,541	5,719,750,826
		=====	=====
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	28	211,591,620	211,591,620
Revaluation reserve	29	4,614,544,226	4,614,544,226
Retained earnings	30	(9,069,883,024)	(8,993,501,754)
Capital and Reserves		(4,243,747,178)	(4,167,365,908)
Non-Current Liabilities			
Borrowings	31	3,687,977,903	3,669,131,027
Total Non-Current Liabilities		3,687,977,903	3,669,131,027
Current Liabilities			
Borrowings	31	-	286,850
Deferred Income	33	54,971,792	110,939,785
Trade and other payables	34	5,781,941,954	5,815,045,511
Retirement benefit obligations	35	257,388,141	246,450,247
Provision for leave pay	36	33,907,143	35,563,528
Dividends payable	37	9,699,787	9,699,787
Total Current Liabilities		6,137,908,816	6,217,985,708
TOTAL EQUITY AND LIABILITIES		5,582,139,541	5,719,750,826
		=====	=====

The financial statements were approved by the Board on 26th 2024 and signed on its behalf by:


Managing Director/C.E.O
Name: Jacqueline Kotonya


Head of Finance
Name: Steven Aluoch
CPA M/NO:


Chairman, Board of Directors
Name: Eng John Nyambok

Chemelil Sugar Company Limited

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2023

	Ordinary share capital	Revaluation reserve	Fair value adjustment	Retained earnings	Proposed dividends	Capital/ Development Grants/Fund	Total (Restated)
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
At June 30, 2020	211,591,620	4,614,544,226	-	(7,746,674,841)	-	-	(2,920,538,995)
	=====	=====	=====	=====	=====	=====	=====
Revaluation gain	-	-	-	-	-	-	-
Transfer of excess depreciation on re	-	(xxx)	-	xxx	-	-	-
Deferred tax on excess depreciation	-	xxx	-	-	-	-	-
Total comprehensive income	-	-	-	(549,280,574)	-	-	(549,280,574)
Dividend paid	-	-	-	-	-	-	-
At June 30, 2021	211,591,620	4,614,544,226	-	(8,295,955,416)	-	-	(3,469,819,570)
	=====	=====	=====	=====	=====	=====	=====
At July 1, 2021 (As previously stated)	211,591,620	4,614,544,226	-	(8,295,955,416)	-	-	(3,469,819,570)
Revaluation gain	-	-	-	-	-	-	-
Prior year adjustment	-	-	-	(2,651,582)	-	-	(2,651,582)
Transfer of excess depreciation on re	-	(xxx)	-	xxx	-	-	-
Deferred tax on excess depreciation	-	xxx	-	-	-	-	-
Total comprehensive income	-	-	-	(694,894,756)	-	-	(694,894,756)
Dividend paid	-	-	-	-	-	-	-
At June 30, 2022	211,591,620	4,614,544,226	-	(8,993,501,754)	-	-	(4,167,365,908)
	=====	=====	=====	=====	=====	=====	=====
Transfer of excess depreciation on re	-	(xxx)	-	xxx	-	-	-
Deferred tax on excess depreciation	-	xxx	-	-	-	-	-
Total comprehensive income	-	-	-	(76,381,270)	-	-	(76,381,270)
Dividend paid	-	-	-	-	-	-	-
At June 30, 2023	211,591,620	4,614,544,226	-	(9,069,883,024)	-	-	(4,243,747,178)

Chemelil Sugar Company Limited

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For the year ended June 30, 2023

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023

	Note	2022/2023	2021/2022
		Kshs	Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	37(a)	19,226,487	146,726,953
Interest received	37(d)	-	-
Interest paid	37(d)	-	-
Dividends paid	37(e)	-	-
Taxation paid	24	-	-
Net cash generated from/(used in) operating activities		19,226,487	146,726,953
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	19	(10,694,797)	(52,693,250)
Proceeds from disposal of property, plant and equipment		-	-
Purchase of intangible assets	20	-	-
Net cash generated from/(used in) investing activities		(10,694,797)	(52,693,250)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowing	37(b)	0	286,850
Proceeds from grant	37(f)	0	0
Repayment of borrowings	31	-	-
Net cash generated from/(used in) financing activities		0	286,850
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		8,531,690	94,320,553
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		41,681,834	(52,638,719)
Effects of foreign exchanges rate fluctuations		-	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	37(b)	50,213,524	41,681,834
		=====	=====

Chemelil Sugar Company Limited

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2023

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2022/2023	2022/2023	2022/2023	2022/2023	2022/2023
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue					
Sale of goods (net)	(3,801,900,524)	-	(3,801,900,524)	(1,905,376,406)	(1,896,524,118)
Finance Income	-	-	-	(226,631)	226,631
Other income	(23,000,000)	-	(23,000,000)	(210,820,742)	187,820,742
Total income	(3,824,900,524)	-	(3,824,900,524)	(2,116,423,779)	(1,708,476,745)
Expenses					
Compensation of employees	653,350,175	-	653,350,175	617,184,376	36,165,799
Use of goods and services	2,524,398,222	-	2,524,398,222	956,408,793	1,567,989,429
Finance cost	74,250,267	-	74,250,267	18,846,876	55,403,391
Other payments	363,898,878	-	363,898,878	600,365,003	(236,466,125)
Total expenditure	3,615,897,542	-	3,615,897,542	2,192,805,049	1,423,092,493
Surplus for the period	(209,002,982)	-	(209,002,982)	76,381,270	(285,384,252)
	=====	=====	=====	=====	=====

EXPLANATION OF VARIANCES

- I. **Sale of goods:** The adverse variance was due to low sales of 16,558.46 tonnes of sugar against the budget of 47,420 tonnes, this came due to low production when the maintenance was on I the month of July and August 2023 and also shortage of raw materials in the 4th quarter of the year.
- II. **Finance income:** Higher than budgeted income because the Company's had provided for the loan's advances.
- III. **Other income:** The Company also received a grant of Kshs.135,043,862 from Gok to off-set farmers arrears and repair the plant.
- IV. **Employee compensation:** The reduction was due to retirement of permanent employees and no replacement though substituted by contracted employees whose cost are lower.
- V. **Use of goods and services:** The positive variance arose from the fact that the factory milled only 252,603 tonnes of cane out of the 581 000 budgeted. Factory milling operations started 26th august 2023 After maintenance and repair of the plant.
- VI. **Finance cost:** The lower than budgeted interest cost was because most of the Company's loan no longer attract interest
- VII. **Other Payments:** The adverse variance arose because the cost of running the factory escalated due to spares and repairs arising from frequent breakdowns before stoppage for the major maintenance.

Chemelil Sugar Company Limited

Annual Reports and Financial Statements For the year ended June 30, 2023

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Chemelil Sugar Company is established by and derives its authority and accountability from Corporations Act and Companies Act (Cap 486). The Company is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activities are manufacture and marketing of sugar from sugarcane and establishment of sugarcane plantations.

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

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, the State Corporations Act and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2022

Amendments to IFRS 16 titled 'Covid-19-Related Rent Concessions beyond 30 June 2021' (issued in March 2020)

The amendments, applicable to annual periods beginning on or after 1 April 2021, that extends, by one year, the May 2020 amendment that provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

Amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16 titled "Interest Rate Benchmark Reform — Phase 2" (issued in August 2020)

The amendments, applicable to annual periods beginning on or after 1 January 2021, with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates.

Amendments to IAS 41 Agriculture - Taxation in fair value measurements (issued on 14 May 2020).

The amendment is effective for annual periods beginning on or after 1 January 2022. Early application is permitted. It removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in IFRS 13.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022

Amendments to IAS 1 titled *Classification of Liabilities as Current or Non-current* (issued in Jan 2020) The amendments, applicable to annual periods beginning on or after 1 January 2023, 'providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date.

Amendments to IAS 12 titled *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (issued in May 2021) The amendments, applicable to annual periods beginning on or after 1 January 2023, 'that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.

Amendments to IFRS 17 titled *Amendments to IFRS 17* (issued in June 2020) The amendments, applicable to annual periods beginning on or after 1 January 2023, 'to address concerns and implementation challenges that were identified after IFRS 17 *Insurance Contracts*'.

Amendments to IAS 1 titled *Disclosure of Accounting Policies* (issued in February 2021) The amendments, applicable to annual periods beginning on or after 1 January 2023, 'with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements'.

Amendments to IAS 8 titled *Definition of Accounting Estimates* (issued in February 2021) The amendments, applicable to annual periods beginning on or after 1 January 2023, 'to help entities to distinguish between accounting policies and accounting estimates.

Amendments to IFRS 17 titled *Insurance Contracts* (issued in May 2017) The amendments, applicable to annual periods beginning on or after 1 January 2023.

Amendments to IAS 16 titled *Property, Plant and Equipment — Proceeds before Intended Use* (issued in February 2020) The amendments, applicable to annual periods beginning on or after 1 January 2022, 'regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management'.

Annual improvements cycle titled *Annual Improvements to IFRS Standards 2018–2020* (issued in May 2020) The amendments, applicable to annual periods beginning on or after 1 January 2022. The pronouncement contains amendments to four International Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project.

Amendments to IAS 37 titled *Onerous Contracts — Cost of Fulfilling a Contract* (issued in May 2020) The amendments, applicable to annual periods beginning on or after 1 January 2022, amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous'.

Amendments to IFRS 3 titled *Reference to the Conceptual Framework* (issued in May 2020) The amendments, applicable to annual periods beginning on or after 1 January 2022, with amendments to IFRS 3 *Business Combinations* that update an outdated reference in IFRS 3 without significantly changing its requirements'.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

Impact of standards and interpretation:

The directors anticipate that the adoption of new Standards, Amendments and Interpretations resulting from the International Accounting Standards Board (IASB)'s improvements to IFRS listed above will have no material impact on the financial statements of the company and will be adopted as need arises according to the existing policies and strategies. The IASB's annual improvements process deals with non-urgent, minor amendments to standards.

iii) **Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2022.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are 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 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 Company 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.
- iii) **Finance income** comprises interest receivable from bank deposits and loans given to farmers for sugarcane development and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Rental income** is recognised in the income statement as it accrues using the effective lease/tenancy agreements.
- v) **Other income** is recognised as it accrues.

b) **In-kind contributions**

In-kind contributions are donations that are 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 for in-kind contributions 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.

Chemelil Sugar Company Limited

Annual Reports and Financial Statements For the year ended June 30, 2023

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be reliably measured. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in the profit or loss account in the financial period in which they are incurred.

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. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

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

Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statement of comprehensive income) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

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. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

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 cost 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:

<u>Rate %</u>	
i) Buildings and roads:	
Buildings	2.50%
Roads	12.25%
ii) Plant, equipment and machinery:	
Factory plant and machinery	5.00%
Irrigation project	6.67%
Agricultural implements	10.00%
Wheeled tractors and cane loaders	12.25%
Crawling tractors	10.00%
Trailers and caterpillar implements	8.33%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

iii) Motor vehicles and other equipment:	
Lorries and land rovers	16.67%
Other vehicles	20.00%
Office machines, fittings and equipment	20.00%
Household equipment	20.00%
Office furniture	10.00%
Computer hardware	25.00%

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end, and adjusted prospectively if appropriate. A full year's depreciation charge is recognised in the year of asset purchase. No depreciation is charged in the year of asset disposal.

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.

e) Intangible assets

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

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.

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cashflows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

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.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

i) 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.

j) 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 at recovery have been exhausted.

k) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

l) 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 reporting period. 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.

m) 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 of 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.

n) 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.

o) Retirement benefit obligations

The Company operates a defined contribution scheme for all full-time employees in managerial cadre. The scheme is administered by an in-house Board of Trustees 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 Kshs.1,700 per employee per month.

p) Provision for staff leave pay

Employees' entitlements to annual leave are recognised as they accrue to the employees. A provision is made for the estimated liability for annual leave at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) 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, Kenya Shillings, 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.

r) Budget information

The Company's budget for FY 2022-2023 was approved by the Ministry of Agriculture Livestock, Fisheries and Co-operatives – State Department of Crop Development in August 2022 having received National Treasury recommendation for approval. This was in compliance with requirements of Section 11 and 12 of the State Corporations Act, Cap 44 and Section 68 of the Public Finance Management Act, 2012.

The Company'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 schemes adopted for the presentation of the financial statements and the approved budget.

a) Comparative figures

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

b) 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, 2023.

5 SIGNIFICANT JUDGMENTS 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.

Estimates and assumptions

The Company 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.

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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY (continued)

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

The rates of depreciation assigned to each class of assets is a result of such assessments.

Biological assets

In arriving at the fair valuation of biological assets, the management has adopted IAS 41 and 61 in valuation of cane bearer plant, cane bearer plant work in progress, growing consumable cane and livestock.

The Company estimates the fair value of its growing consumable sugarcane as the product of estimated yield in tonnes of standing cane at its present age and the prevailing cane price less point of sale cost. The yield is estimated as the product of the area covered by the standing cane in hectares, the age of cane in months and the average cane yield per hectare per month (TCHM).

Bearer plant is measured at cost and depreciated over its productive life assumed to be an average of 48 months. The cumulative cost of land development and cane establishment from 0-6 months is capitalised. Livestock is recognised at acquisition cost and revalued at each year end using the prevailing market price for the animal category.

The biological assets valuation estimates and assumptions are detailed in Note 21.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 13. 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.

The Company made the following provisions in the year; contingent liability Kshs 4,968,590.24 Other provisions under staff costs are staff gratuity provision of Kshs. 53,899,157 as captured under Note 35

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 REVENUE

	2022/2023	2020/2022
	Kshs	Kshs
Net sales of Sugar	1,752,097,822	1,431,768,203
Net sales of Molasses	153,278,583	41,049,525
Total net sales	1,905,376,406	1,472,817,728
Gross sales	2,210,236,630	1,708,468,565
Less: Value added tax on gross sales	(304,860,225)	(235,650,836)
Total	1,905,376,406	1,472,817,728

Sugar and molasses are the main products of the Company. Molasses is produced as a by-product of the sugar process.

7 COST OF SALES

	2022/2023	2020/2022
	Kshs	Kshs
Cost of cane milled: Nucleus	166,676,360	59,096,467
Outgrowers	862,139,724	1,065,000,234
Change in value of Unmilled cane	<u>(3,536,266)</u>	<u>3,434,000</u>
Total Cost of Cane milled	<u>1,025,279,818</u>	<u>1,127,530,701</u>
Agriculture	-	-
Staff Cost	103,914,423	109,989,439
Agriculture overheads	<u>36,272,210</u>	<u>40,704,600</u>
	<u>140,186,633</u>	<u>150,694,039</u>
Manufacturing	-	-
Staff Cost	295,484,833	297,865,976
Processing Costs	42,765,935	42,378,233
Repairs and maintenance	258,107,303	228,939,386
Other factory overheads	29,029,075	(28,911,323)
Depreciation-factory	<u>77,998,089</u>	<u>77,998,089</u>
	<u>703,385,236</u>	<u>618,270,360</u>
Change in value of sugar in process	(54,167,439)	54,530,130
Change in value of finished goods	(187,350)	7,669,831
Cost of goods sold	1,814,496,898	1,958,695,060

Cane from out growers is valued at the cane price paid to farmers while cane from nucleus estate is valued at the fair value less point sale cost recognized during the latest valuation plus cost of harvesting and transporting the cane to the factory.

Chemelil Sugar Company Limited

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 FAIR VALUE GAIN/(LOSS) ON BIOLOGICAL ASSETS

	2022/2023 Kshs	2020/2022 Kshs
Gain on consumable growing cane	61,729,122	106,353,056
Gain on livestock	928,000	517,000
Total	62,657,122	106,870,056

The fair value gain on consumable growing cane is determined in accordance with IAS 41 as detailed under note 21.

9 GRANTS FROM NATIONAL GOVERNMENT

	2022/2023 Kshs	2020/2022 Kshs
Recurrent grants received	135,043,862	182,017,971
Capital grants realized (see note below)	-	-
In Kind contributions/ donations	-	-
Total	135,043,862	182,017,971

The government grant relates to Kshs. 135,043,862 million paid by the Government of Kenya Via AFFA in July 2022 to various suppliers during the year ending 30 June 2023 for maintenance materials supplied and services rendered during and after the out of crop factory maintenance carried out between April and August 2022.

10 INTEREST INCOME

Description	2022/2023 Kshs	2020/2022 Kshs
Interest income:		
'- from treasury bonds	-	-
'- from receivables	226,631	360,974
'- from commercial banks and financial institutions	-	-
'- on staff loans	-	-
Total	226,631	360,974

Interest income on receivables relates to interest that the Company charges farmers in relation to credit advances for farm inputs. The Company recovers these from cane proceeds payable to farmers on harvested cane.

11 OTHER INCOME, GAINS AND LOSSES

a) Other Income

Description	2022/2023 Kshs	2020/2022 Kshs
Rental Income	13,759,243	13,125,873
Other miscellaneous income	288,515	1,292,188
Total	14,047,758	14,418,061

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Rental income is received from tenants allocated living quarters within employee residential estates. These include temporary employees, employees of key service providers and civil servants serving within the local community. Miscellaneous sales include sale of stock and non-stock items that are not part of the main products of the Company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(a) Other Gains and Losses

Description	2022/2023 Kshs	2020/2022 Kshs
Foreign exchange gains / (losses)	(2,410,772)	-
(Loss)/gain on disposal of property, plant and equipment	(4,560,259)	(3,063,346)
Loss/gain on disposal on sale of investments	-	-
Unrealized foreign exchange gains/(losses)	-	-
Total	(6,971,031)	(3,063,346)

The Company's sugarcane fields holding sugarcane that had been developed at a total cost of Kshs. 26,079,177 were reploughed/fallowed during the year after accumulating depreciation amounting to Kshs. 21,518,918, thereby disposing the bearer plant at a loss equivalent to its undepreciated cost of Kshs. 4,560,259.

12 MARKETING AND DISTRIBUTION EXPENSES

Description	2022/2023 Kshs	2020/2022 Kshs
Staff cost - sales personnel	6,803,142	8,396,258
Product Handling and distribution costs	4,761,365	4,851,640
Other marketing and promotional expenses	-	-
Depreciation - distribution equipment	759,705	759,705
Total	12,324,213	14,007,603

13 ADMINISTRATIVE EXPENSES

(a) Administration Costs

Description	2022/2023 Kshs	2020/2022 Kshs
Staff costs - other (note 13b)	210,981,979	216,158,486
Directors' emoluments	1,430,919	-
Auditors' remuneration	770,000	1,860,735
Legal fees and court awards	14,180,152	(3,731,918)
Consultancy fees	1,486,918	3,070,000
Medical Services	9,873,214	7,966,406
Staff training expenses	2,105,616	375,727
Insurance costs - other	6,605,817	4,821,942

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Bank charges and commissions	1,039,124	1,965,742
Electricity and water	48,226,294	32,693,757
Repairs and maintenance	12,602,073	6,480,364
Stationery, printing and photocopying	5,705,490	6,155,052
STAFF COSTS (Continued)		
Travelling and subsistence	6,413,783	4,009,650
Communication services and supplies	665,577	632,428
Depreciation - other	39,194,094	38,620,839
Bad and doubtful debts	-	4,137,012
Stock Obsolescence	(2,725,609) -	(21,226,631)
Tax penalty and interest	-	164,501,412
Interest on pension arrears	-	10,387,554
Other administrative expenses	(17,461,810)	(5,781,904)
Total	341,094,032	473,096,653

EMPLOYMENT COSTS

Description	2022/2023 Kshs	2020/2022 Kshs
Salaries and allowances of permanent employees	366,513,089	417,232,439
Wages of temporary employees	173,638,113	130,981,714
National social security schemes	5,870,782	2,006,800
Pension contributions	-	-
Staff gratuity/ provision	44,242,286	65,008,880
Leave pay provision	(1,576,934)	15,882,311
Staff welfare	28,497,041	17,757,091
Total	617,184,376	648,869,235

13 (b)

The average number of employees at the end of the year was:

Permanent employees – Management	193	190
Permanent employees – Unionisable	252	271
Temporary and contracted employees	461	554
Total	906	1,015

The government has restricted employment on permanent basis as a measure to maintain a lean workforce in preparation towards privatization plans. Consequently, there has been a consistent rise in the use of temporary and term employees over time as the number of permanent staff reduce through natural attrition.

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14 FINANCE COSTS

	2022/2023	2020/2022
Description	Kshs	Kshs
Interest expense:		
- on commodity loans	18,846,876	22,516,936
- on IPF loans	-	-
- on bank overdrafts	-	-
Total	18,846,876	22,516,936

Interest on commodity loans accrue at the rate of 5% on outstanding principal amount and 6% on defaulted balances.

15 OPERATING PROFIT/(LOSS)

	2022/2023	2020/2022
	Kshs	Kshs

The operating profit/(loss) is arrived at after charging/(crediting):

Staff costs (note 13b)	617,184,376	648,869,235
Depreciation of property, plant and equipment	164,525,220	158,791,092
Amortisation of intangible assets	-	-
Provision for bad and doubtful debts	-	4,137,012
Directors' emoluments - fees	-	-
- other	1,430,919	-
Auditors' remuneration - current year fees	750,000	750,000
- prior year under-provision	20,000	1,110,735
Loss on disposal of property, plant and equipment	4,560,259	3,063,346
Net foreign exchange loss	2,410,772	-
Total	790,881,546	816,721,419

16 INCOME TAX EXPENSE/(CREDIT)

(a) Income tax

	2022/2023	2020/2022
	Kshs	Kshs
Current tax charge	-	-
Deferred tax charge (note 32)	-	-

(b) Profit

The tax on the Company's loss before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2022/2023	2020/2022
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	Kshs	Kshs
Profit/(loss) before taxation	(76,381,270)	(694,894,756)
Tax calculated at the statutory tax rate of 30% (2020:30%)	22,914,381	208,468,427
NOTES TO THE FINANCIAL STATEMENTS (Continued)		
Tax effect of:		
¹ - Expenses not deductible for tax purposes	XXX	XXX
¹ - Prior year under/(over) provision in deferred tax	XXX	XXX
¹ - Deferred tax not recognised	XXX	XXX
Income tax expense/(credit)	XXX	XXX

The Company has been making loss for a period of time hence no taxable income. The losses together with deferred taxes are carried forward to future periods

17 LOSS PER SHARE

The loss per share is calculated by dividing the loss after tax by the average number of ordinary shares in issue during the year. There were not dilutive or potentially dilutive ordinary share as at the reporting date.

	2022/2023 Kshs	2020/2022 Kshs
Loss for the year attributable to equity shareholders	(76,381,270)	(694,894,756)
Total comprehensive loss per share attributable to equity shareholders	(76,381,270)	(694,894,756)
Weighted average number of shares in issue (note 28)	10,579,581	10,579,581
Loss per share	(7.49)	(65.68)
Total comprehensive loss per share	(7.49)	(65.68)

18 DIVIDEND PER SHARE

The directors do not recommend payment of a dividend for the year (2022/202: Nil)

Chemelil Sugar Company Limited

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19 PROPERTY, PLANT AND EQUIPMENT

2022/2023	Freehold land	Buildings & civil works	Plant and machinery	Motor vehicles including motorcycles	Furniture, fittings & equipment,	Sugarcane Beating Plant	Capital work in progress	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
COST OR VALUATION								
At July 1, 2022	2,000,000,000	1,956,480,000	1,531,965,512	20,343,585	95,523,413	165,807,115	19,268,610	5,789,388,234
Revaluation Surplus	-	-	-	-	-	-	-	-
Additions	-	2,779,852	-	-	2,191,035	-	31,803,087	36,773,974
Transfers	-	-	-	-	-	32,917,187	(32,917,187)	-
Disposals	-	-	-	-	-	(26,079,177)	-	(26,079,177)
At June 30, 2023	2,000,000,000	1,959,259,852	1,531,965,512	20,343,585	97,714,449	172,645,125	18,154,510	5,800,083,031
COMPRISING								
Cost	-	6,331,276	900,822,428	23,519,836	97,714,449	172,645,125	18,154,510	1,219,187,623
Valuation	2,000,000,000	1,952,928,576	631,143,084	(3,176,251)	-	-	-	4,580,895,409
Total	2,000,000,000	1,959,259,852	1,531,965,512	20,343,585	97,714,449	172,645,125	18,154,510	5,800,083,032
DEPRECIATION								
At July 1, 2022	-	195,861,798	341,564,054	16,063,615	91,540,064	87,565,492	-	732,595,023
Reversed on Revaluation	-	-	-	-	-	-	-	-
Charge for the year	-	49,273,843	86,177,663	3,248,564	2,871,946	22,953,203	-	164,525,220
Impairment loss	-	-	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	(21,518,918)	-	(21,518,918)
At June 30, 2023	-	245,135,642	427,741,717	19,312,179	94,412,011	88,999,777	-	875,601,325
NET BOOK VALUE At June 30, 2023	2,000,000,000	1,714,124,210	1,104,223,795	1,031,406	3,302,438	83,645,348	18,154,510	4,924,481,706

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 PROPERTY, PLANT AND EQUIPMENT

2020/2021	Freehold land	Buildings & civil works	Plant and machinery	Motor vehicles, including motor cycles	Furniture, fittings & equipment,	Sugarcane Bearer Plant	Capital work in progress	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
COST OR VALUATION								
At July 1, 2021	2,000,000,000	1,956,480,000	1,522,986,207	20,343,585	95,404,613	137,250,371	22,252,033	5,754,716,809
Revaluation Surplus					-		-	-
Additions	-	-	8,979,305	-	118,800	-	43,595,145	52,693,250
Transfers	-	-	-	-	-	46,578,568	(46,578,568)	-
Disposals	-	-	-	-	-	(18,021,824)	-	(18,021,824)
At June 30, 2022	2,000,000,000	1,956,480,000	1,531,965,512	20,343,585	95,523,413	165,807,115	19,268,610	5,789,388,234
COMPRISING								
Cost	-	3,551,424	900,822,428	23,519,836	95,523,413	165,807,115	19,268,610	1,208,492,826
Valuation	2,000,000,000	1,952,928,576	631,143,084	(3,176,251)	-	-	-	4,580,895,409
Total	2,000,000,000	1,956,480,000	1,531,965,512	20,343,585	95,523,413	165,807,115	19,268,610	5,789,388,235
DEPRECIATION								
At July 1, 2021	-	146,657,451	255,386,390	12,209,951	89,171,876	85,337,815	-	588,763,484
Charge for the year	-	49,204,347	86,177,663	3,853,664	2,368,188	17,186,207	-	158,790,070
Eliminated on disposal	-	-	-	-	-	(14,958,531)	-	(14,958,531)
At June 30, 2022	-	195,861,798	341,564,054	16,063,615	91,540,064	87,565,492	-	732,595,023
NET BOOK VALUE At June 30, 2022	2,000,000,000	1,760,618,202	1,190,401,458	4,279,970	3,983,349	78,241,623	19,268,610	5,056,793,211

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Land and buildings were revalued on 30th June 2018 by Tysons Limited based on open market value basis (level2). The same valuers valued factory plant and machinery, agricultural machinery and equipment and motor vehicles on a depreciated replacement cost basis (level2). The capital work in progress balance mainly represents expenditure on development of sugarcane within the Company's nucleus estate that was still at immature stage (0-6 months) as at the reporting date.

19 PROPERTY, PLANT AND EQUIPMENT

The Company accounts for its biological assets in accordance with revised IAS 41 and IAS 16. Under the standards, the root system of growing sugarcane is recognised as bearer plant from the 7th month when it is fully developed. At this stage, sugarcane begins to bear produce (sucrose) and remains productive for at least 3 harvest cycles of 16 months each as cane stamps sprout again into a new produce after each harvest.

Significant assumptions made in determining the carrying values of bearer plants include:

- Bearer plants are carried at cost less depreciation. The cumulative cost of developing cane has been capitalised and depreciated over the plant's economic life estimated to be 48 months. All costs incurred after the 6th month are expensed as maintenance costs.
- Cane aged 0-6 months is considered immature since the root system is still developing. Cost incurred at this stage is recognised as work in progress.
- On initial application of the standard, the cost value of existing bearer plants was estimated using standard cost of cane development per hectare. All subsequent additions are recognised at actual cost.

As at 30th June 2023, 40% (2022: 70%) of the nucleus estate farm measuring 702.13 ha (2022: 1,598.2 ha) had mature bearer plant. Sixteen percent (2022: 15%) of the estate land measuring 360 ha (2022: 346.9 ha) had immature bearer plant while 17% (2022: 16%) was fallow.

During the year, 552.4 ha (2022: 442 ha) was planted with new cane, 298.6 ha (2022: 445.4 ha) of growing cane matured and was transferred for capitalization as addition to bearer plant asset while 259.6 ha (2022: 169.3 ha) of mature bearer plant was fallowed or uprooted by ploughing.

All property, plant and equipment other than bearer plants have been charged to secure banking facilities as disclosed under note 31. Property, plant and equipment include the following items that were fully depreciated:

2021	Cost or valuation	Normal annual depreciation charge
Motor vehicles, including motor cycles	-	-
Furniture, fittings and equipment,	70,286,455	14,057,291
Cane bearer plant	6,455,299	1,533,133
Total	76,741,754	15,590,424
	=====	=====
2022	Cost or valuation	Normal annual depreciation charge
Motor vehicles, including motor cycles	-	-
Furniture, fittings and equipment,	70,286,455	14,057,291
Cane bearer plant	6,004,030	1,425,957
Total	76,290,485	15,483,248
	=====	=====

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Company owns 2,700 hectares of freehold land. The land has been charged to secure banking facilities granted to the Company as disclosed in note 31. The land was last valued on 30th June 2018 by Tysons Limited on an open market basis at Kshs 2,000,000,000. The value of the land has been reflected in the statement of financial position as part of property plant and equipment.

21. BIOLOGICAL ASSETS

a) Growing Cane

	2022/2023 Kshs	2021/22 Kshs
At the beginning of the year	107,312,443	40,501,720
Prior year adjustment	-	-
At the beginning of the year restated	107,312,443	40,501,720
Decrease due to harvest at fair value less point of sale costs	(106,433,616)	(39,542,333)
	878,827	959,387
Gains arising from changes in fair value attributable to:		
- biological transformation	39,128,078	99,236,183
- price changes	22,601,044	7,116,872
Fair value gain/(loss) on valuation	61,729,122	106,353,056
At the end of the year	62,607,949 =====	107,312,443 =====

The Company grows sugar cane in its Nucleus Estate whose produce is harvested for replanting or milling and has accounted for its biological assets in accordance with revised IAS 41 and IAS 16. Cane stem is recognised as the consumable growing produce from the 7th month when it begins to form sucrose. The produce fully matures with maximum sucrose 14 months thereafter but can be harvested as early as 9 months as seed cane.

Significant assumptions made in determining the fair values of growing produce (biological assets) are:

- i) Growing produce has been stated at fair value less point of sale cost. Only cane aged 9 months and above is assigned a value as it is only then that it can be harvested for use as seed cane. The value is based on market price of Kshs. 5,300 per tonne of sugarcane (June 2022-Kshs.4,563).
- ii) Growing produce has been quantified in tonnes as the product of average productivity per unit acreage at harvest age (TCHM) and actual acreage in hectares covered by the produce. The TCHM for 2022 was 2.69 (2022-2.38).
- iii) All costs incurred to maintain growing produce are expensed.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 BIOLOGICAL ASSETS (continued)

The Company expects to harvest the mature cane produce held at the end of the year within the next 12 months and thus the growing produce has been presented as current assets.

b) Livestock

	2022/2023 Kshs	2021/22 Kshs	2020/21 Kshs
At the beginning of the year	1,463,000	1,246,000	1,485,000
Increase due to acquisitions and births	80,000	-	-
Decrease due to slaughter or sale at fair value less point of sale costs	(429,000)	(300,000)	(600,000)
	<u>1,114,000</u>	<u>946,000</u>	<u>885,000</u>
Gains arising from changes in fair value attributable to:			
- biological transformation	944,000	474,000	370,000
- price changes	(16,000)	43,000	(9,000)
Fair value gain/(loss) on valuation	<u>928,000</u>	<u>517,000</u>	<u>361,000</u>
At the end of the year	2,042,000 =====	1,463,000 =====	1,246,000 =====

The Company keeps dairy cattle in its Academy Section whose produce is used within the school to reduce boarding expenses and has accounted for its biological assets in accordance with revised IAS 41 and IAS 16. The herd of dairy animals has been stated at fair value less point of sale cost. The value is based on the open market price of dairy animals categorised as follows

Animal category	2022/2023 Fair Market Price (Kshs)	2021/2022 Fair Market Price (Kshs)
Calf	17,000	16,000
Heifer	88,000	87,000
Lactating cow	158,000	153,000
Bull	124,000	123,000
Goats	7,000	7,000

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. INVENTORIES

	2022/2023 Kshs	2021/22 Kshs
Product Stock		
Milled Sugar	33,924	7,570
Molasses	180,647	19,650
Inprocess stocks		
Milled sugar-in-process	54,167,439	-
Molasses in process	-	-
Subtotal	54,382,009	27,220
Raw material stock		
Unmilled Cane	3,536,266	-
Other materials and consumables		
Field and factory stores	276,897,839	291,410,910
OOO Maintenance Stock	-	7,485,426
Consumable Stores	3,715,742	7,718,801
Stationery	4,544,016	2,312,439
Medicines	3,856,152	1,027,476
	289,013,749	309,955,052
Less: Impairment	(58,910,608)	(61,636,216)
Subtotal	230,103,141	248,318,836
Total	288,021,416 =====	248,346,056 =====

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23(a) TRADE AND OTHER RECEIVABLES

	Gross Amount Kshs	Provision for Impairment Kshs	Net Amount Kshs
At 30th June 2023			
Trade receivables (note 23b)	47,670,263	(39,075,261)	8,595,002
Loans to Outgrowers	424,321,641	(407,498,764)	16,822,877
Deposits and prepayments	20,884,866		20,884,866
Staff receivables (note 23c)	24,506,205	(1,268,664)	23,237,541
VAT recoverable	-		-
Other receivables (note 23d)	234,759,182	(64,134,900)	170,624,283
Total trade and other receivables	752,142,158	(511,977,589)	240,164,569
	=====	=====	=====
At 30th June 2022:			
Trade receivables (note 23b)	49,832,152	(39,075,261)	10,756,891
Loans to Outgrowers	424,385,977	(407,498,764)	16,887,213
Deposits and prepayments	20,983,970		20,983,970
Staff receivables (note 23c)	24,213,631	(1,268,664)	22,944,967
VAT recoverable	766,699		766,699
Other receivables (note 23d)	241,341,065	(64,134,900)	177,206,166
Total trade and other receivables	761,523,494	(511,977,589)	249,545,905
	=====	=====	=====
At 30th June 2021:			
Trade receivables (note 23b)	54,537,442	(39,230,415)	15,307,028
Loans to Outgrowers (note 23d)	429,249,319	(407,498,764)	21,750,555
Deposits and prepayments	4,892,778		4,892,778
Staff receivables (note 23c)	27,697,981	(1,268,664)	26,429,317
VAT recoverable			-
Other receivables (note 23e)	320,171,157	(59,842,735)	260,328,423
Total trade and other receivables	836,548,677	(507,840,577)	328,708,100
	=====	=====	=====

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23 (b) TRADE RECEIVABLES

	2022/2023 Kshs	2021/22 Kshs
Gross Sugar receivables	41,119,600	42,994,256
Provision for doubtful receivables	(32,290,431)	(32,290,431)
	8,829,169	10,703,825
Gross Molasses Receivables	6,550,663	6,837,896
Provision for doubtful receivables	(6,784,830)	(6,784,830)
	(234,167)	53,065
	8,595,002	10,756,891
	=====	=====
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	(835,071)	0
Between 30 and 60 days	2,161,947	-
Between 61 and 90 days	(11,133,147)	1,379,995
Between 91 and 120 days	(334,082)	1,302,235
Over 120 days	57,810,616	47,149,922
	47,670,263	49,832,152
	=====	=====

23 (c) STAFF RECEIVABLES

	2022/2023 Kshs	2021/22 Kshs
Gross staff debtors and advances	24,506,205	24,213,631
Provision for impairment loss	(1,268,664)	(1,268,664)
	23,237,541	22,944,967
	=====	=====
Less: Amounts due within one year	24,506,205	24,213,631
Amounts due after one year	-	-
	=====	=====

The Company operates a staff car and cycle loan scheme for employees whereby eligible employees are given loans to acquire cars for their personal use. The loans which are secured by the vehicles acquired using the proceeds are payable within a maximum period of 60 months. The interest rate on staff loans is 5%. There were no outstanding staff receivables balances as at reporting date (2020-Kshs.Nil)

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23 (d)

CANE DEVELOPMENT LOANS TO FARMERS

	Gross Amount Kshs	Provision for Impairment Kshs	Net Amount Kshs
At 30th June 2023			
Farmer cooperatives	376,016,915	(365,958,108)	10,058,807
Large & small scale farmers	46,833,262	(40,706,920)	6,126,341
Transporters	1,471,465	(833,736)	637,729
	424,321,641	(407,498,764)	16,822,877
	=====	=====	=====
At 30th June 2022:			
Farmer cooperatives	375,964,337	(365,958,108)	10,006,229
Large & small scale farmers	46,960,441	(40,706,920)	6,253,520
Transporters	1,461,199	(833,736)	627,463
	424,385,977	(407,498,764)	16,887,213
	=====	=====	=====

Cane development Loans relate to cost of farm inputs supplied and services rendered to farmers on credit. The farmer's standing cane established using these funds and title deed for the land on which it stands act as collateral for the loan. Recovery is made when the cane matures and is harvested. Under the current contracts, 60% is recovered from the 1st harvest, 20% from 2nd harvest and the remaining 20% from 3rd harvest. Interest is charged at the rate of 12% on recoverable loan balances. Directors have made provision for amounts whose recovery is uncertain.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (e) OTHER RECEIVABLES

	2022/2023 Kshs	2021/22 Kshs
Farmers, Transporters & Cutters advances	16,270,246	23,669,066
Provision for impairment loss	(14,988,103)	(14,988,103)
	1,282,143	8,680,963
Other receivables	56,316,725	54,165,110
Provision for impairment loss	(49,146,797)	(49,146,797)
	7,169,928	5,018,313
	8,452,071	13,699,276
<u>Payables with debit balances</u>		
Trade payables	78,052,425	42,764,801
Small scale farmers	9,624,341	20,469,853
Large Scale Farmers	10,456,060	10,556,097
Transporters & Harvesters	22,367,387	36,767,236
Cane Maintenance Contractors	7,176,208	6,522,463
Payroll Liabilities	26,351,142	37,941,074
Other payables	8,144,649	8,485,365
	162,172,211	163,506,889
	170,624,283	177,206,166
	=====	=====
Less: Amounts due within one year	234,759,182	241,341,065
Amounts due after one year	-	-
	=====	=====

The Company endeavors to support cane development, harvest and haulage activities undertaken by independent farmers, harvesters, transporters or their organizations owing to their criticality for the continuity of milling operations. The Company supplies them with farm inputs, fuel and other items for cash or on credit and maintains current accounts for these transactions and recovers debit balances from any monies payable to them for cane purchased or services received from them. Directors have made provision for amounts whose recovery have become uncertain.

24 TAX RECOVERABLE

	2022/2023 Kshs	2021/22 Kshs
At beginning of the year	14,608,376	15,183,641
Income tax charge for the year (note 16)		
Under/(over) provision in prior year/s (note 16)	-	-
Income tax paid during the year	-	(575,265)
At end of the year	14,608,376	14,608,376
	=====	=====

This tax recoverable amount includes instalment tax paid, withholding tax on interest income, and advance tax on commercial vehicles paid on different dates in the past years but which the Company has not been able to recover because it has recorded losses over those years. The amount is recoverable from future corporation tax when the Company posts profit.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 BANK AND CASH BALANCES

	2022/2023 Kshs	2021/22 Kshs	2020/21 Kshs
Cash at bank	49,713,524	40,944,227	(53,632,583)
Cash in hand	500,000	737,607	995,364
Sub total	50,213,524	41,681,834	(52,637,219)
Bank Overdraft	-	(286,850)	(1,500)
Total	50,213,524	41,394,984	(52,638,719)

The make – up of bank balances and short term deposits is as follows:

Detailed analysis of the cash and cash equivalents

Financial institution	Account number	2022/2023 KShs	2021/22 KShs
a) Current account			
KCB Bank Kisumu Main Account	1103790307	34,723	
KCB Bank Kisumu Project Account2	1180995716	6,313,447	5,941,590
KCB Bank Kisumu Project Account1	1112122478	(0)	(286,850)
KCB Bank Kisumu Chemelil Academy Account	1103794930	38,386,398	24,857,678
Cooperative Bank Kisumu Main Account	01120054662900	1,417,147	4,023,532
Cooperative Bank Kisumu Project Account	01120054662901	47,307	3,985,580
Cooperative Bank Kisumu Health Ctr Account	01160614981500	43,146	31,736
Cooperative Bank Kisumu Chemelil Academy-PTA		3,471,357	2,104,111
Sub- total		49,713,524	40,657,377
b) Mobile Money Deposits			
Safaricom Mpesa		-	-
Sub- total		-	-
c) Others(specify)			
Cash in transit		-	-
cash in hand		500,000	737,607
Sub- total		500,000	737,607
Grand total		50,213,524	41,394,984

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 Detailed analysis of the cash and cash equivalents

ORDINARY SHARE CAPITAL

	2022/2023 Kshs	2021/2022 Kshs
Authorised:		
10,579,581 ordinary shares of Kshs.20 par value each	211,591,620	211,591,620
	=====	=====
Issued and fully paid:		
10,579,581 ordinary shares of Kshs.20 par value each	211,591,620	211,591,620
	=====	=====

The total number of authorized ordinary shares is 10,579,581 (2021-10,579,581) with a par value of Kshs,20 each. Issued and fully paid ordinary shares, which have a par value of Kshs.20, carry one vote per share and a right to dividend.

28 REVALUATION RESERVE

	2022/2023 Kshs	2021/2022 Kshs
As at 1st July	4,614,544,226.00	4,614,544,226.00
Surplus on revaluation of property, plant and equipment	-	-
Deferred tax relating to surplus on revaluation of property and equipment	-	-
Transfer of excess depreciation(net of deferred tax)	-	-
As at 30th June	4,614,544,226.00	4,614,544,226.00
	=====	=====

The revaluation reserve relates to the revaluation of freehold land and buildings, factory plant and machinery, agricultural machinery and implements and motor vehicles. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred income tax to retained earnings. Revaluation surpluses are not distributable. There was no movement during the year

29 RETAINED LOSS

The retained loss represents accumulated loss incurred as a result of operating and financial challenges that the Company has grappled over the years when the industry faced turbulence. Note 41 provides detailed information on current efforts towards a turnaround of the situation and the future outlook.

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30 Retain earning

	Retained earnings
	Kshs
At June 30, 2020	(7,746,674,841.10)
	=====
At July 1, 2020 (As previously stated)	(7,719,520,914.00)
Prior year adjustment	(27,153,927.78)
At July 1, 2020	(7,746,674,841.78)
Revaluation gain	-
Transfer of excess depreciation on revaluation	xxx
Deferred tax on excess depreciation	-
Total comprehensive income	(549,280,574.49)
Dividend paid	-

At June 30, 2021	(8,295,955,416.27)
	=====
At July 1, 2021 (As previously stated)	(8,295,955,416.27)
Prior year adjustment	(2,651,582.31)
At July 1, 2021 (As restated)	(8,298,606,998.58)
Revaluation gain	-
Transfer of excess depreciation on revaluation	xxx
Deferred tax on excess depreciation	-
Total comprehensive income	(694,894,755.69)
Dividend paid	-

At June 30, 2022	(8,993,501,754.27)
	=====
At June 30, 2022	(8,993,501,754.27)
Revaluation gain	-
Transfer of excess depreciation on revaluation	xxx
Deferred tax on excess depreciation	-
Total comprehensive income	(76,381,270.16)
Dividend paid	-

At June 30, 2023	(9,069,883,024.43)

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31 BORROWINGS

Description	2022/2023		2021/2022	
	Principal Kshs	Interest Kshs	Principal Kshs	Interest Kshs
Balance at beginning of the year	2,626,916,871.79	1,042,214,154.74	2,626,916,872	1,019,697,219
External borrowings during the year	-	-	-	-
Domestic borrowings during the year	-	18,846,876.26	286,849.95	22,516,935.59
Balance at end of the year	2,626,916,871.79	1,061,061,031.00	2,627,203,722	1,042,214,155
Less: Amounts due with one year (current portion)	-	-	(286,850)	-
Amounts due after one year (non- current portion)	2,626,916,871.79	1,061,061,031.00	2,626,916,872	1,042,214,155
	=====	=====	=====	=====

The analyses of both external and domestic borrowings are as follows:

	2022/2023 Kshs	2021/2022 Kshs
External Borrowings		
Dollar denominated loan from 'A'	-	-
Sterling Pound denominated loan from 'B'	-	-
Euro denominated loan from 'C'	-	-
Domestic Borrowings		
Kenya Shilling loan from Commodities Fund	2,586,916,871.79	2,586,916,871.79
Kenya Shilling loan from State Department of Crop Development	40,000,000.00	40,000,000.00
Kenya Shilling loan from KCB Bank	-	-
Kenya Shilling loan from Diamond Trust Bank	-	-
	2,626,916,871.79	2,626,916,871.79
Total balance at end of year	2,626,916,871.79	2,626,916,871.79
	=====	=====

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 BORROWINGS

The Company received Kshs.40,000,000 from State Department of Crop Development in May 2017 as part of liquidity support to pay part of cane arrears then owed to farmers. This has been presented as unsecured non-current loan refundable with no interest.

The Borrowings from Commodity Fund are secured by Debenture for Kshs.1,554,487,912 over the Company land and buildings L.R. No.1611/4, 1612/4 and 11840 located at Muhoroni Sub County ranking pari passu with KCB Bank Kenya Limited.

During the year, the Company received indirect funding from the Government of Kenya totaling Kshs 135,043,862 (2022-Kshs. 182,017,971). This grant disbursed directly to suppliers for spares delivered and services rendered to facilitate the out of crop maintenance of 2022. The Kshs, 135,043,862 disbursed by Agriculture and Food Authority (AFA) during the year under review was part of the total of Kshs. 220,000,000 allocated to Chemelil Sugar Company for factory maintenance. The maintenance exercise proceeded to end of August 2022. Though othe suppliers had not been paid due to delay in supplies

The Company is in default on principal loan repayments of its loan facilities. Although both the Commodities Fund and the State department of Crop development have previously written to the Company demanding settlement of the loans due to them from the Company, these demands have been neutralized by the ongoing government of Kenya's initiatives towards privatization of the Company alongside other public sugar mills which includes write off the Company's long-term debts.

32 DEFERRED TAX LIABILITY

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30%. The net deferred tax liability at year end is attributable to the following items:

	2022/2023 Kshs	2021/2022 Kshs
Accelerated capital allowances	XXX	XXX
Unrealised exchange gains/(losses)	XXX	XXX
Revaluation surplus	XXX	XXX
Biological assets		
Tax losses carried forward	(XXX)	(XXX)
Provisions for liabilities and charges	(XXX)	(XXX)
Net deferred tax liability	XXX	XXX

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

32 DEFERRED TAX LIABILITY (Continued)

The movement on the deferred tax account was as follows:

	2022/2023	2,022.00
	Kshs	Kshs

The movement on the deferred tax account is as follows:

Balance at beginning of the year	XXX	XXX
Credit to revaluation reserve	(XXX)	(XXX)
Deferred biological assets		
Under provision in prior year	XXX	XXX
Income statement charge/(credit)	XXX	XXX
Balance at end of the year	XXX	XXX
	=====	=====

33 DEFERRED INCOME

	2022/2023	2022/
	Kshs	Kshs
Prepaid sugar sales	51,845,110.68	108,021,917.17
Prepaid molasses sales	3,126,681.61	2,917,867.81
	54,971,792.29	110,939,784.98
	=====	=====

34 TRADE AND OTHER PAYABLES

	2022/2023	2021/2022
	Kshs	Kshs
Trade payables - cane	358,265,754.70	492,391,251.72
Trade payables - creditors	283,212,664.41	320,451,173.91
Accrued expenses - payroll	1,266,454,276.77	1,215,481,387.81
Accrued expenses - staff	5,239,557.22	5,164,936.58
Other payables	129,700,412.54	136,089,651.08
	2,042,595,905.64	2,169,578,401.10
VAT payable	1,084,691,036.60	1,000,468,324.02
PAYE payable	853,591,884.05	844,663,249.83
WHT payable	11,016,105.97	10,827,022.97
Accrued tax penalties & interest	1,313,777,324.46	1,313,777,324.46
SDL payable	474,109,867.13	474,109,867.13
ML payable	1,883,069.80	1,621,321.90
	3,739,069,288.01	3,645,467,110.31

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	5,781,665,193.65 =====	5,815,045,511.41 =====
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

35 RETIREMENT BENEFIT OBLIGATIONS

The Company operates a defined contributory scheme for all managerial employees engaged on permanent terms. Managerial employees engaged on contract terms are entitled to gratuity payment. Unionisable employees are entitled to retirement benefits based on years of service. The liability at the end of the year was as follows:

	Gratuity Kshs	Long term Service dues Kshs	Total Kshs
At 1st July 2022	35,521,241.88	210,624,319.00	246,145,561
Provision for the year	21,882,393.05	32,016,764.16	53,899,157
Paid during the year	(4,728,525.85)	(37,926,614.16)	(42,655,140)
At 30th June 2023	52,675,109.08	204,714,469.00	257,389,578
	=====	=====	=====
At 1st July 2021	14,513,217.05	191,629,243.27	206,142,460
Provision for the year	22,671,611.90	42,337,267.77	65,008,880
Paid during the year	(1,663,587.07)	(23,037,506.26)	(24,701,093)
At 30th June 2022	35,521,241.88	210,624,319.00	246,450,247
	=====	=====	=====

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 Kshs200 per employee per month.

36 PROVISIONS FOR LEAVE PAY

	2022/2023 Kshs	2021/2022 Kshs
Balance at beginning of the year	35,563,528.34	20,729,010.51
Additional/(Reduction of) provision at end of year	4,261.40	15,882,310.93
Leave paid out or utilised during the year	(1,660,646.96)	(1,047,793.10)
Balance at end of the year	33,907,142.78	35,563,528.34
	=====	=====

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

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37 DIVIDENDS PAYABLE

The balance of dividends payable relates to unclaimed dividends of 2001/2002 financial year, payable to ordinary shareholders. The balance as at 30th June 2023 was Kshs. 9,699,787 (2022: Kshs. 9,699,787).

38 NOTES TO THE STATEMENT OF CASH FLOWS

	2022/2023 Kshs	2021/2022 Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	(76,381,270)	(694,894,756)
Depreciation	143,006,302	158,790,070
Nucleus Estate cane	106,433,616	34,428,820
Fair value (gain)/loss on valuation of biological assets	(62,657,122)	(106,870,056)
(Gain)/loss on disposal of fixed asset	6,971,031	3,063,294
Grant Income	(135,043,862)	(182,017,971)
Earned interest income	(226,631)	(360,974)
Accrued interest expense	18,846,876	22,516,936
Interest and penalties on tax and pension arrears	18,846,876	174,888,966
Retirement benefit expenses	53,899,157	65,008,880
Staff leave provision	4,261	15,882,311
Bad and doubtful debt	-	4,137,012
Reduction in obsolescence provision	(2,725,609)	(21,226,631)
Other accrued expenses and provisions	5,718,590	0
Operating profit/(loss) before working capital changes	76,692,216	(526,654,100)
(Increase)/decrease in inventories	(39,398,601)	(7,173,565)
(Increase)/decrease in trade and other receivables	9,381,337	81,786,621
Increase/(decrease) in trade and other payables	(27,448,465)	598,767,998
Cash generated from/(used in) operations	19,226,487	146,726,953
(b) Analysis of changes in loans		
Balance at beginning of the year	3,669,131,027	3,646,614,091
Receipts during the year	-	286849.95
Repayments during the year	-	-
Repayments of previous year's accrued interest	0	0
Foreign exchange (gains)/losses	0	0
Accrued interest	18,846,876	22,516,936

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Balance at end of the year	3,687,977,903 =====	3,669,417,876 =====
(c) Analysis of cash and cash equivalents		
Short term deposits	-	-
Cash at bank	49,713,524	40,944,227
Cash in hand	500,000	737,607
Balance at end of the year	50,213,524 =====	41,681,834 =====

	2022/2023 Kshs	2021/2022 Kshs
(d) Analysis of interest paid		
Interest on loans (note 14)	18,846,876	22,516,936
Interest on bank overdraft (note 14)	-	-
	<u>18,846,876</u>	<u>22,516,936</u>
Balance at beginning of the year	1,042,214,155	1,019,697,219
Balance at end of the year (note 35(b))	(1,061,061,031)	(1,042,214,155)
Interest paid	- =====	- =====
(e) Analysis of dividend paid		
Balance at beginning of the year	9,699,787	9,699,787
Paid during the year	0	0
Balance at end of the year	(9,699,787)	(9,699,787)
Dividend paid	- =====	- =====

(f) Analysis of Government grant received		
Total grant income during the year	135,043,862	182,017,971
Paid directly to farmers		-138900000
Paid directly to suppliers	(135,043,862)	-43117971.15
Grant received	- =====	- =====

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
39 RELATED PARTY DISCLOSURES

(a) Government of Kenya

The Government of Kenya is the principal shareholder of the Company, holding 100% of the Company's equity interest.

Other related parties include:

- i) The Parent Ministry;
- ii) County Government of Kisumu
- iii) Key management;
- iv) Board of directors;

(b) Transactions with related parties

	2022/2023 Kshs	2021/2022 Kshs
i) Grants from the Government		
Grants from National Govt	135,043,862	182,017,971
Grants from County Government	-	-
Donations in kind	-	-
Total	<u>135,043,862</u> =====	<u>182,017,971</u> =====
ii) Key management compensation		
Directors' emoluments	1,430,919	-
Compensation to the CEO	4,723,263	4,723,263
Compensation to key management	3,560,232	3,560,232
Total	<u>9,714,414</u>	<u>8,283,495</u>

40 CAPITAL COMMITMENTS

Capital commitments at the year- end for which no provision has been made in these financial statements are:

	2022/2023 Kshs	2021/2022 Kshs
Amounts authorised and contracted for	XXX	XXX
Amounts authorized but not contracted for	XXX	XXX
Less: Amounts included in Work in progress	18,154,510	19,268,610
	<u>18,154,510</u>	<u>19,268,610</u>

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19,268,610

41 CONTINGENT LIABILITIES

The Company is a defendant in various litigations and claims which arose in the ordinary course of business and whose amounts are shown below:

	2022/2023 Kshs	2021/2022 Kshs
Bank guarantees	-	-
Legal claims against the Company	541,064,614	243,732,178
Letters of credit	-	-
Disputed tax penalties	-	-

A provision of 10% (2023: 10%) of pending legal claims amount less previous 2022 provision has been made in the books as the directors believe, based on information currently available that the ultimate resolution of these legal proceedings is not likely to have an effect in the operations of the Company that is materially at variance with the amount.

42 GOING CONCERN

The Company's current liabilities exceeded its current assets by 5,547 million as at 30th June 2023 (2022: Kshs 5,664 million). The Company incurred a loss of Kshs. 76 million during the year (2022: Kshs 694 million) bringing the cumulative loss to Kshs 9,069 million by 30th June 2023. The bulk of current and non-current liabilities are owed to Kenya Revenue Authority and Commodities Fund respectively. The Company has defaulted in repayment of loans and has not been consistent in remittance of taxes due to cash flow constraints arising from under capacity operations because of sugarcane shortage and factory inefficiency following 8 years of operation without any major maintenance.

As stated in note 31, previous settlement demands by Commodities Fund has been written off by the government of Kenya's i towards leasing of the Company alongside other public sugar mills. Leasing is expected to result into injection of investment funds into the factory to enhance efficiency of operations. The process involves debt write offs and waiver of tax penalties and interest on outstanding taxes to restructure and make the balance sheets attractive to prospective investors.

Meanwhile, sugarcane development and husbandry has greatly improved following government intervention in defraying accumulated farmers arrears. As a result, cane supply to the factory has improved and the Company annual loss has been on a general decline over the years since 2017. Consequently, even though the loss for the year was slightly higher than the previous year, a better performance is forecast for the following year. The prospects have been enhanced by the major factory maintenance undertaken at the end of the financial year under review.

Above interventions and projected prospects affirm the Company's ability to continue in operations as a going concern, realizing assets and discharging liabilities in the normal course of its business.

43 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its

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performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2023				
Receivables from exchange transactions	471,991,904	25,417,879	446,574,025	446,574,025
Receivables from non exchange transactions	280,150,253	214,746,690	65,403,564	65,403,564
Bank balances	49,713,524	49,713,524	0	0
Total	801,855,682	289,878,093	511,977,589	511,977,589
At 30 June 2022				
Receivables from exchange transactions	474,218,129	27,644,104	446,574,025	446,574,025
Receivables from non exchange transactions	286,538,667	221,135,103	65,403,564	65,403,564
Bank balances	40,944,227	40,944,227	0	0
Total	801,701,023	289,723,434	511,977,589	511,977,589

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

43 FINANCIAL RISK MANAGEMENT

The Company has significant concentration of credit risk on amounts due from farmers in relation to amounts advanced for cane development. Much of this has been provided for.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and

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long-term funding and liquidity management requirements. The Company manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month Kshs	Between 1-3 months Kshs	Over 5 months Kshs	Total Kshs
At 30 June 2023				
Trade payables	-	30,000,000	611,478,419	641,478,419
Employees' dues	30,475,148	41,425,443	1,199,793,243	1,271,693,834
Tax Arrears	19,022,603	71,766,524	2,334,502,836	2,425,291,964
Other Payables	(40,337,345)	(40,337,345)	219,798,129	139,123,439
Current portion of borrowings	0	-	-	0
Provisions	-	-	1,347,684,467	1,347,684,467
Deferred income	26,000,000	62,400,000	(33,428,208)	54,971,792
Employee benefit obligation	2,950,000	23,850,000	230,588,141	257,388,141
Total	38,110,406	189,104,623	5,910,417,028	6,137,632,056
At 30 June 2022				
Trade payables	-	30,000,000	782,842,426	812,842,426
Employees' dues	30,475,147.80	41,425,443	1,148,745,733	1,220,646,324
Tax Arrears	19,022,603	71,766,524	2,240,900,658	2,331,689,786
Other Payables	-43466354.78	(43,466,355)	232722147.2	145,789,438
Current portion of borrowings	286849.95	-	-	286,850
Provisions	0	-	1349340853	1,349,340,853
Deferred income	26000000	62,400,000	22539784.98	110,939,785
Employee benefit obligation	2950000	23,850,000	219650246.7	246,450,247
Total	35268245.93	185,975,613	5996741849	6,217,985,708

43 FINANCIAL RISK MANAGEMENT

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

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a) Foreign currency risk

The Company 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 carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Kshs	Other currencies Kshs	Total Kshs
At 30 June 2023			
Financial assets			
Investments	-	-	-
Cash	-	-	-
Debtors	-	-	-
Financial Liabilities			
Trade and other payables	-	-	-
Borrowings	-	-	-
Net foreign currency asset/(liability)	-	-	-

The Company manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

43 FINANCIAL RISK MANAGEMENT (Continued)

b) Interest rate risk

Interest rate risk is the risk that the Company's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

iv) Capital Risk Management

The objective of the Company's capital risk management is to safeguard its ability to continue as a going concern. The Company capital structure comprises of the following funds:

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	2022/2023 Kshs	2021/2022 Kshs
Revaluation reserve	4,614,544,226	4,614,544,226
Retained earnings	(9,069,883,024)	(8,993,501,754)
Capital reserve	211,591,620	211,591,620
Total funds	(4,243,747,178)	(4,167,365,908)
Total borrowings	3,687,977,903	3,669,417,876
Less: cash and bank balances	(50,213,524)	(41,681,834)
Net debt/(excess cash and cash equivalents)	3,637,764,378	3,627,736,042
Gearing	-600%	-672%

44 INCOPORATION

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

45 EVENTS AFTER THE REPORTING PERIOD

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

46 CURRENCY

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

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APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR'S 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.

PROGRESS ON FOLLOW UP OF AUDITOR'S RECOMMENDATIONS

The following is the summary of issues raised by the Office of Auditor General (OAG) for the Financial Year 2021/2022, and management comments that were provided to the auditor. The issues that management have resolved and the ones that are likely to reoccur have been shown with the timeframe which we expect the issues to be resolved where applicable

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Ref No.	Issue / Observations from Auditor		Status:	Timeframe:
1.0	<p>Lack of Trial Balance</p> <p>The Company did not present a trial balance for audit for the year under review. It is therefore not clear, and Management did not explain how and where the financial statements presented for audit were extracted from.</p>	<p>The workbook carrying the excel version of the Company's annual accounts package always contained the underlying Trial Balance. Both the 1st drafts annual accounts package submitted for audit and the final draft annual accounts package submitted to the auditors after field work had the relevant Trial Balance.</p>	Resolved	
2.0	<p>Understated Revenue from Sale of Sugar:</p> <p>The statement of comprehensive income reflects revenue balance of Kshs.1,472,817,728 which, as disclosed in Note 6 to the financial statements, includes net sales of sugar net of Value Added Tax (VAT) amount of Kshs.1,431,768,203. Review of records revealed that the Company sold 17,223,930 kilograms of sugar during the year, which translates to a sales price per kilogram before VAT of Kshs.83.13. However, it was noted that during the year under review, the sugar prices net of VAT averaged Kshs.98.06 per kilogram which exceeds Kshs.83.13 by Kshs.14.93. Therefore, the amount of Kshs.1,431,768,203 is understated by an unexplained amount of Kshs.257,153,275.</p> <p>In the circumstances, the accuracy of the net sales of sugar amount of Kshs.1,431,768,203 could not be confirmed.</p>	<p>In the year 2022 the Company sold 17,223,930 Kg out of which 16,244,400 were under commodity i.e pack of 50kg this accounting to 94% of total sales. The 6% (987,350 Kg) were sold as branded both. The pricing for the two are different. The commodity sugar is lesser than the branded sugar for example the pricing done on 18th may 2022 commodity traded at ksh4,482 less vat which translate to ksh 89.64 per kg while branded was trading at ksh 99.13 per kg. The assumption that all sugar is sold at branded price i.e., sold per kg is inaccurate. Thus the variation was as a result of deferential in pricing of commodity and branded sugar</p>	Resolved	

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For the year ended June 30, 2023

Ref No.	Issue / Observations from Auditor	Status:	Timeframe:
3.0	<p>Unsupported Cost of Sales Amount The statement of comprehensive income reflects cost of sales amount of Kshs.1,958,695,060 which, as disclosed in Note 7 to the financial statements, includes an amount of Kshs.1,065,000,234, being the cost of cane milled from the out growers and an amount of Kshs.59,096,467 from the nucleus farm. However, the following audit issues were noted:</p> <p>i. The total volume of cane delivered from out growers to the factory was 246,624.1 tonnes, out of which, 245,785 tonnes were milled, resulting to a loss of cane amounting to 839.1 tonnes that could not be accounted for. In addition, records indicated that cane weighing 30,229.4 tonnes was delivered from the nucleus farm to the Company during the year and cane with a weight of 30,218 tonnes was milled, which implies a loss of 11.4 tonnes from the nucleus farm. No explanation was provided for the variance in the tonnage of cane delivered and cane milled.</p> <p>ii. Management indicated that for every twelve (12) tonnes of cane delivered, the company produces one (1) tonne of sugar. The industry standard according to the Sugar Directorate of the Agriculture and Food Authority (AFA), is one milled tonne of sugar for ten (10) tonnes of cane. However, during the year, the company received 276,853.14 tonnes of cane and produced 17,155.54 tonnes of sugar and 11,905.95 tonnes of molasses, implying that it used more than sixteen (16) tonnes of cane for one (1) tonne of milled sugar. Based on the company's assertion on the number of tonnes of sugar produced from the cane, the company should have produced 23,071.1 tonnes of sugar from the cane received. The variance of 5,915.16 tonnes between the amount of sugar produced and what was expected was not explained.</p> <p>iii. Sugar cane weighing 246,624.10 tonnes was delivered to the company from the out growers during the year. The total cost incurred on the cane amounted to Kshs.1,065,000,234. However, Management did not provide details of the cost per kilogram paid to the out growers. As a result, it was not possible to confirm the accuracy of the expenditure incurred in the acquisition of cane from the out growers.</p>	<p>The total cane milled (and also received) from out-growers was equal to total cane received of 276,009.76 minus total cane received from nucleus of 30,229.04 tons giving 245,780.72 tons, but not 246,624.1 tons which erroneously included the opening stock of 850 tons as per 30th June, 2022 daily report attached. Note that there was nil closing stock (denoted as 'balance at 6.00 am' in the same report). All cane received for the year was milled since the closing stock as noted above was nil. Therefore, it was inaccurate that only 30,218 tons was milled giving a loss of 11.4 tons.</p> <p>The low recovery rate was as a result of delay in carrying out annual plant maintenance (delayed from year 2016), and due to a breakdown of mill # 4 which meant factory ran with 3 mills against the designed 4. This reduced mill extraction from target 89% to 78.78% which directly reduced the recoverable sugar</p> <p>The changes in cane prices are determined at various periods in the course of the Financial year by the Sugar Pricing Committee (Make-up of the Committee) and the market forces ie demand and supply since the millers are given the option of paying above the price set by the committee but not below the price set. The average cost of cane received from outgrower farms is arrived by computing total cane received by the gross price of cane per tonne</p>	<p>Resolved</p> <p>Likely to reoccur as the Company is yet to carry out an extensive annual maintenance because of lack of enough funds for investments</p>

Chemelil Sugar Company Limited

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For the year ended June 30, 2023

Ref No.	Issue / Observations from Auditor	Status:	Timeframe:																	
	In the circumstances, the accuracy of the cost of sales amount of Kshs.1,958,695,060 could not be confirmed.	The average price of cane from outgrowers per tonne in the Fy 2021/2022 was kshs 4,318, computed as total cost of cane of Kshs 1,065,000,234 against total cane received of 246,624.10 from out grower farms.	Resolved																	
4.0	<p>Grants from the National Government): The statement of comprehensive income reflects grants from National Government amount of Kshs.182,017,971 which was to be used in settling farmers whose payments were in arrears. However, the criteria and basis for identification of the farmers with arrears and suppliers invited to submit quotations could not be established. Further, liabilities defrayed by the Company could not be identified in the financial records and the Management did not provided explanations on the same.</p> <p>Further, records from the Sugar Directorate provided for audit reflected a total of Kshs.181,513,629 as having been released to pay farmers and suppliers, resulting to an unexplained variance of Kshs.495,658.</p> <p>In the circumstances, the accuracy and use of the grant of Kshs.182,017,971 could not be confirmed.</p>	<p>During the financial year under review, the government defrayed part of arrears owed to farmers through direct payments to the farmers of amounts totaling Kshs.138,900,000. In addition, the government made direct payments to Company's suppliers amounting to Kshs.43,117,971 for goods and services supplied in relation to the 2022 factory maintenance exercise. These amounts totaling Kshs.182,017,971 were recorded as grant income during the financial year and applied to reduce the Company's liabilities towards farmers and suppliers respectively.</p> <p>Schedules supporting these amounts that were directly paid to their accounts by the Government have been provided to auditors for review.</p>	Resolved	30 Nov 2022																
5.0	Inaccuracies in the Financial Statements:																			
5.1	<p>Unexplained Variances in Statement of Comprehensive Income The statement of comprehensive income, and as disclosed in the supporting notes to the financial statements, reflects balances which differ with corresponding balances shown in the supporting ledger, resulting to unexplained or unreconciled variances as tabulated below:</p> <table border="1"> <thead> <tr> <th>Item</th> <th>Financial Statement Amount (Kshs.)</th> <th>Ledger Amount (Kshs.)</th> <th>Variance (Kshs.)</th> </tr> </thead> <tbody> <tr> <td>Cost of Sales:</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Cost of Cane Milled: Nucleus</td> <td>59,096,467</td> <td>59,062,868</td> <td>33,599</td> </tr> <tr> <td>Agriculture</td> <td>40,704,600</td> <td>40,963,72</td> <td>(259,127)</td> </tr> </tbody> </table>	Item	Financial Statement Amount (Kshs.)	Ledger Amount (Kshs.)	Variance (Kshs.)	Cost of Sales:				Cost of Cane Milled: Nucleus	59,096,467	59,062,868	33,599	Agriculture	40,704,600	40,963,72	(259,127)	<ul style="list-style-type: none"> The variance in cost of milled cane from nucleus of ks. 33,599 is as a result of adjustment done after the submission of 1st draft via journal no 44408,44561,44592 and 44530 of ksh.17112,4,084.8,5,722.4 and 6,679.2 respectively All the variances are as a result of adjustment done after the first draft via various journal and all the journal and supporting documents are provided for review. 	Resolved	
Item	Financial Statement Amount (Kshs.)	Ledger Amount (Kshs.)	Variance (Kshs.)																	
Cost of Sales:																				
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Chemelil Sugar Company Limited

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Ref No.	Issue / Observations from Auditor				Status:	Timeframe:
5.2	Overheads		7			
	Repairs and Maintenance	228,939,386	224,750,622	4,188,764		
	Other Factory Overheads	(28,911,323)	(28,976,123)	64,800		
	Grants from National Government:					
	Recurrent Grants Received	182,017,971	181,586,642	431,329		
	Administrative Expenses:					
	Medical Services	7,966,406	8,610,384	(643,978)		
	Staff Training Expenses	375,727	740,917	(365,190)		
	Bank Charges and Commissions	1,965,742	1,943,419	22,323		
	Repairs and Maintenance	6,480,364	6,584,023	(103,659)		
	Stationery, Printing and Photocopying	6,155,052	6,191,343	(36,291)		
	Travelling and Subsistence	4,009,650	4,005,730	3,920		
	Bad and Doubtful Debts	4,137,012	4,292,165	(155,153)		
	Other Administrative Expenses	(5,781,904)	-	(5,781,904)		
	Marketing Expenses:			-		
	Product Handling and Distribution Costs	4,851,640	5,062,972	(211,332)		
	<p>Further, Notes 7 and 13 to the financial statements reflect manufacturing and administrative staff costs of Kshs.297,865,976 and Kshs.216,158,486, while the supporting ledgers show corresponding balances of Kshs.297,021,530 and Kshs.215,704,915 respectively, resulting to a combined variance of Kshs.1,298,017. In addition, Note 13(b) to the financial statements reflects staff costs amount of Kshs.648,869,235 against departments' staff cost totalling to Kshs.632,410,159, resulting an unreconciled variance of Kshs.16,459,075</p>					

Chemelil Sugar Company Limited

**Annual Reports and Financial Statements
For the year ended June 30, 2023**

Ref No.	Issue / Observations from Auditor	Status:	Timeframe:																																																																	
5.3	<p>Unexplained Variances in Statement of Financial Position</p> <p>The statement of financial position, and as disclosed in Notes 23(a) and 34 to the financial statements, reflects balances which differ with corresponding balances shown in the supporting ledger, resulting to unexplained or unreconciled variances as tabulated below</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;">Item</th> <th style="width: 20%;">Financial Statement Amount (Kshs.)</th> <th style="width: 20%;">Ledger Amount (Kshs.)</th> <th style="width: 20%;">Variance (Kshs.)</th> <th style="width: 20%;"></th> </tr> </thead> <tbody> <tr> <td>Trade and Other Receivables :</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Deposits and Prepayments</td> <td style="text-align: right;">20,983,970</td> <td style="text-align: right;">19,410,651</td> <td style="text-align: right;">1,573,319</td> <td></td> </tr> <tr> <td>Staff Receivables</td> <td style="text-align: right;">24,213,631</td> <td style="text-align: right;">23,459,559</td> <td style="text-align: right;">754,072</td> <td></td> </tr> <tr> <td>Trade and Other Payables:</td> <td></td> <td></td> <td style="text-align: center;">-</td> <td></td> </tr> <tr> <td>Trade Payables - Cane</td> <td style="text-align: right;">492,391,252</td> <td style="text-align: right;">478,939,761</td> <td style="text-align: right;">13,451,491</td> <td></td> </tr> <tr> <td>Trade Payables - Creditors</td> <td style="text-align: right;">320,451,174</td> <td style="text-align: right;">314,317,650</td> <td style="text-align: right;">6,133,524</td> <td></td> </tr> <tr> <td>Accrued Expenses - Payroll</td> <td style="text-align: right;">1,215,481,388</td> <td style="text-align: right;">1,241,528,797</td> <td style="text-align: right;">(26,047,409)</td> <td></td> </tr> <tr> <td>Accrued Expenses - Staff</td> <td style="text-align: right;">5,164,937</td> <td style="text-align: right;">5,505,983</td> <td style="text-align: right;">(341,046)</td> <td></td> </tr> <tr> <td>Other Payables</td> <td style="text-align: right;">136,089,651</td> <td style="text-align: right;">138,529,988</td> <td style="text-align: right;">(2,440,337)</td> <td></td> </tr> <tr> <td>VAT Payable</td> <td style="text-align: right;">1,000,468,324</td> <td style="text-align: right;">1,001,755,536</td> <td style="text-align: right;">(1,287,212)</td> <td></td> </tr> <tr> <td>WHT Payable</td> <td style="text-align: right;">10,827,023</td> <td style="text-align: right;">33,370,260</td> <td style="text-align: right;">(22,543,237)</td> <td></td> </tr> <tr> <td>ML Payable</td> <td style="text-align: right;">1,621,322</td> <td style="text-align: right;">3,213,146</td> <td style="text-align: right;">(1,591,824)</td> <td></td> </tr> </tbody> </table> <p>Inaccuracy in Statement of Comparison of Budget and Actual Amounts</p> <p>The statement of comparison of budget and actual amounts reflects budget amount of Kshs.3,386,021,000, while recasting revealed an amount of Kshs.3,921,056,152, resulting to an unexplained variance of Kshs.535,035,152.</p> <p>In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.</p>	Item	Financial Statement Amount (Kshs.)	Ledger Amount (Kshs.)	Variance (Kshs.)		Trade and Other Receivables :					Deposits and Prepayments	20,983,970	19,410,651	1,573,319		Staff Receivables	24,213,631	23,459,559	754,072		Trade and Other Payables:			-		Trade Payables - Cane	492,391,252	478,939,761	13,451,491		Trade Payables - Creditors	320,451,174	314,317,650	6,133,524		Accrued Expenses - Payroll	1,215,481,388	1,241,528,797	(26,047,409)		Accrued Expenses - Staff	5,164,937	5,505,983	(341,046)		Other Payables	136,089,651	138,529,988	(2,440,337)		VAT Payable	1,000,468,324	1,001,755,536	(1,287,212)		WHT Payable	10,827,023	33,370,260	(22,543,237)		ML Payable	1,621,322	3,213,146	(1,591,824)			
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Chemelil Sugar Company Limited

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Ref No.	Issue / Observations from Auditor		Status:	Timeframe:
6.0	<p>Non-revaluation of Fully Depreciated Assets: The statement of financial position reflects property, plant and equipment balance (net book value) of Kshs.5,056,793,211. Review of the fixed asset register revealed assets with historical costs totalling to Kshs.78,859,791 which had been fully depreciated. However, it was noted that the assets were still in use and ought to have been subjected to a revaluation in line with IAS 16.31.</p> <p>In the circumstances, the accuracy of property, plant and equipment balance of Kshs.5,056,793,211 could not be confirmed</p>	<p>The Company carries out revaluation of property plant and equipment every 5 years in line with IAS 16. The last revaluation was undertaken in 2018. Another revaluation will be undertaken in 2023. The concerns raised will be addressed while adopting the new revalued amounts in 2022/2023 financial year.</p> <p>The Company has signed the contract with Tysons Ltd to carry out the revaluation of the Company Assets that will address the concerns</p>	Pending	30th October 2023
7.0	<p>Undisclosed Intangible Assets: The statement of cash flows reflects nil balance in respect of purchase of intangible assets. However, information provided for audit revealed that Kshs.6,621,650 was paid to two firms for maintenance of the Sun-System and Payroll System respectively. The Sun-System (Financial Module), A Plus Integrated system (Payroll) and Weighbridge System were being used by the Company in the running of its operations. However, the expenditure was not expensed in the financial statements. Further, the software's acquisition or contract documents were not provided for audit.</p> <p>In the circumstances, the accuracy of the nil intangible assets amount could not be confirmed.</p>	<p>Software maintenance cost is an operating expenditure item which forms part of operating cash flows. It is not part of software acquisition cost that would appear as investment cash flows. The software support agreements for the Sun system and Payroll system have been availed to the auditors.</p> <p>We acknowledge that paragraph 118 of IAS 38 requires an entity to disclose specified information for each class of intangible assets recognized by the entity. However, the purchase/development and installation costs of the Sun-System software implemented in 1999, the Weighbridge System software installed in 2000 and the A Plus Integrated systems (Payroll) software implemented in 2014 were expensed on acquisition. Paragraphs 71 and 76 of IAS 38 prohibits recognition of previously expensed costs as part of the cost of an intangible asset.</p>	Resolved	

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For the year ended June 30, 2023

Ref No.	Issue / Observations from Auditor		Status:	Timeframe:
8.0	<p>Inaccuracies in the Inventories</p> <p>The statement of financial position reflects inventories balance of Kshs.248,346,056 which, as disclosed in Note 22 to the financial statements, comprises gross amount of Kshs.309,955,052, less impairment amount of Kshs.61,636,216. However, the Kshs.309,955,052 includes field and factory stores balance of Kshs.291,410,910, while the supporting ledger shows a corresponding balance of Kshs.303,207,817, resulting to an unexplained variance of Kshs.11,796,907. Further, review of manual stock sheets for field and factory stores on 28 June, 2022 against recorded amounts revealed a total net variance of Kshs.5,182,377 in respect of ledgers 13B and 14B, which was not reconciled or explained. In addition, stock taking reports for the factory stores in support of the balance of Kshs.291,410,910 were not provided for audit.</p> <p>In the circumstances, the accuracy of inventories balance of Kshs.248,346,056 disclosed in the statement of financial position could not be confirmed</p>	<p>The Kshs. 299,089,890 field and factory stores ledger balance in the draft accounts had included GRNs for goods received in 2022/2023 worth Ksh. 11,991,660 which have since been transferred to the correct period. Another adjustment of Ksh. 4,312,080 has been made to reverse an entry that had been passed twice in the ledger by mistake. The closing balance of the field and factory stores ledger is therefore Ksh 291,410,910. Copies of the journals and the ledger are attached. The misclassifications that affected store ledger 13B and 14B have been reconciled and reclassified appropriately.</p>	Resolved	
9.0	<p>Trade and Other Receivables</p> <p>The statement of financial position reflects trade and other receivables balance of Kshs.249,545,905 which, as disclosed in Note 23(a) to the financial statements, comprises gross amount of Kshs.761,523,494, less provision for impairment amount of Kshs.511,977,589. However, the following audit issues were noted:</p>			
9.1	<p>Long Outstanding Receivables</p> <p>The gross amount of Kshs.761,523,494 includes receivables amounting to Kshs.672,635,676 (or 88%) which were more than 120 days old, casting doubt on the effectiveness of debt management in the Company. No evidence in form of demand notes/letters were provided to indicate measures taken to recover the debts due to the Company. Further, provision for impairment amount of Kshs.511,977,589 was not backed by any rate or policy.</p>	<p>The Company's sales are largely made on cash basis with the only credit sales being molasses sales to Agro Chemical and Finance Company which is a neighbouring state corporation. Further, the Company no longer provides cane development loans to farmers. The debtors' balances cited are historical balances which arose more than 5 years back when the Company had credit sale arrangements and was giving cane development loans to farmers. The provisions made in the books are specific provisions against balances that have not moved for more than 5 years and there is no indication that recovery is likely. Most of the debtors are brought forward</p>	Likely to reoccur unless there is approval for the debts to be written off	

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For the year ended June 30, 2023

Ref No.	Issue / Observations from Auditor	Status:	Timeframe:												
9.2															
	<p>historical balances that date back to over 8 years. The Company had engaged a debt collector to pursue the debts but the matter could not proceed because of limited supporting documents. Provisions have been made against the old debts</p> <p>Management has since developed a draft Credit Management policy document to guide on engagement with customers, monitoring and collection of debts as well as provisioning and write off doubtful and bad debts. This will be put into full use upon approval by the Board of Directors.</p>														
	<p>Unsupported Outstanding Imprests Balance The gross amount of Kshs.761,523,494 also includes staff receivables balance of Kshs.24,213,631 which further includes outstanding imprests amount of Kshs.2,495,523 whose supporting documents were not provided for audit, and whose recoverability could therefore not be ascertained.</p> <p>In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs.249,545,905 could not be confirmed</p>	Resolved													
10.0	<p>Bank and Cash Balances</p> <p>The statement of financial position reflects bank and cash balances amount of Kshs.41,681,834 as disclosed in Note 26 to the financial statements. However, review of records related to the balance revealed the following anomalies:</p> <p>Variance Between Financial Statements and Bank Reconciliation</p> <p>The balance of Kshs.41,681,834 includes balances which differ with the reconciled cash book balances as shown below:</p> <table border="1"> <thead> <tr> <th>Item</th> <th>Reconciliati on statement bal (kshs)</th> <th>Financial Statement bal.(kshs)</th> <th>Variance</th> </tr> </thead> <tbody> <tr> <td>KCB-Project 1</td> <td>(285,939)</td> <td>(286,850)</td> <td>911</td> </tr> <tr> <td>KCB-</td> <td>-</td> <td>24,857,678</td> <td>(24,857,678)</td> </tr> </tbody> </table>	Item	Reconciliati on statement bal (kshs)	Financial Statement bal.(kshs)	Variance	KCB-Project 1	(285,939)	(286,850)	911	KCB-	-	24,857,678	(24,857,678)	Resolved	
Item	Reconciliati on statement bal (kshs)	Financial Statement bal.(kshs)	Variance												
KCB-Project 1	(285,939)	(286,850)	911												
KCB-	-	24,857,678	(24,857,678)												
10.1															
	<p>The reconciliation statements for all the bank accounts mentioned have been provided to the auditors.</p> <p>The negative balance of Kshs. 285,939 was a cash book balance but the corresponding bank statement showed a positive balance of Kshs. 63,233.05 as at 30 June 2022. The bank certificate confirming this positive balance and the statement reconciling it to the negative cashbook balance have been availed to the auditors.</p> <p>The presentation of bank balances has been revised in the final draft financial statements and the net off has been avoided.</p>														

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Ref No.	Issue / Observations from Auditor				Status:	Timeframe:
	Academy					
	Coop -Main	(4,083,572)	4,023,532	(8,107,104)		
	Coop—Health A/C	12,386	31,736	(19,350)		
	Coop-Academy PTA	-	2,104,111	(2,104,111)		
10.2	<p>Unsupported Bank Balances</p> <p>The amount of Kshs.41,394,984 includes balances held in KCB Bank Kisumu Project Account 2 and KCB Bank Kisumu Project Account 1 of Kshs.5,941,590 and Kshs.286,850 (overdraft) respectively, whose bank certificates were not provided for audit. Further, the disclosure of a negative balance of Kshs.286,850 is contrary to Paragraph 32 of IFRS 1, which states that an entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS.</p>					
10.3	<p>Bank Reconciliation Statements</p> <p>10.3.1 Payments in Cash Book not in the Bank Statements</p> <p>The supporting bank reconciliation statements as at 30 June, 2022 included unrepresented cheques amounting to Kshs.16,767,224. However, bank statements showing when the unrepresented cheques were cleared were not provided for audit.</p>				Resolved	
	<p>10.3.2 Receipts in Bank Statements not in the Cash Book</p> <p>The bank reconciliation statements also reflect receipts in bank statement not yet recorded in the cash book of Kshs.4,999,667, some dating back to the year 2019. The nature of these receipts and reasons for not posting them in the cash book was not provided for audit.</p>				Resolved	
	<p>The main items here were two receipts from Agro Chemicals and Finance Company totaling Kshs. 4,954,933.80 deposited on a/c 5622001 but the corresponding receipts were inadvertently posted to the cash book for a different bank a/c 5621001. These and other direct deposits of Kshs. 123,933.90 have since been correctly receipted. Besides the revised bank reconciliation statement, a schedule showing details of above items and corrections made has been provided to the auditors. We await bank response on our request for details of the other entries totaling Kshs.79,200 appearing in the bank statement to update</p>					

Chemelil Sugar Company Limited

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For the year ended June 30, 2023**

Ref No.	Issue / Observations from Auditor		Status:	Timeframe:													
10.4	<p>10.3.3 Receipts in Cash Book not in the Bank Statements</p> <p>Further, the bank reconciliation statements contain unexplained transactions without details, totalling to Kshs.40,748,968 reflected as receipts in cashbook not in bank statement and whose details such as source of the receipts and the date cleared in the bank statement were not provide for audit.</p>	<p>These were Company cheques for payments and interbank transfers which were eventually cleared or cancelled. For all cancelled transfers, have now been effected in June 2022 and the reconciliation statement revised accordingly. A schedule showing details has been provided to the auditors.</p>	Resolved														
	<p>10.3.4 Payments in Bank Statements not in Cash Book</p> <p>The bank reconciliation statements reflects payments of Kshs.2,501,148 in bank statements not in cash book, relating to outward payments, whose nature was not disclosed.</p>	<p>These were bank charges and payments that had not been posted to the cash book as at 30 June 2022. A schedule indicating the item descriptions and eventual posting dates has been provided to the auditors.</p>	Resolved														
	<p>Cash Count Report</p> <p>The bank and cash balances amount of Kshs.41,681,834 includes cash in hand balance of Kshs.737,608. However, examination of cash count report as at 30 June, 2022 revealed a balance of Kshs.750,002 as tabulated below, resulting to an unexplained variance of Kshs.12,392:</p> <table border="1" data-bbox="288 1406 805 1839"> <thead> <tr> <th>Cash Item</th> <th>Amount (Kshs)</th> </tr> </thead> <tbody> <tr> <td>Cash on Hand</td> <td>322,720</td> </tr> <tr> <td>Unreimbursed vouchers paid</td> <td>597,142</td> </tr> <tr> <td>Cash from Receipts</td> <td>(84,750)</td> </tr> <tr> <td>Reimbursed and not paid</td> <td>(45,940)</td> </tr> <tr> <td>Cash Surplus</td> <td>(39,172)</td> </tr> <tr> <td>Total</td> <td>750,000.00</td> </tr> </tbody> </table> <p>In the circumstances, the accuracy and completeness of</p>	Cash Item	Amount (Kshs)	Cash on Hand	322,720	Unreimbursed vouchers paid	597,142	Cash from Receipts	(84,750)	Reimbursed and not paid	(45,940)	Cash Surplus	(39,172)	Total	750,000.00	<p>The ledger balance of Kshs. 737,607.84 has been reconciled with the physically counted cash at year end and to the maximum approved cash float as attached documents for review.</p>	Resolved
Cash Item	Amount (Kshs)																
Cash on Hand	322,720																
Unreimbursed vouchers paid	597,142																
Cash from Receipts	(84,750)																
Reimbursed and not paid	(45,940)																
Cash Surplus	(39,172)																
Total	750,000.00																

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Ref No.	Issue / Observations from Auditor		Status:	Timeframe:
	bank and cash balance of Kshs.41,394,984 could not be confirmed.			

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Ref No.	Issue / Observations from Auditor		Status:	Timeframe:
11.0	<p>Taxation Matters</p> <p>The statement of financial position reflects tax recoverable amount of Kshs.14,608,376 which, according documents reviewed, relates to instalment tax, withholding tax on interest income and advance tax on commercial vehicles paid. However, no deferred tax is disclosed in the financial statements despite the fact that the company had been making losses for some years now. Further, the Company did not maintain a record of its VAT input taxes, and only reflects the output VAT.</p> <p>In the circumstances, the accuracy and completeness of the tax recoverable amount of Kshs.14,608,376 could not be confirmed.</p>	<p>During the year, the presumptive and Instalment tax recoverable amounts were reduced by Kshs.997,760 and Kshs.32,000 respectively. These amounts have previously been held as a payable balance in separate ledger accounts. In the same manner, recoverable Advance tax on commercial vehicles also increased by Kshs. 454,495. The details are summarized as attached.</p> <p>A detailed analysis showing the ledger entries is attached.</p>	Resolved	
12.0	<p>Borrowings</p> <p>The statement of financial position reflects borrowings balance of Kshs.3,669,131,027 under non-current liabilities, which, as disclosed in Note 31 to the financial statements, comprises principal amount of Kshs.2,626,916,872 and interest of Kshs.1,042,214,155. Examination of documents revealed that these were loans advanced from the Commodities Fund under the Sugar Development Fund which were long overdue, and no repayments were made during the year under review.</p> <p>The principal amount of Kshs.2,626,916,872 included an unsecured non-current loan refundable with no interest of Kshs.40,000,000, received through the Agricultural Development Corporation and the Commodities Fund in May, 2017. Review of documents provided for audit revealed that the Company pledged to pay Kshs.6,000,000 per month and clear the debt by April, 2019. Although the corporations had sent out demand letters for repayment of this amount owed, the Management has not provided any evidence of servicing the loan which has contributed to an increase in the long-term liabilities.</p> <p>Further, the Management did not provide loan agreements for the following outstanding loans totalling</p>	<p>Loan servicing was affected by the Company's cash flow constraints which was explained both through meetings and in writing to the lenders.</p> <p>Government is in the process of writing the loans off our books as part of the process to commercialize the public owned Sugar Mills</p> <p>Given the age of the loans, efforts to retrieve the documents have not been successful. We will seek the assistance of the counterparties</p>	Resolved	

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Ref No.	Issue / Observations from Auditor	Status:	Timeframe:
	to Kshs.900,593,785:		
13.0	<p>Unsupported Dividends Payable</p> <p>The statement of financial position reflects dividend payable balance of Kshs.9,699,787 relating to unclaimed dividends of the 2001/2002 financial year, payable to ordinary shareholders, which remained the same from the prior year. However, Management did not provide supporting documents for the balance.</p> <p>In the circumstances, the accuracy, completeness and validity of the dividend payable balance of Kshs.9,699,787 could not be confirmed.</p>	<p>The dividend was declared in relation to the profit after tax for 2001/2002. However, the same has neither been paid nor claimed.</p>	<p>Unresolved Likely to reoccur because of inadequate funds incase claimed</p>
14.0	<p>Undisclosed Material Uncertainty Related to Going Concern</p> <p>The statement of comprehensive income indicates that during the year under review, the Company incurred an operating loss of Kshs.694,894,756 which, as disclosed in the statement of financial position, raised accumulated losses from Kshs.8,298,606,998 in the previous financial year to Kshs.8,993,501,754. Further, the Company, as reflected in the statement of financial position, had current liabilities amounting to Kshs.6,217,985,708 compared to current assets of Kshs.554,182,171, resulting to a negative working capital of Kshs.5,663,803,537.</p> <p>The financial position of the Company made it unable to service its long-term liabilities of Kshs.3,669,131,027 which was an increase by Kshs.22,516,936 from the previous year, an indication that the Company may not be able to operate effectively.</p> <p>Management has not made specific disclosure in the financial statements in regard to these matters.</p>	<p>Note 41 of the Financial Statements acknowledges the going concern situation and outlines the steps being taken to improve the future performance of the Company. The following efforts by the government, who is the majority shareholder, continues to alter the future outlook:</p> <p>(i) Engaging industry stakeholders through a task force that identified both short term and long-term solutions for the challenges of sugar industry including Chemelil Sugar Company.</p> <p>(ii) Financial support to the Company in defraying critical operational obligations. This is demonstrated by the grant income received of Kshs. 210 million in 2019 and Kshs. 182 million in 2022 to settle farmers arrears and rehabilitate the factory.</p> <p>(iii) The plan to privatize/lease the Company which is expected to result into injection of funds for investment into the factory to enhance efficiency of operations.</p> <p>With the support of the government and other stakeholders, the Company has consistently reduced its recorded annual loss from Kshs. 856 million in 2016/17 to Kshs. 695</p>	<p>Unresolved Likely to reoccur</p>

Chemelil Sugar Company Limited

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Ref No.	Issue / Observations from Auditor	Status:	Timeframe:
		<p>million in 2021/22. Further, a government funded maintenance was undertaken between May 2022 and August 2022 which has improved factory efficiency, enhanced the Company revenues and strengthened its financial position.</p> <p>The Company's gearing risk is diluted by the fact that Commodity Fund and Kenya Revenue Authority who hold the highest portfolio among its creditors are government owned entities that technically qualify as related parties. The unrevoked letter by the National Treasury to KRA in 2015 that intervened by putting on hold tax claims of Kshs.1.9 billion until completion of the privatization process is a demonstration of this reality.</p>	
	<p>Budgetary Control and Performance The statement of comparison of budget and actual amounts budget and actual amounts reflects total revenue amount of Kshs.1,776,484,790 against an approved budget of Kshs.3,386,021,000, resulting to a shortfall of Kshs.2,144,571,363 or 55% of the budgeted revenue. The shortfall was mainly attributed to low sales of 17,246 tonnes of sugar against the budget of 50,596 tonnes due to lower production caused by stoppage of factory operations from April to July, 2022 for maintenance of the plant.</p> <p>Similarly, the Company had budgeted to spend Kshs.3,151,362,967 but utilized an amount of Kshs.2,471,379,546, resulting to an under-expenditure of Kshs.679,983,421 (or 22% of the budget). The under-expenditure mainly occurred against use of goods and services whose budgeted and actual expenditure amounts are Kshs.1,956,832,800 and Kshs.1,096,033,880 respectively, resulting to an under-expenditure of Kshs.860,798,920.</p> <p>Further, the revenue and expenditure budget amounts</p>	<p>Being a commercial entity, the Company's revenue and expenditure levels are determined by operational and business circumstances. The production and sales were indeed lower than budgeted and so were the revenues. This was mainly because of the stoppage for maintenance during the entire fourth quarter of the financial year.</p> <p>The expenditure overrun was mainly because of maintenance expenditure which was financed by grant funds provided by the government. Both the funding and the expenditure had not been included in the budget. The government announced the grant in October 2021 and the Company only accessed the funds towards the end of the financial year when it became available. The items of expenditure included cost of spares and repairs, additional contracted labour and leave pay for employees not engaged in maintenance.</p>	<p>UnResolved Likely to reoccur for the Company had stoppage for maintenance for the FY 2022/2023 and for Growth of Cane in FY 2023/2024</p>

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Ref No.	Issue / Observations from Auditor		Status:	Timeframe:														
1.0	<p>of Kshs.3,386,021,000 and Kshs.3,151,362,967 respectively, results in a variance of Kshs.234,658,033 which indicates an unbalanced budget, contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015, which requires the budget to be balanced.</p> <p>In addition, the itemized budget provided for audit reflected amounts of Kshs.632,410,159 and Kshs.720,418,571 in respect of use of goods and services and other payments, which were higher Kshs.530,459,997 and Kshs.587,819,170 respectively, included in the final expenditure amount of Kshs.2,471,379,546, yet there was no evidence of approvals to cover the excess budget.</p> <p>The shortfall in revenue and under-expenditure implies that the Company's planned activities were not fully realized during the year under review.</p> <p>Tax Penalties and Interest on Unremitted Statutory Deductions</p> <p>The statement of financial position reflects trade and other payables balance of Kshs.5,815,045,511 which, as disclosed in Note 34 to the financial statements, includes accrued tax penalties and interest balance of Kshs.1,313,777,324 which arose as a result of the Company's failure to remit to the respective statutory bodies the following deductions from payroll and other taxes amounting to Kshs.2,331,689,786 that had accumulated over many years:</p> <table border="1" data-bbox="300 1473 826 1747"> <thead> <tr> <th>Description</th> <th>Amount (Kshs.)</th> </tr> </thead> <tbody> <tr> <td>VAT Payable</td> <td>1,000,468,324</td> </tr> <tr> <td>PAYE Payable</td> <td>844,663,250</td> </tr> <tr> <td>Withholding Tax Payable</td> <td>10,827,023</td> </tr> <tr> <td>Sugar Development Levy Payable</td> <td>474,109,867</td> </tr> <tr> <td>Maintenance Levy Payable</td> <td>1,621,322</td> </tr> <tr> <td>Total</td> <td>2,331,689,786</td> </tr> </tbody> </table> <p>In the circumstances, the accrued tax penalties and interest balance of Kshs.1,313,777,324 is nugatory and could have been avoided.</p>	Description	Amount (Kshs.)	VAT Payable	1,000,468,324	PAYE Payable	844,663,250	Withholding Tax Payable	10,827,023	Sugar Development Levy Payable	474,109,867	Maintenance Levy Payable	1,621,322	Total	2,331,689,786	<p>The bulk of the figures listed above were brought forward balances from previous years.</p> <p>Management has been in constant engagement with its creditors including KRA, NHIF, NSSF, RBA and Scheme Trustees on settlement arrangements. A weekly tax payment schedule has been implemented since July 2020. A monthly arrears payment of NSSF and NHIF has also been in place since May 2020. Through engagements with the RBA, the Company suspended further deduction of pension contributions effective February 2021 to stop further accumulation of liabilities towards the scheme. These arrangements have helped eliminate and avoid litigations.</p>	Likely to reoccur because of cash constraints the Company is facing	
Description	Amount (Kshs.)																	
VAT Payable	1,000,468,324																	
PAYE Payable	844,663,250																	
Withholding Tax Payable	10,827,023																	
Sugar Development Levy Payable	474,109,867																	
Maintenance Levy Payable	1,621,322																	
Total	2,331,689,786																	

Chemelil Sugar Company Limited

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Ref No.	Issue / Observations from Auditor	Status:	Timeframe:
		In keeping with the principle of prudence in accounting, provision is being made in the books for tax penalties and interest. However, the Company intends to apply for waiver upon achieving full settlement of the principal taxes.	
2.0	Human Resource Management		
2.1	<p>Staff in Acting Capacity</p> <p>As reported in the previous year, the Managing Director has been in an acting capacity since May, 2017. Further, eighteen (18) staff members continued serving in acting capacities in various positions for more than six (6) months. This was contrary to Section C (14)(1) of the Human Resource Policies and Procedures Manual, which states that acting allowance will not be payable to an officer for more than six (6) months.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>The Board of Directors had commenced a recruitment process to competitively fill the position of Managing Director with an advert through the Kenyan daily newspapers on 27th May 2020. Applicants were shortlisted for interview but a circular ref: MOALF&C/CS/ADM/30 dated 7th July, 2020 from the Cabinet Secretary, Agriculture, Livestock, Fisheries and Cooperatives (copy attached) imposed an embargo/restriction on recruitment and promotions. The Board was later disbanded through a gazette notice dated 3rd August, 2020 before completing the process.</p> <p>Over the years employees exited Company service through death, resignation, termination, retirement and expiry of contract. Although Section 34 [3] of the Public Service Commission Act, No. 10 of 2017 is more authoritative to the effect that public officers can only serve in acting capacity for a period of one month, and up to a maximum period of six months, the same embargo restricted the Company's ability to replace all the vacant positions arising from the exits. To ensure smooth operations within the various Departments/Sections, the Company has had to continue engaging various members of staff on acting capacity even though they exceeded six (6) months as per sample attachments availed.</p> <p>We have currently submitted our Human Resource Instruments to the Public Service Commission for approval as required and we remain optimistic that the same shall be approved and the embargo on recruitment lifted to enable us fill some of the positions</p>	Unresolved because of the restrictions as indicated and operating in impaired cashflow and likely to reoccur
2.2	Non-Compliance with One- Third of Basic Salary Rule		

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Ref No.	Issue / Observations from Auditor		Status:	Timeframe:
	<p>Review of the Unionisable Personnel's payroll for the year under review revealed that in the month of June, 2022, the net salaries for seven (7) officers were less than one third of their basic pay. This was contrary to Section C1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016.</p> <p>In the circumstances, Management was in breach of Public Service Commission (PSC) Human Resource Policies.</p>	<p>Management acknowledges that the efficiency of an employee must be regarded as gravely impaired and the value of his/her services seriously diminished if, from any cause whatever, he/she is allowed to overcommit their salaries beyond two thirds (2/3) of their basic salaries.</p> <p>The Employees mentioned were serving suspension during the month and were only entitled to earning half their normal basic salaries. Their resultant third of basic was therefore half of the ordinary third of basic. Those who took home amounts below third of basic did so as a result of commitments they had engaged in while earning their full pay and could be accommodated then. The Company could not take disciplinary action on the employees on this basis because their earning situation had actually resulted from another disciplinary action. The disciplinary process has subsequently been concluded and their earnings restored.</p>		
2.3	<p>Non-Compliance with Affirmative Action on Gender, Ethnicity and Regional Distribution</p> <p>Review of the payroll records revealed that the Company had a total of 461 permanent and pensionable staff members. However, review of staff personal records indicates that 46% of the staff belong to one ethnic community, contrary to the provisions of Section 7(1) and (2) of the National Cohesion and Integration Act, 2008. Further, Human Resource records revealed that during the year under review, out of the 461 staff members, 380 (or 82% of the workforce) were male and 81 (or 18%) were female. This was contrary to the provisions of Section 175 (c) of the Constitution of Kenya, 2010 since the gender balance was not achieved in the staff composition.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>The summary analysis of the Company ethnic and gender mix status among permanent employees as at 30 June 2022 was as follows:</p> <p>The Company's efforts towards regularizing its position in line with the requirements of National Cohesion and Integration Act 2018 has been hampered by restrictions on recruitment of permanent employees. The restrictions tightened further as discussions on privatization and leasing of government owned public sugar millers intensified in periods after 2018. This is despite the reality that the Company continued to experience employee exits largely due to retirement but also due to other means of natural attrition.</p> <p>We have currently submitted our Human Resource Instruments to the Public Service Commission for approval as required and we remain optimistic that the same shall be approved and the embargo on recruitment lifted to enable us improve our status while filling existing and future vacancies.</p>	Unresolved Likely to reoccur as explained because of the reasons indicated	

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Ref No.	Issue / Observations from Auditor		Status:	Timeframe:
3.0	<p>Direct Procurement</p> <p>The statement of comprehensive income reflects cost of sales amount of Kshs.1,958,695,060 which includes Kshs.742,400 paid to a firm for the supply and delivery of Centrifugal Motor. However, it was noted that the latter amount was incurred through direct procurement, contrary to the Public Procurement and Asset Disposal Regulations, 2020. No evidence was provided that the conditions for use of the method as provided in Sections 90 and 91 of the Public Procurement and Asset Disposal Regulations, 2020 had been met.</p> <p>In the circumstances, the Management was in breach of the law.</p>	<p>Direct procurement was done in line with PPADA, 2015 section 103 2(c). The finer details as outlined in the PPADR, 2020 was observed accordingly. Please refer to user justification memo ref CSCL/FACT/HOF/SCM/21/182 and prior approval memo ref CSCL/ADM/SC/21/7 executed in line with the Act and Regulation.</p>	Resolved	
4.0	<p>Management of Inventories</p> <p>As disclosed in Note 22 to the financial statements, the inventories balance of Kshs.248,346,056 is net of an impairment of Kshs.61,636,216. The impairment, as explained by the Management, was in respect of obsolete stock in the stores. However, no annual asset disposal plan was provided for audit review. Further, there is no evidence of policies or guidelines having been developed and implemented on valuation and costing of inventories.</p> <p>In the circumstances, the basis of valuing the inventory totalling to Kshs.248,346,056 could not be confirmed.</p>	<p>Note 22 has been revised to reflect the gross amount of other material and consumable stock of Kshs.309,955,052 which is the total of all the stock ledger balances. All the stock ledgers were availed. The note also reflects a net amount of Kshs.248,318,836 after the impairment of Kshs.61,636,216.</p> <p>The established policy of the Company is to record inventories received at actual cost, account for inventories issued on FIFO basis and to value physically verified closing at the weighted average cost for reporting purposes. The ledgers are adjusted accordingly.</p> <p>The Company's has a disposal plan which has been incorporated in the 2022/2023 budget. However, a significant portion of the stocks that had previously been declared obsolete were drawn during the year for modification and use and the value of obsolete stock reduced by Kshs. 21,226,632. The management has disposed off the declared obsolete stock in the 1st Quarter of the FY 2023/2024</p>	Resolved	
5.0	<p>Avoidable Penalty Payment</p> <p>Review of statutory deductions records revealed that the Management delayed to remit the monthly NSSF for the month of March, 2022 of Kshs.1,162,300 contrary to Section 27 (1) of the NSSF Act, 2013, which states that if any contribution for which a contributing employer is required to pay to the Fund is not paid</p>	<p>For a period exceeding 8 years, the Company has been facing serious operational and market challenges that has affected its production and revenues. This has resulted into cash flow constraints causing delays in meeting financial obligations. Nevertheless,</p>	Unresolved and likely to reoccur because of cash constraints to	

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Ref No.	Issue / Observations from Auditor		Status:	Timeframe:
	<p>within one month after the end of the month in which the last day of the contribution period to which it falls, a sum equal to five per cent of the amount of that contribution shall be added to the contribution for each month or part of a month that the amount due remains unpaid, and any such additional amount shall be recoverable at the same time and in the same manner as the contribution to which it is added. As a result, the non-remittance attracted a penalty of Kshs.523,035.</p> <p>In the circumstances, the Management was in breach of the law. Also, the penalty of Kshs.523,035 was a nugatory expense to the Company.</p> <p>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.</p>	<p>the Company has engaged NSSF and other statutory bodies and explained to them difficult financial situation.</p>	<p>settle the stated liabilities</p>	
1.0	<p>Lack of Board of Directors</p> <p>As previously reported, review of records provided revealed that the Company operated without a Board of Directors as the term of the existing Board ended on 22 July, 2020 after it was dissolved, and no reason was provided for non-replacement. As a result, the Company did not have Board of Directors' sub-committees such as the Audit Committee, Human Resource and Finance Committee and Strategy and Technical Committee to provide oversight to Management's activities in line with good corporate governance practices. Further, the Company had an estimated budget of Kshs.3,386,021,000 as reflected in the financial statements. However, Management did not explained how the budget was discussed and approved.</p> <p>In addition, the financial statements submitted for audit included the Chairman's report, Board of Directors' report and statement of Directors' responsibilities which were signed by the Ag. Managing Director on behalf of the Chairman. In addition, the statement of Directors' responsibilities indicates that the financial statements were approved on 30 September, 2022 which casts doubt on the authenticity of the financial statements for the year under review.</p> <p>In the circumstances, the effectiveness of the Company's internal controls, risk management and</p>	<p>The Company's Board was fully constituted with all its committees as reported until the date that the Directors' appointment was revoked by the Cabinet Secretary for Agriculture, Livestock and Cooperatives vide the Kenya Gazette notice dated 3rd August 2020 to take effect from 16th July 2020 to pave way for leasing/privatization of all state-owned sugar companies then.</p> <p>Management has prepared the financial statements and annual reports on behalf of the Board of Directors on the basis of verifiable events and transactions recorded in the books of the Company. Normally, the same are presented to the Board for discussion and approval. However, the Board was dissolved and was not available to approve the financial statements and reports for the year ended 30th June 2022. The statements and annual budgets have therefore been signed by the Acting Managing Director.</p> <p>We believe that the accuracy of the financial statements and annual reports and the extent of truth and fairness of the reported operating results and financial position can be</p>	Resolved	

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For the year ended June 30, 2023

Ref No.	Issue / Observations from Auditor		Status:	Timeframe:
	overall governance could not be confirmed.	verified from underlying books and records of the Company as well as explanations provided by Management Currently the Board was constituted in April 2023 through a gazette notice dated 14.04.2023 and all the committees of the Board have been constituted as required by law		
2.0	<p>Lack of Audit Committee and a Functional Internal Audit</p> <p>Review of the internal audit work plans for the year under review revealed that the internal audit targeted to audit eight (8) audit areas. However, it was noted that the audit covered only four (4) areas which included Imprest procedures and claims audit, land preparation audit, nucleus estate audit and security audit. However, evidences of submission of the reports to the Management and of whether the recommendations were thereafter implemented were not provided for audit.</p> <p>Further, it was noted that the term of the Audit Committee Members lapsed on 22 July, 2020 and the Company had been operating without an Audit Committee, contrary to Section B of the Mwongozo Code of Governance for State Corporations Guidelines. In the absence of a proper functioning internal audit unit and an established Audit Committee of the Board, monitoring and review of the effectiveness of the internal audit processes, review of internal controls, risk management systems and financial statements among other functions may not have been carried out.</p> <p>In the circumstances, the effectiveness of the Company's internal controls, risk management and overall governance could not be confirmed.</p>	<p>The audit section planned for eight audit programs. Five audits were undertaken including environmental audit done by Quality Assurance Section. The audit reports done during the year were forwarded to management for action.</p> <p>Understaffing has been the greatest setback in the performance of the Internal Audit section as a result of delayed filling of the four vacant positions of internal auditors out of the required five. One position was recently filled through an internal transfer and management is taking necessary action to initiate the filling of the vacant positions in due course.</p> <p>The disbandment of the Company Board of Directors by the Government on 22nd July, 2020 meant that there was, thereafter, no Board Audit Committee for oversight.</p> <p>The Board was constituted in April 2023 through a gazette notice dated 14.04.2023 and Audit Board Committee has been constituted</p>	Partly solved and likely not to reoccur. Because of the restrictions/em bargo on employment that would have empowered the internal audit to carry out all its planned programmes	
3.0	<p>IT Control Weaknesses</p> <p>The Code of Governance for State Corporations Guidelines Chapter 3 and The National Treasury Circular No. 03/2009; Ref: MOF/IAG/033(75) requires that Government entities or agencies should, among other things, develop and establish Risk Management Policy and Framework (RMPF) to guide its strategic and operational activities. However, the Company did not have an IT Strategic Committee; an IT strategic plan which supports business requirements and ensures that IT spending remains within the approved IT strategic plan; formally approved IT Security Policy to ensure data confidentiality, integrity and availability;</p>	<p>The Company's risk management framework was approved by the Board of Directors in December 2019. Implementation of the framework is currently overseen by the Internal Audit Manager. The comprehensive risk register complete with risk response strategies has been developed. These are being implemented by departmental heads and line managers and monitored through internal quality management audits.</p> <p>Currently, the ICT strategy is usually covered within the Company's strategic plan. A separate ICT Strategic plan was developed in</p>	Resolved	

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 Annual Reports and Financial Statements
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Ref No.	Issue / Observations from Auditor		Status	Timeframe
	<p>documented and tested emergency procedures; copies of the IT continuity plan; and disaster recovery plan.</p> <p>In the circumstances, the effectiveness of IT internal controls could not be confirmed</p>	<p>within the Company's strategic plan. A separate ICT Strategic plan was developed in 2009. This will be updated to capture the current plans and aspirations.</p> <p>An ERP Steering Committee currently discharges the functions of IT Steering Committee. We are in the process of documenting the Company ICT Security policy. The development of a continuity plan and a disaster recovery plan will follow.</p>		
4.0	<p>Lack of Standard Costing Method</p> <p>Although the Company is a manufacturing entity, the standard costings for its main product, sugar, was not provided for audit. It was therefore difficult to establish the unit cost that went into producing one kilogram of sugar.</p> <p>Under the circumstances, the Company could not be able to monitor its costs effectively.</p>	<p>The Company uses various parameters to predetermine its various costs as required by Standard Costing Method. Part of our Budget control is the use of Standard costs for direct material (Agricultural Costs), direct labor, factory overheads , Sugar and Molasses prices; The computation of the unit cost of producing a tonne of sugar has been availed to the auditor</p>	Resolved	
5.0	<p>Under-Supply of Fuel</p> <p>Included in Note 7 to the financial statements are other factory overheads amounting to Kshs.28,911,323 which includes expenses on fuel supplied. Management entered into an agreement with National Oil Corporation, through Government to Government, for the supply of oil during the year under review. No explanation was provided by the Management for not putting in place effective internal controls for fuel management.</p> <p>In the circumstances, the effectiveness of internal controls over fuel management could not be confirmed.</p>	<p>The variance in fuel supply is an issue between National Oil Corporation of Kenya and the Kenya Revenue Authority. At the point of loading of fuel at the depot, delivery note from National Oil Corporation of Kenya clearly tallies with our Purchase order quantity. However, at the point of release of fuel consignment vide KRA (Customs Service Department), there is a variation as shown as per attached documents</p> <p>We have pursued the matter with National Oil who promised to address with KRA and furnish us with a credit note to offset the variances. National Oil Corporation has not fulfilled its commitment; therefore, we discontinued engaging them and moved to Rubis Energy Kenya Plc Ltd pending the discharge of National Oil Corporation's commitment</p>	Likely to reoccur because part of the solution involves KRA and NOCK which may not be within our full control	


 Managing Director

Date: 5/3/2024


 Chairman of the Board

Date: