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OFFICE OF THE AUDITOR-GENERAL

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REPORT

OF

THE AUDITOR-GENERAL

ON

CHEMELIL SUGAR COMPANY LIMITED

FOR THE YEAR ENDED 30 JUNE, 2022

CHEMELIL SUGAR COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2022

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

OFFICE OF THE AUDITOR GENERAL
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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

There were no serving Directors during the year/period after the appointment of the following members of the Board was revoked on 22 July 2020 through the Kenya gazette dated 3rd August 2020 to take effect from 16 July 2022.

1.	Mr. Zedekiah Kiprop Bundotich	– Chairman	– Exited on 22 Jul 2020
2.	Mr. Gabriel Nyangweso	– Ag.Managing Director	– Appointed May 2017
3.	Mr. David Osiany	– Independent Director	– Exited on 22 Jul 2020
4.	Ms. Christine Atieno	– Independent Director	– Exited on 22 Jul 2020
5.	Mr. George Oballa	– Independent Director	– Exited on 22 Jul 2020
6.	Mr. Lilian Marjorie Wasonga Nangulu	– Independent Director	– Exited on 22 Jul 2020
7.	Principal Secretary Ministry of Agriculture	– Alternate, Ms. Jackline Kiio	– Exited on 22 Jul 2020
8.	Principal Secretary, National Treasury	– Alternate, Mr. Kennedy Odhiambo	– Exited on 22 Jul 2020
9.	Development Bank of Kenya	– Alternate, Mr. Jacob Mananda	– Exited on 22 Jul 2020
10.	Agricultural Development Corporation	– Alternate, Mr. Richard Aiyabei	– Exited on 22 Jul 2020
11.	VIVO Energy(K) LTD	– Alternate, Ms. Naomi Assumani	– Exited on 22 Jul 2020

Chief Officers

1.	Mr. Gabriel Nyangweso	– Ag.Managing Director
2.	Mr. Emmanuel Obetch Ngala	– Head of Finance
3.	Mr. Joseph Onyando	– Head of Agriculture (Ag)
4.	Mr. Joseph Kiilu	– Head of Factory (Ag)
5.	Mr. Constance Webale	– Head of Human Resources (Ag)
6.	Ms. Lindah Kiplagat	– Marketing Manager
7.	Ms. Jackline Kotonya	– Internal Audit Manager (Ag)

Corporate Secretary

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

Corporate Headquarters

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

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 (Immediate Previous)

DIRECTOR'S NAME	KEY QUALIFICATIONS AND EXPERIENCE
1. **Mr. Zedekiah Kiprop Bundotich** Chairman	Mr. Bundotich was appointed as Chairman of the Board of Directors with effect from 20th September, 2018. He is a renowned businessman with a wide knowledge in transport and dairy industry spanning over 15 years. Holds Bsc. in Management and Marketing (Royal Holloway University of London), Diploma in Business Management.
 2. **Mr.Gabriel Nyangweso** Ag. Managing Director	Mr. Nyangweso holds a Master's (MBA) Degree in Strategic Management from Egerton University, BSC in Agriculture from University of Nairobi and International Certificate in sugarcane Agronomy from Mauritius. He has served Sony Sugar as Out growers Manager, Nucleus Estate Manager, Transport Manager and Head of Agriculture - a position he held until secondment to Chemelil Sugar Company as Managing Director in an acting capacity from 5th May 2017.
3. **Mr. David Osiany** Independent Director	Mr. Osiany is a public policy professional with over 10 years' experience in policy advocacy and advice, and strategic public management with special bias to communication, HR Management & Organizational Development. He holds MSc. Public Policy from the University of Bristol, United Kingdom and Bachelors Degree in Arts (Communication & Sociology) from the University of Nairobi. He was appointed Director
4. **Ms. Christine Atieno Otieno** Independent Director	Ms. Atieno was appointed Board member of the Company with effect from 20th September, 2018.She is a Lawyer with vast experience in consultancy services and research. Currently a partner in charge of Finance and Administration at Maangi and Otieno Advocates. A member of various professional bodies e.g. FIDA, LSK, and CRADLE. Has previously consulted for APHIA-USAID, Oxfam GB, and Committee for implementation of the constitution of Kenya (CIC), National Legal Aid Awareness
5. **Mr. Jacob Mananda** Alternate Director	Mr. Mananda represents Development Bank of Kenya. He has Masters in Business Administration (Finance).
6. **Mr. Kennedy Odhiambo** Alternate Director	Mr. Odhiambo represents the National Treasury as per the State Corporation Act. Alternate to Principal Secretary, The National Treasury.

7. Mr. Richard Aiyaibei Alternate Director (ADC)	Mr. Richard Aiyabei aged 51 years is a holder of MSc. Degree in Agronomy from Univ of Eldoret, BSc. Degree in Agriculture from Moi University and Diploma in Management from Egerton University. He is currently the Managing Director o Agricultural Development Corporation a position he rose to progressively since joinin corporation in 1990 as an Assistant Farm Manager. His Directorship roles includes, Dir Kenya Seed Company and Chairman Agro Chemical and Food Company ltd. Mr Ri Aiyabei is a member of World ploughing Board, Kenya Ploughing Oganisation (Nat Chairman), ASK Council Member Eldoret Branch and ASK Member of Executive Comm KPO among others. He represents Agricultural Development Corporation.
8. Ms. Jacqueline Kiio **Alternate Director, Ministry of Agriculture, Livestock, Fisheries and Cooperatives**	Represents Ministry of Agriculture, Livestock and Fisheries. She joined the Board or October 2018.
9. Mr. George Obala **Independent Director**	Mr. Oballa, aged 52 years is a holder of a Bachelor of Commerce in Marketing De (1992) from University of Nairobi and Advanced Diploma in Marketing (2003) from Institute of Finance Management. Currently, he is a Director, Lead Consultant at Se Resources Ltd and Regional Director for East Africa at Forefinance/Scopelnaight.
10. Ms. Lilian Marjorie Wasonga Nangulu **Independent Director**	Ms. Nangulu holds a Master's degree in Administration, Tourism-Punjabi University Advanced diploma in Computer Applications, Computer Center-Chandigarh India Bachelor of Commerce-Punjabi University, India. She has worked for Citibank N.A client experience Head (Kenya and Uganda).
11. Ms. Miriam Ndirangu **Representative, Image Registrars, Company Secretaries**	Ms. Miriam Ndirangu represents Image Registrars who are appointed as Com Secretaries by the Board of Directors. She is a member of ICPSK.

MANAGEMENT TEAM

MANAGER'S NAME	KEY QUALIFICATIONS AND EXPERIENCE
Mr. Gabriel Nyangweso, MBA (Strategic Management)	Ag. Managing Director
Mr. Joseph Mutisya Kiilu BSc (Food Sc. & Technology)	Head of Factory (Ag)
Mr. Emmanuel Ngala EMBA, BCom (Accounting), ACCA, MKIM	Head of Finance
Mr. Joseph Onyando BSc. (Agriculture)	Head of Agriculture (Ag)
Ms. Jacqueline Kotonya BSc (Chemistry), AWSE, EIK	Internal Audit Manager

Ms. Constance Webale BBM (Human Resource Mgt), CHRP(K)	Head of Human Resource (Ag)
 Mr. Japheth Ojwang BBM (Purchasing & Supplies), Dip BA, KISM, CIPS	Supply Chain Manager (Ag)
 Ms. Lindah J. Kiplagat MBA (Strategic Mgt), BBA (Marketing), MSK	Marketing Manager

CHAIRMAN'S STATEMENT

OVERVIEW

Despite the Sugar Industry's continued general sugarcane deficit, the cane supply in Nyando sugar belt during the 2021/2022 financial year was much better compared to a number of preceding year(s) owing to the effect of the long rains of 2019 and 2020. Sugar selling price was also generally stable 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. This led to inefficient factory operations, loss of production time and low sugar recovery which affected production, profitability and cashflow.

OPERATIONS

The volume of cane milled reduced to 276,853 tonnes down from 411,112 processed in the previous year. This was mainly because of low uptake of the raw material due high down time. Unlike the preceding year where the factory ran continuously for all the 12 months, the factory had to shut down for maintenance after 9 months of milling in the financial year under review. The average conversion ratio was relatively worse at 16.14 tonnes of sugarcane to one tonne of sugar compared to 14.75 achieved the previous year. The Company sold a total of 17,246 tonnes of sugar compared to 28,031 tonnes sold in 2020/2021. Accordingly, the gross turnover dipped to Kshs. 1,708 million down from Kshs. 2,565 million achieved in the previous year mainly because of lower production and sales volumes.

RESULTS

The Company posted an increased loss of Kshs 695 million compared to the loss of Kshs 551 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. 236 million in VAT compared to Kshs. 354 million 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 2021/2022 by setting targets in line with the Strategic plan 2017/2018-2021/2022 and the Approved Budget for 2021/2022. The Company did not achieve its profitability target for 2020/2022 given the conditions it operated in but there is strong and positive indication of improved performance towards achieving and surpassing our boundaries of success.

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 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 (2017/18– 2021/2022) had targeted to increase cane yield from 48 TCH to 75 TCH and to mill 871,000 tons annually by the year 2021/2022. 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.

for **CHAIRMAN**

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 2022

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 loss of production time due to frequent factory breakdowns. 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. 695 million compared to a loss of Kshs.551 million recorded in the previous year. The is because of increased factory inefficiencies and also because milling operations were sustained for only 9 months of the financial year compared to 12 months in FY 2021. In addition, some maintenance cost incurred during the shutdown have also contributed to the loss.

The net turnover for FY 2022 decreased by 33% to Kshs.1,473 million down from Kshs.2,211 million in FY 2021. This comprised Kshs.1,432 million (2021-Kshs.2,137 million) from sugar and Kshs.41 million (2021-Kshs.74 million) from molasses. The reduced turnover attributable to lower sales volumes was despite the better sugar selling price for sugar compared to the previous year. Molasses price was worse compared to the year before.

An increased gross loss of Kshs.486 million (2021-Kshs.6 million) was attributed to the high cost of production arising from in process material losses and high cost of spares and repairs caused by frequent factory breakdowns during the year under review.

Marketing and distribution costs increased by 34% mainly due to higher staff cost after some positions that were previously vacant were filled. Administration cost reduced by 6% as a result of cost control measures during the year under review. Finance cost reduced by 71% because a significant portion of the long-term loans stopped accruing interest.

ii) Agricultural Operations

Cane delivered to factory during the year totalling 276,003 was 33% lower than 411,654 delivered the previous year. The average pol (sucrose in cane) was 11.08% (2021-11.88%). The decrease in quantity is attributed to the 9 months only of operations compared to 12 months in the previous year. This is in addition to the relative low factory intake of sugar cane due to high amount of down time during the year. The Nucleus Estate contributed 30,218 (11%) while 245,785 was sourced from farmers within Chemelil zone. The price of cane per ton increased by 8% to Kshs 4,563 compared up from Kshs. 4,040 in FY 2021. 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 high rainfall mean of 1782.9mm (2021-1681.8mm) although slightly lower than the long term mean of 1,855.2mm. However, cane yields deteriorated to an average of 35.86 TCH compared to 49.6 the previous year due to continued cane pouching activities by neighbouring millers in unfair competition during the year.

REPORT OF THE CHIEF EXECUTIVE OFFICER (Continued)

Cane development program was exceeded target as a total of 456 ha was ploughed, harrowed and furrowed against a target of 400ha. Area planted was 456 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.

iii) Factory Operations

The factory milled a total of 276,003 tons of cane in the year under review compared to 411,211 tons milled in FY 2020. Of these 245,785 tons of cane representing 89% came from farmers while 30,218 tons representing 11% was received from the Nucleus Estate. In the previous year, 350,412 tons of cane milled came from farmers while 60,799 tons came from the Nucleus Estate. The amount paid to farmers for cane supply was Kshs. 1,061 million (2021-Kshs 1,334 million).

The cane supplied was milled at a conversion ratio of 16.14 (2021-14.75) tonnes of cane to 1 ton of sugar to produce 17,150 tons of sugar compared to 27,886 tons produced in FY 2021, this production represents 38% decrease compared to the previous year. A better performance was experienced in the first and second quarters but factory breakdowns became more frequent in the third and fourth quarters leading to loss of production time and reduced sugar recovery.

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.

iv) Sales and Commercial Activities

The Company sold a total of 17,246 tonnes of sugar compared to 28,031 tonnes sold in 2020/2021. The average net prices per ton of sugar and molasses were Kshs. 82,866 (2021-Kshs.75,715) and Kshs.3,403 (2021-Kshs.5,165) respectively. The 9% 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 34% decrease in average net molasses price in FY 2021 was due to low 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 seedling s 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.

The generally harmonious relationship between management and Union suffered some tension in December 2021 after the Union called for a strike to demand some unpaid salary arrears. This was resolved through consultations and negotiations. Normalcy resumed in January 2022. With the CBA negotiated for 2017-19 having expired, new CBA negotiations are expected anytime, the delay has mainly been due to the obtaining industry business challenges.

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. It is expected that the Board of Directors will be reconstituted soon so that the Company continues to benefit from their valued 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.

GABRIEL NYANGWESO
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 three 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 before the revocation of the Directors' appointment were as highlighted below; -

1. **Audit Committee**

   Members

Mr. Jacob Mananda	Chairman
Mr. Kennedy Odhiambo	
Ms. Jacqueline Kiio	
Mr. Gabriel Nyangweso	Managing Director (Ag)

   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.

CORPORATE GOVERNANCE STATEMENT (Continued)

2. Human Resource and Finance Committee

Members

Ms. Christine Atieno	Chairman
Mr. Kennedy Odhiambo	
Mr. David Osiany	
Mr. Mohammed Bulle	
Mr. Gabriel Nyangweso	Managing Director (Ag)

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. Strategy and Technical Committee

Members

Mr. David Osiany	Chairman
Mr. Richard Aiyabei	
Ms. Christine Atieno	
Ms. Jacqueline Kiio	
Mr. Jacob Mananda	
Mr. Gabriel Nyangweso	Managing Director (Ag)

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.

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.

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. 695 million basically because of inefficiencies of the factory which had run for 8 years without any major maintenance. This was a worse performance compared to the previous year in which the Company posted a restated net loss of Kshs.551 million. The inefficient condition of the factory was the main cause of the poorer financial performance during the year 2021/2022 as low volumes were produced and sold during the 9 months of milling.

Although cane was generally available for most of the year 2021/2022 because the long rains of the years 2019 and 2020 had supported cane growth, the Company did not take advantage of this because the factory was not always available to mill the cane. The frequent stoppages created a negative effect on factory operating efficiency thus attaining worse conversion ratio of 16.14 (2020-14.75) tons of cane per ton of sugar. Secondly, unlike the previous year, the factory was out of milling operations for 3 months of the financial year.

Other operations were also adversely affected by constrained cashflows. 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 was only able to pay up to 50% of employees' net salaries during the year. In the 2nd quarter, industrial tension precipitated from demands by the union for full pay and arrears. Eventually, 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 allocated some funds to the Company for maintenance, Management reached a consultative decision to shut down the factory in April 2022 and undertake maintenance before resumption. The 4th quarter was therefore spent on out of crop maintenance.

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 220 million. This maintenance which was in progress as the year ended on 30th June 2022 addressed mainly the challenges at the mills and boilers arears 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 sun system upgrade project in which the Company upgraded its main financial accounting system from sun system version 4.25 to version 6.4 was completed during quarter 1 of the financial year. The other project during the year was refurbishment of school buildings at the Chemelil Sugar Academy including masonry repairs, wall painting, electrical fittings and plumbing system repairs. This project was necessary as a facelift to 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)	2,332	Settling at Kshs.20m monthly
2.	National social security fund	13	Settling at Kshs.0.8m monthly
3.	National hospital insurance fund	27	Settling at Kshs 0.8m monthly
4.	CSCL Staff Pension Scheme (Contributions)	131	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

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 2021/2022 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.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2022 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, 2021 are set out on page 1. Below is summary of the profit or loss made during the year.

	2022 Kshs	Restated 2021 Kshs
Loss before tax	(694,894,756)	(551,932,156)
Tax	-	
Loss for the year	(694,894,756)	(551,932,156)

Dividends

The directors do not recommend the declaration of a dividend for the year 2022 (2021 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

23 / 03 / 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, 2021, 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 23/03/ 2023 and signed on its behalf by:

.....
CHAIRMAN

.....
MANAGING DIRECTOR

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON CHEMELIL SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

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

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

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Chemelil Sugar Company Limited set out on pages 1 to 53, which comprise the statement of financial position as at 30 June 2022, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual

amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Chemelil Sugar Company Limited as at June 30, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and do not comply with the Public Finance Management Act, 2012 and the Companies Act, 2015.

Basis for Adverse Opinion

1.0 Lack of Trial Balance

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.

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

2.0 Understated Revenue from Sale of Sugar

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.

In the circumstances, the accuracy of the net sales of sugar amount of Kshs.1,431,768,203 could not be confirmed.

3.0 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:

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.

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.

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.

In the circumstances, the accuracy of the cost of sales amount of Kshs.1,958,695,060 could not be confirmed.

4.0 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.

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.

In the circumstances, the accuracy and use of the grant of Kshs.182,017,971 could not be confirmed.

5.0 Inaccuracies in the Financial Statements

Review of the financial statements revealed the following inaccuracies:

5.1 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:

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

Item	Financial Statement Amount (Kshs.)	Ledger Amount (Kshs.)	Variance (Kshs.)
Agriculture Overheads	40,704,600	40,963,727	(259,127)
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)

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.

5.2 Unexplained Variances in Statement of Financial Position

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:

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)

Item	Financial Statement Amount (Kshs.)	Ledger Amount (Kshs.)	Variance (Kshs.)
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)

5.3 Inaccuracy in Statement of Comparison of Budget and Actual Amounts

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.

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

6.0 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.

In the circumstances, the accuracy of property, plant and equipment balance of Kshs.5,056,793,211 could not be confirmed.

7.0 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.

In the circumstances, the accuracy of the nil intangible assets amount could not be confirmed.

8.0 Inaccuracies in the Inventories

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.

In the circumstances, the accuracy of inventories balance of Kshs.248,346,056 disclosed in the statement of financial position could not be confirmed.

9.0 Trade and Other Receivables

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:

9.1 Long Outstanding Receivables

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.

9.2 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.

In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs.249,545,905 could not be confirmed.

10.0 Bank and Cash Balances

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:

10.1 Variance Between Financial Statements and Bank Reconciliation

The balance of Kshs.41,681,834 includes balances which differ with the reconciled cash book balances as shown below:

Item	Reconciliation Statement Balance (Kshs.)	Financial Statement Balance (Kshs.)	Variance (Kshs.)
KCB Bank Kisumu Project Account 1	(285,939)	(286,850)	**911**
KCB Bank Kisumu Chemelil Academy A/c	-	24,857,678	**(24,857,678)**
Cooperative Bank Kisumu Main A/c	(4,083,572)	4,023,532	**(8,107,104)**
Cooperative Bank Kisumu Health A/c	12,386	31,736	**(19,350)**
Coop Bank Kisumu Academy-PTA	-	2,104,111	**(2,104,111)**

10.2 Unsupported Bank Balances

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.

10.3 Bank Reconciliation Statements

10.3.1 Payments in Cash Book not in the Bank Statements

The supporting bank reconciliation statements as at 30 June, 2022 included unpresented cheques amounting to Kshs.16,767,224. However, bank statements showing when the unpresented cheques were cleared were not provided for audit.

10.3.2 Receipts in Bank Statements not in the Cash Book

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.

10.3.3 Receipts in Cash Book not in the Bank Statements

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.

10.3.4 Payments in Bank Statements not in Cash Book

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.

10.4 Cash Count Report

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:

Cash Item	Amount (Kshs.)
Cash on Hand	322,720
Unreimbursed Paid Vouchers	597,142
Cash from Receipts	(84,750)
Reimbursed and not Paid	(45,940)
Cash Surplus	(39,172)
Total	**750,000.00**

In the circumstances, the accuracy and completeness of bank and cash balance of Kshs.41,394,984 could not be confirmed.

11.0 Taxation Matters

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.

In the circumstances, the accuracy and completeness of the tax recoverable amount of Kshs.14,608,376 could not be confirmed.

12.0 Borrowings

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.

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.

Further, the Management did not provide loan agreements for the following outstanding loans totalling to Kshs.900,593,785:

Details	Principal (Kshs.)	Interest Accrued (Kshs.)	Amount (Kshs.)
Cane Development Loan	86,173,188	62,246,720	148,419,907
Farmers Arrears	50,949,412	13,745,883	64,695,295
Farmers Arrears	67,929,953	18,100,609	86,030,562
Farmers Arrears	123,775,682	33,417,859	157,193,541
Factory Rehabilitation	95,000,000	52,168,767	147,168,767
Factory Rehabilitation	156,718,750	114,505,852	271,224,602
Road	25,861,111	-	25,861,111
Total	**606,408,096**	**294,185,689**	**900,593,785**

In addition, the balance of Kshs.3,669,131,027 is classified as a non-current liability, while all the amounts are due and payable.

In the circumstances, the accuracy and completeness of the borrowings balance of Kshs.3,669,131,027, and the ability of the Company to settle its loan obligations could not be confirmed.

13.0 Unsupported Dividends Payable

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.

In the circumstances, the accuracy, completeness and validity of the dividend payable balance of Kshs.9,699,787 could not be confirmed.

14.0 Undisclosed Material Uncertainty Related to Going Concern

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.

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.

Management has not made specific disclosure in the financial statements in regard to these matters.

These conditions indicate the existence of a material uncertainty, which may cast significant doubt on the Company's ability to continue as a going concern for the foreseeable future. Therefore, the Company is technically insolvent and its continued operation as a going concern is dependent on the financial support from the Government and creditors.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of 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 adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, 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

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.

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.

Further, the revenue and expenditure budget amounts 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.

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.

The shortfall in revenue and under-expenditure implies that the Company's planned activities were not fully realized during the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Tax Penalties and Interest on Unremitted Statutory Deductions

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:

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**

In the circumstances, the accrued tax penalties and interest balance of Kshs.1,313,777,324 is nugatory and could have been avoided.

2.0 Human Resource Management

2.1 Staff in Acting Capacity

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.

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

2.2 Non-Compliance with One- Third of Basic Salary Rule

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.

In the circumstances, Management was in breach of Public Service Commission (PSC) Human Resource Policies.

2.3 Non-Compliance with Affirmative Action on Gender, Ethnicity and Regional Distribution

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.

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

3.0 Direct Procurement

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.

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

4.0 Management of Inventories

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.

In the circumstances, the basis of valuing the inventory totalling to Kshs.248,346,056 could not be confirmed.

5.0 Avoidable Penalty Payment

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 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.

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.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1.0 Lack of Board of Directors

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.

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.

In the circumstances, the effectiveness of the Company's internal controls, risk management and overall governance could not be confirmed.

2.0 Lack of Audit Committee and a Functional Internal Audit

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.

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.

In the circumstances, the effectiveness of the Company's internal controls, risk management and overall governance could not be confirmed.

3.0 IT Control Weaknesses

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; documented and tested emergency procedures; copies of the IT continuity plan; and disaster recovery plan.

In the circumstances, the effectiveness of IT internal controls could not be confirmed

4.0 Lack of Standard Costing Method

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.

Under the circumstances, the Company could not be able to monitor its costs effectively.

5.0 Under-Supply of Fuel

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. However, review of delivery records indicated that the fuel received was less than the orders issued as follows:

Order No.	GRN No.	Order Value (Kshs.)	Actual Receipt (Kshs.)	Variance (Kshs.)
POI-0003318	GRN-0004612	2,024,074	1,983,187	40,886
POI-0002918	GRN-0003866	1,905,000	1,879,070	25,930
POI-0003270	GRN-0004540	1,821,667	1,779,667	42,000
POI-0003390	GRN-0004912	1,821,667	1,786,751	35,916
POI-0002993	GRN-0003990	2,116,667	2,041,900	74,767
POI-0003514	GRN-0005073	2,024,074	2,003,833	20,241
Total				**201,930**

No explanation was provided by the Management for not putting in place effective internal controls for fuel management.

In the circumstances, the effectiveness of internal controls over fuel management 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:

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 not been kept by the Company, so far as appears from the examination of those records; and,

iii. The Company's financial statements are not 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 controls, 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 going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations.

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

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

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how the 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 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.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

26 May, 2023

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2022

	Note	2021/2022 Kshs	Restated 2020/2021 Kshs
REVENUES			
Revenue	6	1,472,817,728	2,211,521,653
Cost of sales	7	1,958,695,060	2,217,841,943
Gross profit/(loss)		**(485,877,332)**	**(6,320,290)**
Fair value gain on biological assets	8	106,870,056	38,569,784
OTHER INCOME			
Grants from the National Government	9	182,017,971	-
Interest income	10	360,974	518,630
Other Income	11	14,418,061	12,803,407
Other gains/(losses)	11	(3,063,294)	(6,174,775)
Total		**193,733,713**	**7,147,263**
OPERATING EXPENSES			
Selling and distribution expenses	12	14,007,603	10,442,772
Administrative expenses	13	473,096,653	502,885,881
Finance Costs	14	22,516,936	78,000,260
Total	**15**	**509,621,192**	**591,328,913**
PROFIT/(LOSS) BEFORE TAXATION		**(694,894,756)**	**(551,932,156)**
INCOME TAX EXPENSE/(CREDIT)	**16**	**-**	**-**
PROFIT/(LOSS) AFTER TAXATION		**(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		**(694,894,756)**	**(551,932,156)**
		==========	==========
Earning/(Loss) per share – basic and diluted	17	(65.68)	(52.17)
Total Comprehensive Earning/(Loss) per share – basic and diluted	17	(65.68)	(52.17)
Dividend per share	18	-	-

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

	Note	2022 Kshs	Restated 2021 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	19	5,056,793,211	5,165,953,325
Biological Assets	21	108,775,443	41,747,720
Staff receivables due after one year	23(c)	-	-
Total Non-Current Assets		**5,165,568,654**	**5,207,701,045**
Current Assets			
Inventories	22	248,346,056	255,519,621
Trade and other receivables	23(a)	249,545,905	328,708,100
Tax recoverable	24	14,608,376	15,183,641
Bank and cash balances	26	41,681,834	(52,638,719)
Total Current Assets		**554,182,171**	**546,772,643**
TOTAL ASSETS		**5,719,750,826**	**5,754,473,689**
		==========	==========
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	27	211,591,620	211,591,620
Revaluation reserve	28	4,614,544,226	4,614,544,226
Retained earnings	29	(8,993,501,754)	(8,298,606,998)
Capital and Reserves		**(4,167,365,908)**	**(3,472,471,152)**
Non-Current Liabilities			
Borrowings	31	3,669,131,027	3,646,614,091
Total Non-Current Liabilities		**3,669,131,027**	**3,646,614,091**
Current Liabilities			
Borrowings	31	286,850	-
Deferred Income	33	110,939,785	124,549,312
Trade and other payables	34	5,815,045,511	5,219,210,180
Retirement benefit obligations	35	246,450,247	206,142,460
Provision for leave pay	36	35,563,528	20,729,011
Dividends payable	37	9,699,787	9,699,787
Total Current Liabilities		**6,217,985,708**	**5,580,330,750**
TOTAL EQUITY AND LIABILITIES		**5,719,750,826**	**5,754,473,689**
		==========	==========

The financial statements were approved by the Board on _____ 2022 and signed on its behalf by:

Managing Director/C.E.O	**Head of Finance**	**Chairman, Board of Directors**
Name: GABRIEL NGANGWESO	**Name:** EMMANUEL NGALA	
	ACCA M/NO: 0680452	

For the year ended June 30, 2021

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2022

	Ordinary share capital	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Proposed dividends	Capital/ Development Grants/Fund	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
At July 1, 2020 (As previously stated	**211,591,620**	**4,614,544,226**	**-**	**(7,719,520,914)**	**-**	**-**	**(2,893,385,068)**
Prior year adjustment				(27,153,928)			(27,153,928)
At July 1, 2020	**211,591,620**	**4,614,544,226**	**-**	**(7,746,674,842)**	**-**	**-**	**(2,920,538,996)**
Revaluation gain	-	-	-	-	-	-	-
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)**
Prior year adjustment				(2,651,582)			(2,651,582)
At July 1, 2021 (As restated)	**211,591,620**	**4,614,544,226**	**-**	**(8,298,606,999)**	**-**	**-**	**(3,472,471,153)**
Revaluation gain	-	-	-	-	-	-	-
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)**
	==========	==========	==========	==========	==========	==========	==========

The prior year adjustment relates to correction of an error in the capture of sales revenue during the previous year whose details are provided under note 30

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022

	Note	2021/2022 Kshs	Restated 2020/2021 Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	**37(a)**	**146,726,953**	**(13,036,447)**
Interest received	37(d)	-	-
Interest paid	37(d)	-	-
Dividends paid	37(e)	-	-
Taxation paid	24	-	-
Net cash generated from/(used in) operating activities		**146,726,953**	**(13,036,447)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	19	(52,693,250)	(37,536,098)
Proceeds from disposal of property, plant and equipment		-	-
Purchase of intangible assets	20	-	-
Net cash generated from/(used in) investing activities		**(52,693,250)**	**(37,536,098)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowing	37(b)	286,850	-
Proceeds from grant	37(f)	0	-
Repayment of borrowings	31	-	(14,128,684)
Net cash generated from/(used in) financing activities		**286,850**	**(14,128,684)**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**94,320,553**	**(64,701,229)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**(52,638,719)**	**12,062,510**
Effects of foreign exchanges rate fluctuations		-	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**37(b)**	**41,681,834**	**(52,638,719)**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2022

	Original budget 2021-2022	Adjustments 2021-2022	Final budget 2021-2022	Actual on comparable basis 2021-2022	Performance difference 2021-2022
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs
Sale of goods (net)	(3,874,431,000)	-	(3,874,431,000)	(1,472,817,728)	(2,401,613,272)
Finance Income	(4,000,000)	-	(4,000,000)	(360,974)	(3,639,026)
Other income	(42,625,152)	-	(42,625,152)	(303,306,087)	260,680,935
Total income	**(3,386,021,000)**	-	**(3,386,021,000)**	**(1,776,484,790)**	**(2,144,571,362)**
Expenses					
Compensation of employees	530,459,997	-	530,459,997	632,410,159	(101,950,162)
Use of goods and services	1,956,832,800	-	1,956,832,800	1,096,033,880	860,798,920
Finance cost	76,251,000	-	76,251,000	22,516,936	53,734,064
Other payments	587,819,170	-	587,819,170	720,418,571	(132,599,401)
Total expenditure	**3,151,362,967**	-	**3,151,362,967**	**2,471,379,546**	**679,983,421**
Surplus for the period	**(234,658,033)**	-	**(234,658,033)**	**694,894,756**	**(1,464,587,941)**

EXPLANATION OF VARIANCES

i) **Sale of goods:** The adverse variance resulted from lower sugar sales of 17,246 tonnes against the budget of 50,596 tonnes due to lower than budgeted production in the year

ii) **Finance income:** The lower than budgeted income was because the Company's advances to farmers had reduced due to limited resources

iii) **Other income:** The positive variance was because the Company recorded high gains upon valuation of its sugarcane plantation. Mature cane inventory increased in the Nucleus Estate during the 3 months of no harvest due to factory maintenance.

iv) **Employee compensation:** The overrun was due to additional contracted employees engaged during plant maintenance and increase in leave liability.

v) **Use of goods and services:** The positive variance arose from the fact that the factory milled only 276,853 tonnes of cane out of the 514,956 budgeted. Factory milling operations stopped from April 2022 to July 2022 for maintenance and repair of the plant.

vi) **Finance cost:** The lower than budgeted interest cost was because the Company's advances to farmers had reduced due to limited resources

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. The major out of crop maintenance increased factory costs even further.

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.

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:

	Rate %
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 handing 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'sbudget for FY 2020-2021 was approved by the Ministry of Agriculture Livestock, Fisheries and Co-operatives – State Department of Crop Development on 12th August 2020 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, 2021.

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; Bad and doubtful debts Kshs. 4,137,012; Provision for tax penalty and interest Ksh. 164,501,412 and Interest on pension arrears Ksh. 10,385,554. These have been listed as part of administrative costs under Note.13 (a). The tax penalty and interest has been computed on a self-assessment basis using the rates contained in the tax procedure act 2015 and other relevant tax legislations. Interest on pension arrears is computed by pension scheme administrators. Other provisions under staff costs are staff gratuity provision of Kshs. 65,008,880 and leave pay provision of Kshs. 15,882,311 as captured under Note 13 (b).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 REVENUE

	2021/2022 Kshs	2020/2021 Kshs
Net sales of Sugar	1,431,768,203	2,137,180,008
Net sales of Molasses	41,049,525	74,341,645
Total net sales	**1,472,817,728**	**2,211,521,653**
Gross sales	1,708,468,565	2,565,365,118
Less: Value added tax on gross sales	(235,650,836)	(353,843,465)
Total	**1,472,817,728**	**2,211,521,653**

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

	2021/2022 Kshs	2020/2021 Kshs
Cost of cane milled: Nucleus	59,096,467	133,001,564
Outgrowers	1,065,000,234	1,337,666,144
Change in value of unmilled cane	3,434,000	(1,934,000)
Total Cost of Cane milled	**1,127,530,701**	**1,468,733,708**
Agriculture		
Staff Cost	109,989,439	91,480,244
Agriculture overheads	40,704,600	55,672,873
	150,694,039	**147,153,117**
Manufacturing	-	-
Staff Cost	297,865,976	285,445,126
Processing Costs	42,378,233	55,668,540
Repairs and maintenance	228,939,386	193,922,223
Other factory overheads	(28,911,323)	15,062,633
Depreciation-factory	77,998,089	77,998,089
	618,270,360	**628,096,611**
Change in value of sugar in process	54,530,130	(35,926,384)
Change in value of finished goods	7,669,831	9,784,891
Cost of goods sold	**1,958,695,060**	**2,217,841,943**

Cane from outgrowers 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 recognised during the latest valuation plus cost of harvesting and transporting the cane to the factory. Manufacturing cost includes agriculture and factory overheads.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 FAIR VALUE GAIN/(LOSS) ON BIOLOGICAL ASSETS

	2021/2022 Kshs	2020/2021 Kshs
Gain on consumable growing cane	106,353,056	38,208,784
Gain on livestock	517,000	361,000
Total	**106,870,056**	**38,569,784**

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

	2021/2022 Kshs	2020/2021 Kshs
Reccurrent grants received	182,017,971	-
Capital grants realized (see note below)	-	-
Total	**182,017,971**	-

The government grant relates to Kshs. 138.9 million paid by the Government of Kenya in December 2021 and May 2022 to Chemelil sugarcane farmers to defray arrears of cane proceeds accrued by the Company in 2021 and Kshs 42.6 million paid to various suppliers during the year ending 30 June 2022 for maintenance materials supplied and services rendered during the out of crop factory maintenance carried out between April and August 2022.

10 INTEREST INCOME

Description	2021/2022 Kshs	2020/2021 Kshs
Interest income:		
- '- from receivables	360,974	518,630
Total	**360,974**	**518,630**

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	2021/2022 Kshs	2020/2021 Kshs
Rental Income	13,125,873	11,967,008
Other miscellaneous income	1,292,188	836,399
Total	**14,418,061**	**12,803,407**

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)

(b) Other Gains and Losses

Description	2021/2022 Kshs	2020/2021 Kshs
(Loss)/gain on disposal of property, plant and equipment	(3,063,346)	(6,174,775)
Total	**(3,063,346)**	**(6,174,775)**

The Company's sugarcane fields holding sugarcane that had been developed at a total cost of Kshs. 18,021,824 were reploughed/fallowed during the year after accumulating depreciation amounting to Kshs. 14,958,478, thereby disposing the bearer plant at a loss equivalent to its undepreciated cost of Kshs. 3,063,346.

12 MARKETING AND DISTRIBUTION EXPENSES

Description	2021/2022 Kshs	2020/2021 Kshs
Staff cost - sales personnel	8,396,258	5,985,863
Product Handling and distribution costs	4,851,640	3,697,204
Depreciation - distribution equipment	759,705	759,705
Total	**14,007,603**	**10,442,772**

13 ADMINISTRATIVE EXPENSES

(a) Administration Costs

Description	2021/2022 Kshs	2020/2021 Kshs
Staff costs - other (note 13b)	216,158,486	190,147,391
Directors' emoluments	-	366,329
Auditors' remuneration	1,860,735	750,000
Legal fees and court awards	(3,731,918)	17,687,596
Consultancy fees	3,070,000	-
Medical Services	7,966,406	5,286,653
Staff training expenses	375,727	32,000
Insurance costs - other	4,821,942	5,013,762
Bank charges and commissions	1,965,742	2,498,852
Electricity and water	32,693,757	7,845,603
Repairs and maintenance	6,480,364	7,688,462
Stationery, printing and photocopying	6,155,052	3,447,579
Travelling and subsistence	4,009,650	1,546,724
Communication services and supplies	632,428	602,833
Depreciation - other	38,620,839	38,308,693
Bad and doubtful debts	4,137,012	21,017,688
Stock Obsolescence	(21,226,631)	
Tax penalty and interest	164,501,412	153,582,365
Interest on pension arrears	10,387,554	35,113,480

Other administrative expenses	(5,781,904)	11,949,871
Total	**473,096,653**	**502,885,881**

The tax penalty and interest has been computed on a self-assessment basis using the rates contained in the tax procedure act 2015 and other relevant tax legislations. Interest on pension arrears is as computed by pension scheme administrators.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(b) Staff Costs

Description	2021/2022 Kshs	2020/2021 Kshs
Salaries and allowances of permanent employees	417,232,439	435,865,421
Wages of temporary employees	130,981,714	131,365,116
National social security schemes	2,006,800	2,445,900
Pension contributions	-	8,079,623
Staff gratuity provision	65,008,880	12,252,045
Leave pay provision	15,882,311	(1,193,098)
Staff welfare	17,757,091	10,391,099
Total	**648,869,235**	**599,206,108**

13 (b) STAFF COSTS (Continued)

The average number of employees at the end of the year was:		
Permanent employees – Management	190	193
Permanent employees – Unionisable	271	281
Temporary and contracted employees	554	494
Total	**1,015**	**968**

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.

14 FINANCE COSTS

Description	2021/2022 Kshs	2020/2021 Kshs
Interest expense:		
'- on commodity loans	22,516,936	78,000,260
'- on IPF loans	-	-
'- on bank overdrafts	-	-
Total	**22,516,936**	**78,000,260**

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 OPERATING PROFIT/(LOSS)

	2021/2022 Kshs	2020/2021 Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 13b)	648,869,235	599,206,108
Depreciation of property, plant and equipment	158,791,092	158,791,092
Amortisation of intangible assets	-	-
Provision for bad and doubtful debts	4,137,012	21,017,688
Directors' emoluments - fees	-	-
- other	-	366,329
Auditors' remuneration - current year fees	750,000	200,000
- prior year under-provision	1,110,735	-
Loss on disposal of property, plant and equipment	3,063,346	6,174,775
Net foreign exchange loss	-	-
Total	**816,721,419**	**785,755,991**

16 INCOME TAX EXPENSE/(CREDIT)

(a) Income tax

	2021/2022 Kshs	2020/2021 Kshs
Current tax charge	-	-
Deferred tax charge (note 28)	-	-
Income tax expense/(credit)	-	-

(b) Reconciliation of tax expense/ (credit) to the expected tax based on accounting 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:

	2021/2022 Kshs	2020/2021 Kshs
Profit/(loss) before taxation	(694,894,756)	(551,932,156)
Tax calculated at the statutory tax rate of 30% (2020:30%)	208,468,427	(164,784,172)
Tax effect of:		
'- Expenses not deductible for tax purposes	XXX	303,911,233
'- Prior year under/(over) provision in deferred tax	XXX	(48,829,167)

.'- Deferred tax not recognised	XXX	(90,297,894)
Income tax expense/(credit)	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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

	2021/2022 Kshs	2020/2021 Kshs
Loss for the year attributable to equity shareholders	(694,894,756)	(551,932,156)
Total comprehensive loss per share attributable to equity shareholders	(694,894,756)	(551,932,156)
Weighted average number of shares in issue (note 27)	10,579,581	10,579,581
Loss per share	(65.68)	(52.17)
Total comprehensive loss per share	(65.68)	(52.17)

18 DIVIDEND PER SHARE

The directors do not recommend payment of a dividend for the year (2020/2021: Nil)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 PROPERTY, PLANT AND EQUIPMENT

Year 2022	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
Reversed on Revaln	-	-	-	-				-
Charge for the year	-	49,204,347	86,177,663	3,853,664	2,368,188	17,186,207	-	158,790,070
Impairment loss	-	-	-	-	-		-	-
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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 PROPERTY, PLANT AND EQUIPMENT

Year 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, 2020	2,000,000,000	1,956,480,000	1,520,622,467	19,984,965	92,799,368	157,719,064	1,235,542	5,748,841,406
Revaluation Surplus	-	-	-	-	-		-	-
Additions	-	-	2,363,740	358,620	2,605,246		32,208,493	37,536,098
Transfers	-	-	-	-	-	11,192,002	(11,192,002)	-
Disposals	-	-	-	-	-	(31,660,695)	-	(31,660,695)
At June 30, 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
COMPRISING								
Cost	-	3,551,424	891,843,123	23,878,456	98,009,859	116,781,678	43,268,524	1,177,333,064
Valuation	2,000,000,000	1,952,928,576	631,143,084	(3,176,251)	-	-	-	4,580,895,409
	2,000,000,000	1,956,480,000	1,522,986,207	20,343,585	98,009,859	116,781,678	43,268,524	5,758,228,473
DEPRECIATION								
At July 1, 2020	-	97,824,000	170,358,745	8,336,087	86,744,939	96,188,534	-	459,452,304
Charge for the year	-	48,833,451	85,027,645	3,873,864	2,426,938	14,642,165	-	154,804,063
Eliminated on disposal	-	-	-	-	-	(25,492,883)	-	(25,492,883)
At June 30, 2021	-	146,657,451	255,386,390	12,209,951	89,171,876	85,337,815	-	588,763,484
NET BOOK VALUE At June 30, 2021	2,000,000,000	1,809,822,549	1,267,599,817	8,133,634	6,232,737	51,912,556	22,252,033	5,165,953,325

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 PROPERTY, PLANT AND EQUIPMENT (Continued)

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:

a) 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.
b) 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.
c) 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 2022, 70% (2021: 58%) of the nucleus estate farm measuring 1,598.2 ha (2021: 1,335.5 ha) had mature bearer plant. Fifteen percent (2021: 14%) of the estate land measuring 346.9 ha (2021: 311.7) had immature bearer plant while 16% (2021: 28%l) was fallow.

During the year, 442.8 ha (2021: 499) was planted with new cane, 445.4 ha (2021: 188 ha) of growing cane matured and was transferred for capitalization as addition to bearer plant asset while 169.3 ha (2021: 279) 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**

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. BIOLOGICAL ASSETS

a) Growing Cane

	2021/2022 Kshs	2020/2021 Kshs
At the beginning of the year	**40,501,720**	**126,056,968**
Prior year adjustment	-	(27,153,928)
At the beginning of the year restated	**40,501,720**	**98,903,040**
Decrease due to harvest at fair value less point of sale costs	(39,542,333)	(96,610,103)
	959,387	**2,292,937**
Gains arising from changes in fair value attributable to:		
- biological transformation	99,236,183	10,676,843
- price changes	7,116,872	27,531,940
Fair value gain/(loss) on valuation	**106,353,056**	**38,208,783**
At the end of the year	**107,312,443**	**40,501,720**

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. 4,563 per tonne of sugarcane (June 2020-Kshs.4,040).

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 2.38 (2021-1.91).

iii) All costs incurred to maintain growing produce are expensed.

As at 30 June 2022, 1,945.1 ha (2021: 1,647.3 ha) of nucleus estate land was covered by growing cane produce. Of this 62% (2021:50%) covering 1200.5 ha (2021: 816.5 ha) had mature produce ready for harvest while 20% (2021: 32%) covering 397.7 ha (2021: 519 ha) had immature produce. The remaining 18% (2021: 19%) of growing cane covering 346.9ha (2021: 659) had not borne recognizable produce.

During the year, 33,407 tonnes (2021: 60,032) of mature produce was harvested from the nucleus estate for milling and seed cane with a fair value less estimated point of sale cost of Kshs. 39,542,333 (2021: Kshs. 99,660,910). In determining the present value of expected net cash flows, the Company has not discounted the cash flows as standing cane will mature within the next reporting period and therefore the impact of the time value of money on estimated future cashflows is not significant.

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

	2021/2022 Kshs	2020/2021 Kshs
At the beginning of the year	**1,246,000**	**1,485,000**
Increase due to acquisitions and births	-	-
Decrease due to slaughter or sale at fair value less point of sale costs	(300,000)	(600,000)
	946,000	885,000
Gains arising from changes in fair value attributable to:		
- biological transformation	474,000	370,000
- price changes	43,000	(9,000)
Fair value gain/(loss) on valuation	**517,000**	**361,000**
At the end of the year	**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	2021/2022 Fair Market Price (Kshs)	2020/2021 Fair Market Price (Kshs)
Calf	16,000	15,000
Heifer	87,000	85,000
Lactating cow	153,000	150,000
Bull	123,000	120,000
Goats	7,000	6,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 INVENTORIES

	2020/21 Kshs	2019/2020 Kshs
Product Stock		
Milled Sugar	7,570	7,102,715
Molasses	19,650	705,000
In-process stocks		
Milled sugar-in-process	-	54,697,618
Molasses in process	-	-
Subtotal	**27,220**	**62,505,333**
Raw material stock		
Un-milled Cane	-	3,434,000
Other materials and consumables		
Field and factory stores	291,410,910	257,238,454
OOC Maintenance Stock	7,485,426	-
Consumable Stores	7,718,801	12,374,619
Stationery	2,312,439	2,703,633
Medicines	1,027,476	126,429
	309,955,052	**275,877,135**
Less: Impairment	(61,636,216)	(82,862,848)
Subtotal	**248,318,836**	**193,014,288**
Total	**248,346,056**	**255,519,621**
	==========	==========

Product stocks are valued using FIFO method. In the previous year 2021, a write down on product stocks of Kshs 2,269,434 was recognised as an expense.

All the other stocks have been valued at their weighted average costs. A write on adjustment of Kshs. 196,740 has been passed to the supplies stores stock ledger to adopt the valuation of stocks physically counted on 30th June 2022 using weighted average cost. Ordinarily the ledger is updated by the sun system using FIFO method.

Stocks categorised as obsolete previously recognised at Kshs.61,636,216 (2021-Kshs 82,862,848) have been fully impaired. Some of the items amounting to Kshs. 21,226,632 were drawn and used during the year hence the stock impairment write back of the same amount.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23(a) TRADE AND OTHER RECEIVABLES

	Gross Amount Kshs	Provision for Impairment Kshs	Net Amount Kshs
At 30th June 2022:			
Trade receivables (note 23b)	49,832,152	(39,075,261)	10,756,891
Loans to Outgrowers (note 23d)	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 23e)	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**

23 (b) TRADE RECEIVABLES

	2021/2022 Kshs	2020/2021 Kshs
Gross Sugar receivables	42,994,256	45,409,500
Provision for doubtful receivables	(32,290,431)	(32,391,495)
	10,703,825	**13,018,005**
Gross Molasses Receivables	6,837,896	9,127,942
Provision for doubtful receivables	(6,784,830)	(6,838,920)
	53,065	**2,289,023**
	10,756,891	**15,307,028**

At June 30, the ageing analysis of the gross trade receivables was as follows:

Less than 30 days	0	5,533,998
Between 30 and 60 days	-	3,648,136
Between 61 and 90 days	1,379,995	518,951
Between 91 and 120 days	1,302,235	5,373
Over 120 days	47,149,922	44,830,985
	49,832,152	**54,537,442**

	==========	==========

Provision has been made for amounts whose recovery is uncertain.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (c) STAFF RECEIVABLES

	2021/2022 Kshs	2020/2021 Kshs
Gross staff debtors and advances	24,213,631	27,697,981
Provision for impairment loss	(1,268,664)	(1,268,664)
	22,944,967	26,429,317
	==========	==========
Less: Amounts due within one year	24,213,631	27,697,981
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)

23 (d) CANE DEVELOPMENT LOANS TO FARMERS

	Gross Amount Kshs	Provision for Impairment Kshs	Net Amount Kshs
At 30th June 2022:			
Farmer cooperatives	75,964,337	(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**
	==========	==========	==========
At 30th June 2021:			
Farmer cooperatives	375,706,867	(365,958,108)	9,748,760
Large & small scale farmers	52,091,000	(40,706,920)	11,384,080
Transporters	1,451,451	(833,736)	617,715
	429,249,319	**(407,498,764)**	**21,750,555**
	==========	==========	==========

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (e) OTHER RECEIVABLES

	2021/2022 Kshs	2020/2021 Kshs
Farmers, Transporters & Cutters advances	23,669,066	15,365,237
Provision for impairment loss	(14,988,103)	(10,695,938)
	8,680,963	**4,669,300**
Other receivables	54,165,110	53,612,735
Provision for impairment loss	(49,146,797)	(49,146,797)
	5,018,313	**4,465,938**
	13,699,276	**9,135,238**
Payables with debit balances		
Trade payables	42,764,801	44,242,578
Small scale farmers	20,469,853	80,816,948
Large Scale Farmers	10,556,097	67,292,095
Transporters & Harvesters	36,767,236	10,874,426
Cane Maintenance Contractors	6,522,463	2,482,677
Payroll Liabilities	37,941,074	39,597,605
Other payables	8,485,365	5,886,856
	163,506,889	**251,193,185**
	177,206,166	**260,328,423**
	==========	==========
Less: Amounts due within one year	241,341,065	320,171,157
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

	2020/21 Kshs	2019/2020 Kshs
At beginning of the year	15,183,641	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**	**15,183,641**
	==========	==========

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 BANK AND CASH BALANCES

	2021/2022 Kshs	2020/2021 Kshs
Cash at bank	40,944,227	(53,632,583)
Cash in hand	737,607	995,364
Sub total	**41,681,834**	**(52,637,219)**
Bank Overdraft	(286,850)	(1,500)
Total	**41,394,984**	**(52,638,719)**

The bulk bulk of cash at bank was held at Kenya Commercial Bank, the Company's main bankers. 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	2021/2022 KShs	2020/2021 KShs
a) **Current account**			
KCB Bank Kisumu Main Account	1103790307		(1,500)
KCB Bank Kisumu Project Acount2	1180995716	5,941,590	(85,161,657)
KCB Bank Kisumu Project Account1	1112122478	(286,850)	(0)
KCB Bank Kisumu Chemelil Academy A/c	1103794930	24,857,678	4,673,028
Cooperative Bank Kisumu Main A/c	01120054662900	4,023,532	24,931,274
Cooperative Bank Kisumu Project A/c	01120054662901	3,985,580	854,389
Cooperative Bank Kisumu Health Ctr A/c	01160614981500	31,736	12,386
Coop Bank Kisumu Chemelil Academy-PTA		2,104,111	1,059,498
Sub- total		**40,657,377**	**(53,632,583)**
b) **Mobile money**			
Safaricom Mpesa		-	-
Sub- total		-	-
c) **Others(specify)**			
Cash in transit		-	
cash in hand		737,607	995,364
Sub- total		**737,607**	**995,364**
Grand total		**41,394,984**	**(52,637,219)**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 ORDINARY SHARE CAPITAL

	2020/2021 Kshs	2019/2020 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

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.

30 PRIOR YEAR ADJUSTMENT

An error occurred while recording sales for the year ended 30th June 2021 which resulted in overstatement of revenue. The details are tabulated below:

Details	Recorded Net Sales KShs	Correct Net Sales KShs	Overstatement		
			Net Sales KShs	VAT KShs	Debtors KShs
1. 600 bags sugar sold at Kshs.3,771.93 each had been invoiced twice on invoice Nos. 620 and 621 of 27.11.2020	4,526,316	2,263,158	2,263,158	316,842	2,580,000
2. Invoice nos. 1231 to 1286 for sugar sales issued on 21.10.2020 and 22.10.2020 had overstated net sales amount due to undercharge of VAT at 14% instead of 16%	17,472,693	17,123,239	349,454	(349,454)	-
3. Sales receipt no.490651 had overcharged 1000	3,859,649	3,815,790	43,859	6,140	49,999

bags sugar delivered vide delivery notes 204739 and 204740 of 23.07.2020 at Kshs.4400 each instead of Kshs.4350					
4. Invoice nos. 4303 and 4294 of 03.06.2021 for 200 bales sugar had been entered wrongly	223,111	228,000	(4,889)	(684)	(5
Total	**26,081,769**	**23,430,187**	**2,651,582**	**(27,156)**	**2,62**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 PRIOR YEAR ADJUSTMENT (Continued)

A prior year adjustment of Kshs. 2,651,582 has been made on retained earnings and the comparative figures for trade receivables and VAT payable adjusted accordingly. These relate to the year ended 30 June 2021 only and had not recurred in other years.

31 BORROWINGS

	2021/2022		2020/	
Description	Principal Kshs	Interest Kshs	Principal Kshs	Int
Balance at beginning of the year	2,626,916,872	1,019,697,219	2,641,045,556	941,696
External borrowings during the year	-		-	
Domestic borrowings during the year	286,850	22,516,935.59	-	78,000
Repayments of external borrowings during the year	-		-	
Repayments of domestic borrowings during the year			(14,128,684)	
Exchange rate gains/(losses) on revaluation of borrowings	-	-	-	
Balance at end of the year	2,627,203,722	1,042,214,155	2,626,916,872	1,019,697
Less: Amounts due with one year (current portion)	(286,850)	-	-	
Amounts due after one year (non-current portion)	2,626,916,872	1,042,214,155	2,626,916,872	1,019,697

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

	2021/2022 Kshs	2020/2021 Kshs
External Borrowings		
Dollar denominated loan	-	-
Sterling Pound denominated loan	-	-
Euro denominated loan	-	-
	-	-
Domestic Borrowings		
Kenya Shilling loan from Commodities Fund	2,586,916,872	2,586,916,872
Kenya Shilling loan from State Department of Crop	40,000,000	40,000,000

Development		
Kenya Shilling loan from KCB Bank	286,850	-
Kenya Shilling loan from Diamond Trust Bank	-	-
	2,627,203,722	2,626,916,872
Total balance at end of year	2,627,203,722	2,626,916,872

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.

At close of the year, the Company had undrawn banking facility from KCB Bank Kenya Limited of Kshs.145,000,000 (2020-Kshs. 130,869,816). The banking facility is a composite one available for term loans, bank overdraft, bank guarantees and letters of credit. The banking facility is secured by legal charges over land and buildings L.R. No.1611/4, 1612/4 and 11840 ranking pari passu with Commodities Fund.

During the year, the Company received indirect funding from the Government of Kenya totaling Kshs 182,017,971 (2021-Kshs.Nil). This was a grant of Kshs.138,900,000 that the government disbursed directly to farmers as part of liquidity support to the Company in defraying arrears owed to farmers for sugarcane delivered to the factory and another grant of Kshs. 43,117,971 disbursed directly to suppliers for spares delivered and services rendered to facilitate the out of crop maintenance of 2022. The Kshs, 43,117,971 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.

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:

	2021/2022 Kshs	2020/2021 Kshs
Accelerated capital allowances	XXX	2,706,490
Unrealised exchange gains/(losses)	XXX	-
Revaluation surplus	XXX	(114,443,827)
Biological assets		29,368,129

Tax losses carried forward	(XXX)	90,297,894
Provisions for liabilities and charges	(XXX)	(7,928,687)
Net deferred tax liability	XXX	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32 DEFERRED TAX LIABILITY (Countinued)

The movement on the deferred tax account was as follows:

	2021/2022 Kshs	2020/2021 Kshs
The movement on the deferred tax account is as follows:		
Balance at beginning of the year	XXX	(1,021,564,483)
Credit to revaluation reserve	(XXX)	(114,443,827)
Deferred biological assets		29,368,129
Under provision in prior year	XXX	-
Income statement charge/(credit)	XXX	2,706,490
Balance at end of the year	XXX	(1,103,933,691)

33 DEFERRED INCOME

	2021/2022 Kshs	2020/2021 Kshs
Prepaid sugar sales	108,021,917	122,511,511
Prepaid molasses sales	2,917,868	2,037,801
Total	110,939,785	124,549,312

34 TRADE AND OTHER PAYABLES

	2021/2022 Kshs	2020/2021 Kshs
Trade payables - cane	492,391,252	336,393,196
Trade payables - creditors	320,451,174	287,096,916
Accrued expenses - payroll	1,215,481,388	1,072,264,885
Accrued expenses - staff	5,164,937	5,359,093
Other payables	136,089,651	134,849,948
	2,169,578,401	**1,835,964,039**
VAT payable	1,000,468,324	948,529,772

PAYE payable	844,663,250	799,207,900
WHT payable	10,827,023	10,853,325
SDL payable	474,109,867	474,109,867
ML payable	1,621,322	1,269,365
Accrued tax penalties & interest	1,313,777,324	1,149,275,912
	3,645,467,110	**3,383,246,142**
	5,815,045,511	**5,219,210,180**

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
2022			
At 1st July 2021	**14,513,217**	**191,629,243**	**206,142,460**
Provision for the year	22,671,612	42,337,268	65,008,880
Paid during the year	(1,663,587)	(23,037,506)	(24,701,093)
At 30th June 2022	**35,521,242**	**210,624,319**	**246,450,247**
2021			
At 1st July 2020	**13,365,184**	**229,117,145**	**242,482,329**
Provision for the year	8,495,925	3,756,120	12,252,045
Paid during the year	(7,347,892)	(41,244,022)	(48,591,914)
At 30th June 2021	**14,513,217**	**191,629,243**	**206,142,460**

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 PROVISION FOR LEAVE PAY

	2021/2022 Kshs	2020/2021 Kshs
Balance at beginning of the year	20,729,011	21,922,108
Additional/(Reduction of) provision at end of year	14,834,518	(1,193,098)
Leave paid out or utilised during the year	-	-
Balance at end of the year	**35,563,528**	**20,729,011**

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

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 2021 was Kshs. 9,699,787 (2020: Kshs. 9,699,787).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

38 NOTES TO THE STATEMENT OF CASH FLOWS

	2021/2022 Kshs	2020/2021 Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	(694,894,756)	(551,932,156)
Depreciation	158,790,070	154,804,063
Nucleus Estate cane	34,428,820	88,637,038
Fair value (gain)/loss on valuation of biological assets	(106,870,056)	(38,569,783)
(Gain)/loss on disposal of fixed asset	3,063,294	6,174,775
Grant Income	(182,017,971)	
Earned interest income	(360,974)	(518,630)
Accrued interest expense	22,516,936	78,000,260
Interest and penalties on tax and pension arrears	174,888,966	188,695,845
Retirement benefit expenses	65,008,880	12,252,045
Staff leave provision	15,882,311	(1,193,098)
Bad and doubtful debt	4,137,012	21,017,688
Reduction in obsolescence provision	(21,226,631)	
Other accrued expenses and provisions	0	(44,526,430)
Operating profit/(loss) before working capital changes	(526,654,100)	(87,158,384)
(Increase)/decrease in inventories	(7,173,565)	(54,934,250)
(Increase)/decrease in trade and other receivables	81,786,621	(114,094,732)
Increase/(decrease) in trade and other payables	598,767,998	243,150,919
Cash generated from/(used in) operations	**146,726,953**	**(13,036,447)**
	==========	==========
(b) Analysis of changes in loans		
Balance at beginning of the year	3,646,614,091	3,582,742,515
Receipts during the year	286,850	0
Repayments during the year	-	(14,128,684)

Repayments of previous year's accrued interest	0	0
Foreign exchange (gains)/losses	0	0
Accrued interest	22,516,936	78,000,260
Balance at end of the year	**3,669,417,876**	**3,646,614,091**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

38 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

	2021/2022 Kshs	2020/2021 Kshs
(c) Analysis of cash and cash equivalents		
Short term deposits	-	-
Cash at bank	40,944,227	(53,634,083)
Cash in hand	737,607	995,364
Balance at end of the year	**41,681,834**	**(52,638,719)**
(d) Analysis of interest paid		
Interest on loans (note 14)	22,516,936	78,000,260
Interest on bank overdraft (note 14)	-	-
	22,516,936	78,000,260
Balance at beginning of the year	1,019,697,219	941,696,959
Balance at end of the year (note 35(b))	(1,042,214,155)	(1,019,697,219)
Interest paid	-	-
(e) Analysis of dividend paid		
Balance at beginning of the year	9,699,787	9,699,787
Paid during the year		
Balance at end of the year	(9,699,787)	(9,699,787)
Dividend paid	-	-

(f) Analysis of grant received

Total grant income during the year	182,017,971	-
Paid directly to farmers	(138,900,000)	0
Paid directly to suppliers	(43,117,971)	
Grant received	-	-

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

	2021/2022 Kshs	2020/2021 Kshs
i) Grants from the Government		
Grants from National Govt	182,017,971	-
Grants from County Government	-	-
Donations in kind	-	-
Total	182,017,971	-
ii) Key management compensation		
Directors' emoluments	-	87,000
Compensation to the CEO	4,723,263	4,723,263
Compensation to key management	3,560,232	3,320,232
Total	8,283,495	8,130,495

	==========	==========

40 **CAPITAL COMMITMENTS**

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

	2021/2022 Kshs	2020/2021 Kshs
Amounts authorised and contracted for	19,268,610	22,252,033
Amounts authorized but not contracted for	-	-
Less: Amounts included in Work in progress	(19,268,610)	(22,252,033)
	-	-
	==========	==========

The capital commitments relate primarily to immature bearer plant which includes plant cycle sugarcane of 0 to 6 months.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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:

	2021/2022 Kshs	2020/2021 Kshs
Legal claims against the Company	243,732,178	433,207,585
	==========	==========
Contingent liability provided for in the books at 10%	24,373,218	43,320,758
	==========	==========

A provision of 10% (2021: 10%) of pending legal claims amount 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 5,664 million as at 30th June 2022 (2021: Kshs 5,033 million). The Company incurred a loss of Kshs. 695 million during the year (2020: Kshs 551 million) bringing the cumulative loss to Kshs 8,993 million by 30th June 2022. 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 neutralized by the government of Kenya's initiatives towards privatization of the Company alongside other public sugar mills. Privatization 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. The government has not revoked a letter issued to

KRA by National Treasury in December 2015 putting on hold tax claims amounting to Kshs.1.9 billion until completion of privatization process.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 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	Fully performing	Past due	Impa
	Kshs	Kshs	Kshs	K
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**
At 30 June 2021				
Receivables from exchange transactions	486,411,187	39,682,008	446,729,179	446,729,179
Receivables from non-exchange transactions	352,761,916	291,650,518	61,111,399	61,111,399
Bank balances	(53,632,583)	(53,632,583)	0	0
Total	**785,540,520**	**277,699,943**	**507,840,577**	**507,840,577**

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

43 FINANCIAL RISK MANAGEMENT (Continued)

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 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 2022				
Trade payables	-	30,000,000	782,842,426	812,842,426
Employees' dues	30,475,148	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	(43,466,355)	(43,466,355)	232,722,147	145,789,438

Current portion of borrowings	286,850			286,850
Provisions	-	-	1,349,340,853	1,349,340,853
Deferred income	26,000,000	62,400,000	22,539,785	110,939,785
Employee benefit obligation	2,950,000	23,850,000	219,650,247	246,450,247
Total	**35,268,246**	**185,975,613**	**5,996,741,849**	**6,217,985,708**
At 30 June 2021				
Trade payables	53,913,224.87	42,047,912	527,528,976	623,490,112
Employees' dues				1,077,623,978
Tax Arrears	45,443,971	16,985,659	2,171,540,599	2,233,970,229
Other Payables				144,549,735
Current portion of borrowings	xxx	xxx	xxx	0
Provisions	xxx	xxx	xxx	1,170,004,923
Deferred income	xxx	xxx	xxx	124,549,312
Employee benefit obligation	xxx	xxx	xxx	206,142,460
Total	**xxx**	**xxx**	**xxx**	**5,580,330,750**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

43 FINANCIAL RISK MANAGEMENT (Continued)

(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.

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 2022			
Financial assets			
Investments	-	-	-
Cash	-	-	-
Debtors	-	-	-
	-	-	-
Financial Liabilities			
Trade and other payables	-	-	-
Borrowings	-	-	-
	-	-	-
Net foreign currency asset/(liability)	-	-	-

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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:

	2020/2021 Kshs	2019/2020 Kshs
Revaluation reserve	4,614,544,226	4,614,544,226
Retained earnings	(8,993,501,754)	(8,298,606,998)
Capital reserve	211,591,620	211,591,620
Total funds	**(4,167,365,908)**	**(3,472,471,152)**
Total borrowings	3,669,417,876	3,646,614,091
Less: cash and bank balances	(41,681,834)	52,638,719
Net debt/(excess cash and cash equivalents)	**3,627,736,042**	**3,699,252,810**

Gearing	-672%	1631%

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).

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.

REPORT ON THE FINANCIAL STATEMENTS

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Resolution Status:	Timeframe:
1	**Material Uncertainty on going concern:** Management has not disclosed in the financial statements the material uncertainty in relation to going concern and mitigating measures to reverse the undesirable precarious financial position.	Note No. 41 has been included in the 2021/2022 Financial Report acknowledging the current financial status and future outlook of the Company and outlining the measures put in place to ensure continuity as a going concern into the foreseeable future.	Gabriel Nyangweso, **Managing Director (Ag)**	Resolved	
2	**Unreconciled variances between the financial statements and the ledger:** Some comparative balances differed with the audited financial statements for 2019/2020 FY	These resulted from reclassifications made as the Company adopted the format recommended by National Treasury in which the income statement presents costs "by expense type" as opposed to "by function". Others arose from prior year restatements explained under note 30. The detailed explanations were availed.	Emmanuel Ngala, **Head of Finance**	Resolved	
	The balances of various account items in the 2020/2021 financial	The ledgers included adjustments passed during audit after draft	Emmanuel Ngala, **Head of Finance**	Resolved	

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the Issue	Resolution Status:	Timeframe:
	statements differed with the ledger balances provided for audit.	financial statements were submitted. The final financial statements agreed with the ledgers.			
3	**Unsupported depreciation:** Note 13(a) administrative expenses includes depreciation amount of 38,308,693 while note 19 Property, Plant and Equipment reflects depreciation amount of Ksh. 154,804,063 resulting in unexplained difference of Kshs.116,495,370	The total depreciation for the year was Kshs.154,804.063. The portion attributed to administration Kshs. 38,308,693 was included among administrative expenses. The Kshs.116,495,370 relates to manufacturing, agriculture and marketing and distribution.	Emmanuel Ngala, **Head of Finance**	Resolved	
4	**Unsupported Bad and Doubtful debts:** Management did not provide ageing analysis of showing details of the long outstanding debtors and indicating corresponding bad and doubtful debt provisions totaling Kshs.21,017,688 included under note 13(a).	The schedules have been availed	Emmanuel Ngala, **Head of Finance**	Resolved	
5	**Unsupported adjustments of revenue:** The schedule supporting revenues included an adjustment of Kshs.19,918,870 which have not been supported with approved journal vouchers.	The journal vouchers have been availed.	Caroline Onditi, **Financial Accountant**	Resolved	
6	**Omission of Property, Plant and Equipment:** Review of documents relating to assets acquired during the year revealed that assets worth Kshs.6,310,429 were omitted from the PPE schedule thereby understating the assets.	The assets were later included in the final PPE schedules except for claimable VAT portion of Kshs. 932,761 not capitalised. The revised PPE schedule including the assets valued at Kshs. 5,377,668 was availed.	Stephen Aluoch, **Management Accountant**	Resolved	
7	**Nondisclosure of Intangible assets:** It was noted that the Company contracted a local company for upgrade of the ERP system at a total cost of Kshs.4,439,608. However, the software upgrade expenses and related amortization costs were not reported in the financial statements as required under paragraph 118 of IAS 38	Paragraph 118 of IAS 38 requires disclosure of specified information for each class of intangible assets recognized by the entity. However, the Company had expensed the acquisition cost of the Sun System when it was installed in 1999 and Paragraph 71 and 76 of IAS 38 prohibits recognition of previously expensed costs as part of the cost of an intangible asset. Accordingly, Management considered it inappropriate to capitalize upgrade cost of an item that was already expensed.	Emmanuel Ngala, **Head of Finance**	Resolved	

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the Issue	Resolution Status:	Timeframe:
8	**Unsupported Balances** **8.1 Cane Development Loans:** Note 23(d) reflects a balance of Kshs.429,249,319 but the supporting schedules showed a balance of Kshs.433,330,703 resulting in unexplained variance of Kshs.4,273,799.	Revised schedule agreed with financial statements was provided	Isaac Chepsiror, **Agriculture Services Accountant (Ag)**	Resolved	
	8.2 Tax Recoverable Supporting documents or analysis of Kshs.15,183,641 recoverable tax under note 24 was not provided for audit review.	The analysis was prepared and provided	Steven Aluoch, **Management Accountant**	Resolved	
9	**Irregular Offsetting of Bank Balances:** The statement of financial position reflects a negative cash and bank balance of Kshs.52,638,719 which, as disclosed in Note 26 includes a negative bank balance of Kshs.53,632,583. The aggregated negative balance was as a result of an overdraft of Kshs.85,161,657 in KCB Kisumu Project 2 account as reflected in Note 26(a) to the financial statements. This treatment 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.	This net-off did not amount to offsetting of an asset against a liability. The negative cash book balance was not an overdraft because the corresponding bank statement was positive as at that date. The bank reconciliation statements as at 30 June 2021 show that the cash book had recorded cheques for farmers and transporter that were yet to be released pending receipt of further customer deposits. This treatment therefore presented the substance rather than the mere form of the transactions/balances.	Emmanuel Ngala, **Head of Finance**	Resolved	
10	**Long Outstanding Borrowings:** The loans advanced by Commodities fund and state department of crop development totaling outstanding at Kshs. 2,626,916,872 in principal amount and Kshs.1,019,697,219 in accumulated interest was long overdue with no repayments during the year under review.	Loan servicing was affected by the Company's cash flow constraints which was explained both through meetings and in writing to the creditors. A repayment schedule will be agreed upon resumption of milling after factory maintenance planned for June 2022	Emmanuel Ngala, **Head of Finance**	Resolved	
	Further, Management did not provide agreements for outstanding loans totaling Kshs.426,476,000 disbursed between June and November 2006.	Given the age of the loans, efforts to retrieve the documents have not been successful. We will seek the assistance of the counterparty.	Pauline Akello **Legal Services Manager (Ag)**	Unresolved	30 Jun 2023
	Budgetary Control and Performance: The statement of comparative	Being a commercial entity, the	Emmanuel Ngala,	Resolved	

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Resolution Status:	Timeframe:
	budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.3,386,021,300 and Kshs.2,259,890,281 respectively resulting to an under-funding of Kshs.1,126,131,019 or 33% of the budget. Similarly, the Company expended Kshs.2,809,170,856 against an approved budget of Kshs.3,359,488,331 resulting to an under-expenditure of Kshs.550,317,475 or 16% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.	Company's revenue and expenditure levels are determined by operational and business circumstances. Although the Company did not achieve its production and sales targets, it produced and sold its 5-year highest volumes and reported its 5 year lowest loss.	**Head of Finance**		

REPORT ON THE LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
1	**Late submission of Financial Statements:** During the year under review, the Management of Chemelil Sugar Company submitted the financial statements to the Auditor-General on 29 October 2021, one (1) month after the statutory deadline of 30 September 2021 contrary to Section 47(1) of the Public Audit Act, 2015 which requires that financial statements should be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.	This was caused by a delay in completion of a major upgrade exercise of the Company's financial system software, the Sun System, undertaken during the financial year 2020/2021. The upgrade was completed and signed off on 21st August 2021. The exercise took longer than earlier anticipated because the Company's version 4.25 of Sun System was a much lower version below the latest 6.4 as Sun Systems had undergone several upgrades since the Company implemented it. Consequently, the exercise turned out to be a major process computerization exercise.	Emmanuel Ngala, **Head of Finance**	Resolved	
2	**Non-compliance to the prescribed format:** The financial statements presented did not comply with the format prescribed by the International Financial Reporting Framework as they did not include	The statement of changes in equity was included on page 3 of the financial statements. However, the title "Statement of Changes in Equity" was inadvertently missing from the final	Emmanuel Ngala, **Head of Finance**	Resolved	

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
	the statement of changes in equity as well as the statement on follow up of auditor recommendations.	print. This has been corrected. The report on follow up of auditor recommendations has been included			
3	**Non-compliance with Public Procurement and Assets Disposal Act, 2015 and Regulations,2020:** It was noted that Kshs.2,094,180 paid to M/s General Auto Hardware for the supply of various items were incurred through direct procurement contrary to Regulation 90 (1) (a) and (b) of the Public Procurement and Asset Disposal Regulations, 2020 which requires the procuring entity to record the reasons upon which it makes a determination that the relevant condition set out in section 103 of the Act has been satisfied and that the accounting officer shall, within fourteen days after the notification of the award of the contract, report any direct procurement of a value exceeding five hundred thousand shillings to the Authority in a format provided by the Authority.	Under section 103 of PPADA 2015, Single sourcing is justified under circumstances where the item is urgent or there is a catastrophe or natural disaster and the purchase must be hastened to avoid or reduce possible losses. The supplier must be prequalified and the prices are within the market rate. The items in question were urgently required to fix sudden factory breakdowns but were out of stock and were not available in the shops of all other prequalified suppliers because of import restrictions imposed during the Covid 19 pandemic. General Auto Hardware Ltd, based in Kisumu, was identified as the nearest supplier with the items in stock. This was dully reported to the authority in the prescribed format within the required timeline.	Japheth Ojwang', **Supply Chain Manager**	Resolved	
4	**Irregular Management of Supply Contract:** During the year under review, Management engaged a supplier for the supply and delivery of 50kgs sugar bags and sewing thread at Kshs.44.51 per piece which was based on a contract signed between the supplier and the Company on 28 February 2019. The supplier had been issued with a notification of award 28 February 2020 being renewal of the existing contract for a period of one (1) year under the same terms of engagement. However, review of payment records revealed that the firm was paid an amount of Kshs.18,311,228 before making deliveries contrary to the terms of the contract Clause 3.1 which stated that payments shall be	Due to Intermittent stoppages of milling operations, the Company has had problems with its successive packaging materials suppliers. The suppliers declined to supply the Company's orders and resorted to court to recover their dues. Given that this is a critical item for the production process, Management had to approach the suppliers for out of court settlement and plead for continued supply. When the Company put up a tender afterwards, they did not participate. In another subsequent tender, only one responded and was awarded. Unfortunately, just after placing an order in February 2019, milling operations stopped due to lack of raw materials. The supplier manufactured	Japheth Ojwang', **Supply Chain Manager**	Resolved	

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
	made after delivery and upon acceptance of the goods. Further, it was noted that the firm adjusted the price upwards per piece to Kshs.46.20 effective 1 March 2021. Although Management explained that the price of Kshs. 46.20 was effected after tendering for the packaging materials, no documentary evidence was provided to support the explanation.	the product but could not deliver until milling operations resumed 12 months later. The condition for delivery and continued business was that all subsequent orders would have to be paid for before they begin manufacturing. The tender documents supporting the price of Kshs. 46.20 have been provided to the auditors.			
5	**Non-compliance with the Human Resource Policies:** Review of the organization structure of the Company revealed that key management positions including the Managing Director were on an acting capacity since May 2017. Further, thirty-three (33) staff members had been appointed in an acting capacity to various positions within the Company for a period of more than six (6) months. This is contrary to the Human Resource Policies and Procedures Manual section C (14)(1) which states that acting allowance will not be payable to an officer for more than six (6) months.	The Board of Directors had commenced a recruitment process to competitively fill the position of Managing Director with an advert that appeared in the Kenyan daily newspapers from 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 availed) 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 The company sought permission from the Ministry of Agriculture, Livestock, Fisheries and Co-operatives to recruit for 46 Positions through letters dated 26th June 2017, 22nd November 2017 and 19th December 2017 but only nine (9) critical vacant positions were granted as per their letter of approval dated 2nd March 2018 (copy availed). The company went ahead to advertise above nine approved positions through the local Standard Newspaper dated 21st November 2017 (copy availed) and thereafter shortlisted applicants for the above positions but	Constance Webale, **Head of Human Resources (Ag)**	Resolved	

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
		could not proceed with the interviews after milling operations were suspended. Although milling has since resumed, the level of operation was still below 40% capacity due to factory efficiency levels and the Company only managed to pay 50% of salaries due. Meanwhile, these vacant positions had to be manned physically by employees to ensure smooth operations hence the acting appointments.			

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
1	**Lack of a Functional Board of Directors:** Review of the governance structure revealed that the Company operated without a Board of Directors since the term of the previous Board ended on 16 July 2020. In the circumstances, the Company was unable to constitute Board sub committees such as Audit Committee, HR and Finance Committee and Strategy and Technical Committee to provide oversight to Management activities in line with good corporate governance practices. Further, the Chairman's report,	The Company's Board was fully constituted with all its committees 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. The understanding is that Directors remain accountable for the affairs of the Company during the period of the financial when they served in the Board up to the date of revocation of their appointments.	Gabriel Nyangweso, **Ag. Managing Director**	Resolved	

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the Issue	Status:	Timeframe:
	Board of Directors' report and statement of Directors' Responsibilities 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 21 September 2021.	Management prepared the financial statements and annual reports 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 during the financial and was not available to approve the financial statements and reports for the year ended 30th June 2021. The statements have therefore been signed by the Acting Managing Director on their behalf.			
2	**Lack of Effective Internal Audit Function and Audit Committee:** Review of the 2020/2021 work plan reveled that the Internal Audit did not have an approved work plan. Further, the Internal Audit had targeted to audit twenty-four (24) audit areas but covered only staff costs for contracted employees. It is not clear whether a draft report of 24th September 2020, prepared by the department was presented to Management for implementation of its recommendations. Further, the appointment of all Audit Committee Members lapsed on 22nd July 2020 and hence the Company operated without an Audit Committee during the year under review contrary to section B of Mwongozo Code of Governance for State Corporations Guidelines. Section D 11 states that an organization must establish an Audit Committee in addition to a maximum of three other committees.	The Annual Audit plan 2020/2021 was approved by the Ag. Managing Director after the Board was dissolved effective 16th July 2020. Before then, the Board Audit Committee was in place. Indeed, the internal audit section planned for 24 audits during the financial year 2020/2021. Alongside this was a plan to recruit additional staff to strengthen the internal audit team that was to implement it. However, recruitment of additional staff was not possible after the circular ref: MOALF&C/CS/ADM/30 on freezing of employment from the Ministry of Agriculture, Livestock, Fisheries and Co-operatives dated 7th July 2020. This affected the implementation of the Audit program for the year. The audit of costs for contracted staff was duly completed and submitted for implementation. The section also carried out three investigative audits during the year. Management is pursuing approval from the Ministry to address understaffing in the Section.	Jacqueline Kotonya, **Internal Audit Manager (Ag)**	Unresolved	30 Jun 2023
3	**Debt Management:** The trade and other receivables balance in note 23(b) include trade receivables balance of	The Company's sales are largely made on cash basis with the only exception being molasses sales to Agro Chemical	Emmanuel Ngala, **Head of Finance**	Resolved	

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
	Kshs.57,161,868 out of which receivables amounting to Kshs.47,455,411 (or 83%) were more than 120 days old which casts doubt on the effectiveness of the debt management of the Company.	and Finance Company which is a state corporation. The old trade debtors are historical balances which arose more than 5 years back when the Company had credit sale arrangements. Provisions have been made in the books for these amounts. Management has since developed a robust 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.			

Ag. Managing Director

Date 23/03/2023

Chairman of the Board

Date 23/03/2023