

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

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REPORT

*Benjamin Washiali
on Thursday
21st June 2018
AFTERNOON*

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
WESTERN KENYA RICE MILLS LTD**

**FOR THE YEAR ENDED
30 JUNE 2017**

WESTERN KENYA RICE MILLS LTD

**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

30TH JUNE 2017

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

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Background Information

Western Kenya Rice Mills (WKRM) Ltd was incorporated in 1993 under the Companies Act, 2015. The Company is jointly owned by National Irrigation Board (60% shareholding and Western Kenya Schemes Rice Farmers at 40% of shareholding). The Company is domiciled in Kenya and is located in Kisumu County.

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

Principal Activities

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

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

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

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

Directors

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

BOARD OF DIRECTORS

HON. IMMANUEL ICHOR IMANA - CHAIRMAN



Hon. Immanuel Ichor Imana, HCS (Head of State Commendation), was appointed to the Board as the chairman on 10th January, 2017. Prior to his appointment, Hon. Imana served in the Public Service for several years including being the Managing Director of Kerio Valley Development Authority. He has also held several Board positions. He has a wealth of knowledge in management. Prior to this appointment, he was a Peace Ambassador for Turkana County Government.

DR. EKAL CHARLES IMANA - CHAIRMAN



Dr. Ekal Charles Imana joined company as the chairman of the Company on 31st May, 2016. He is a holder of PhD in Department of Geological Sciences, Geophysics Option from UTEP. Master of Science, Department of Physics, Geophysics Option from UTEP. Alternative Certification, Department of Education, UTEP. Bachelor of Science, Department of Physics, University of Nairobi, Kenya. S1 Science, Science Education, Kenya Science Teacher's College. He is currently an instructor, Department of Geological Sciences, UTEP, GEOL 5315: Selected topics in Geological Sciences (Hydraulic Fracturing, Rocks and Minerals, Earth Structures, Environmental Science). He worked as a teaching Assistant in Dept. of Geological Sciences and Physics at, UTEP. He is a Dual Credit Physics, Dual Credit Astronomy and Chemistry teacher at Andres High School, He has also taught at Horizon High School, Canutillo High School Mont wood High School, Northwest Early College High School, El Paso Community College, Santa Theresa and Zaragoza Campuses, El Paso TX and lecturer at Egerton University dept. of Pysics. He has certificates in English as a second language, Secondary Composite Science and Secondary Physics Science from ESL/ Supplemental, Texas Educator Certification, Texas Educator certificate and Texas Educator certificate respectively. His other achievements in publications, seminars short courses and conferences include; Khatun, S., M. C. I Ekal and D.I Doser, Gravity studies to detect faults controlling ground water movement within lower Mesilla basin, West Texas, Proceedings of the symposium on the Application of Geophysics to Environmental and Engineering Problems, SAGEEP 2003, San Antonio, Texas, paper POT01, 1184-1193,2003. Modelling Free Air Gravity Anomaly Residuals, An Alternate Method to delineate Shallow Geologic Features that May Control ground water Quantity and Quality in the Southern Mesilla Bolson, West Texas Geological Sciences, University of Texas El Paso, Texas, South-Central Section-36th Annual Meeting. Structures of the North-East African Rift, 1993 Colloquium, dept. of Geological Sciences, University of Texas at El Paso. Comparison of the structures of the Rio Grande and East African Rift, Colloquium, dept. of Geological Sciences, University of Texas at El Paso, American Geological Union Annual Meeting, San Francisco, California, Log Evaluation Techniques For Carbonate Reservoirs, Texas Tech University, Lubbock, Texas

and Exchange Student, University of Nairobi to Ecole Polytechnic de Lausanne, Switzerland.
The Chairman exited the Board on 9th January, 2017.

MR. GITONGA MUGAMBI - MANAGING DIRECTOR



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

ENG. WILFRED ONCHWARI ONCHOKE, 55, REPRESENTATIVE PRINCIPAL SECRETARY, MNISTRY OF WATER AND IRRIGATION, NON-EXECUTIVE DIRECTOR



Eng. Wilfred Onchoke is a member of the Board by virtue of his position as the Alternate to the Principal Secretary, Ministry of Water and Irrigation. He is also a Non-Executive Director of Mwea Rice Mills Limited, a Subsidiary of National Irrigation Board.

He is Deputy Director Technical Services Division in the Ministry of Water and Irrigation. Prior to his current appointment, Eng. Onchoke was the Provincial Irrigation Officer- Western Province, Officer-in-Charge Provincial Irrigation Unit Western Province, District Irrigation Engineer Meru, Irrigation Engineer (Ministry of Agriculture) Coffee Factories Irrigation Engineer and Deputy Manager Agricultural Mechanization Station in the Ministry of Agriculture.

He is a holder of M.S.C in Land and Water Engineering as well as B.S.C Degree in Agricultural Engineering (Honours) from University of Nairobi. He is an Associate Member of Kenya Society for Agricultural Engineers (KSAE), Corporate Member of Institution of Engineers of Kenya and a Registered Engineer. As a member of the Board, Eng. Onchoke ensures that the policies WCRM Limited implements are in line with the Government policy.

MR. DISMAS M. OUNDO 54, NON – EXECUTIVE DIRECTOR



Mr. Dismas M. Oundo joined the Company's Board in 2008. He is a Non-executive Director representing Magombe Multi-Purpose Co-operative Society Ltd, an umbrella Society of farmers in Bunyala Irrigation Scheme and a shareholder of the company. He joined the membership of the Society in 1979. Mr. Oundo is a Procurement Officer at the Kenya Institute of Curriculum Development.

His previous assignments include Store man Grade I at the Kenya National Assembly. Mr. Oundo is trained in the field of Procurement as a Professional Supplies Manager. Mr. Oundo brings vast knowledge, experience and leadership gained from Bunyala Irrigation Scheme rice growing area.

MR. AMOS OWITI OWITI, 45, NON - EXECUTIVE DIRECTOR



Mr. Amos Owiti Owiti is a Non-Executive Director representing West Kano Farmers' Co-operative Society Ltd which he joined as a member in 1995.

He previously worked with the Teachers Service Commission from 1996 to 2000.

He is a holder of a B.S.C Degree in Agricultural Engineering (Honours) from Jomo Kenyatta University of Agriculture and Technology as well as a Post Graduate Diploma in Education from Egerton University. He is currently pursuing a Master Degree Programme at Maseno University in Planning and Economics of Education.

Mr.Owiti brings vast knowledge, experience and leadership gained from the Kano Plains region. His current occupation is commercial rice farming.

MR. JOE PETER ONYANGO, 67, - NON- EXECUTIVE DIRECTOR



Mr. Joe Peter Onyango joined the Company's Board in 2012. He is a Non-Executive Director representing Ahero Multi-Purpose Co-operative Society Ltd which he joined as a member in 1994.

He is a retired Career Banker having served Barclays Bank of Kenya Ltd for 29 years in various capacities including Branch Manager in various towns, Operations Manager, Advances (Risk) Manager and Branch Accountant. He is also a Tutor in the profession.

Mr. Onyango brings vast knowledge, experience and leadership gained from irrigated and rain fed rice farming, horticulture, poultry, pig, bee keeping and fish farming in the region.

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



Mr. Charles Kairu was appointed to the Board on 14th October, 2015 as alternate Director to the Principal Secretary, National Treasury. He is holder of a Master Degree in Development Economics from Williams College, USA and a Bachelor's Degree in Economics from the University of Nairobi. He has over 30 years' experience in the Public Service and is currently serving as Senior Assistant Director in the Public Debt Management Office at the National Treasury.

MR. DENNIS BANDA AROKA – LLB (HONS.) EMBA, FCPS (K) - Company



Secretary

Mr Dennis Banda Aroka is the Company Secretary of National Irrigation Board and WKRM. Prior to joining the Board in 2012, he had practiced as a consultant Company Secretary and held other similar positions for over 20 years. He holds an Executive MBA from Moi University. He also holds LLB (Hons) from Catholic University of East Africa. He is a Fellow Member of the Institute of Certified Public Secretaries of Kenya and has previously held the position of Council Member of the same institute.

FIDUCIARY OVERSIGHT ARRANGEMENTS

BOARD OF DIRECTORS:

**Hon. Immanuel Ichor Imana
Mr. Gitonga Mugambi
PS. Ministry of Water & Irrigation
PS. Ministry of Finance
Mr. Amos Owiti Owiti
Mr. Dismas Oundo Makhulu
Mr. Joe Peter Onyango,**

REGISTERED OFFICE

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

COMPANY HEADQUARTERS:

P.O BOX 1010 KISUMU

INDEPENDENT AUDITORS:

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

PRINCIPAL LEGAL ADVISERS:

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

BANKERS:

**Kenya Commercial Bank Ltd
Kencom House
P.O BOX 30081
NAIROBI**

**Kenya Commercial Bank Ltd
P.O BOX 30081
KISUMU**

MANAGEMENT TEAM

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

Mr. Gitonga Mugambi, - Managing director.



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

Mr. Daniel Atula Masatia, - Deputy General Manager – Operation and Irrigation Management Services.



Mr. Daniel Atula Masatia was appointed to the post of Deputy General Manager Operations of National Irrigation Board on 1st February, 2018. He holds Bachelor of Science degree in Agriculture from University of Nairobi and is currently pursuing his MBA in Strategic Management. Mr Daniel Masatia is a well accomplished agriculturalist and manager with experience of over 25 years in scheme, projects and research operations, planning and Strategy formulation and implementation, Resource Mobilization, Formulation and execution of irrigation programmes ranging from development to operations. His experience and expertise is valuable in policy formulation and in the provision of irrigation services.

Mr. Dennis Banda Aroka, - LLB (HONS.), EMBA, FCPS (K) - Company Secretary.



Mr Dennis Banda Aroka is the Company Secretary of National Irrigation Board and Western Kenya Rice Mills. Prior to joining the Board in 2012, he had practiced as a consultant Company Secretary and held other similar positions for over 20 years. He holds an Executive MBA from Moi University. He also holds LLB (Hons) from Catholic University of East Africa. He is a Fellow Member of the Institute of Certified Public Secretaries of Kenya and has previously held the position of Council Member of the same institute.

CHAIRMAN'S STATEMENT

The performance of the company has improved as compared to the previous year. The turnover improved from KShs.14.3 m in 2016 to KShs.31.8 m in 2017. The increase in sales is attributed to the contract awarded by the Kisumu County to supply ECDE (Early Childhood Development Education) schools with rice.

In order to reverse the negative trend, the company is focusing on progressive marketing especially to big institutions like universities, colleges and even programs supported by the County Government in order to enhance sales.

There is also need to modernize the mills to increase its efficiency to be competitive in the market as other competitors operate more modern mills which are more attractive to farmers as their quality is better.

REPORT OF THE MANAGING DIRECTOR

The performance of the company has been sustained by the sales of Sindano rice which is popular in the region despite the slight depression in sales as compared to Basmati variety of rice.

The company has continued to be challenged by the competition created by small millers in Ahero. However, the company is looking at alternative markets that would be able to boost the turnover.

New income streams are also being considered including up-scaling commercial milling by charging competitive rates and value addition to by-products to formulate animal feeds and charcoal.

CORPORATE GOVERNANCE STATEMENT

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

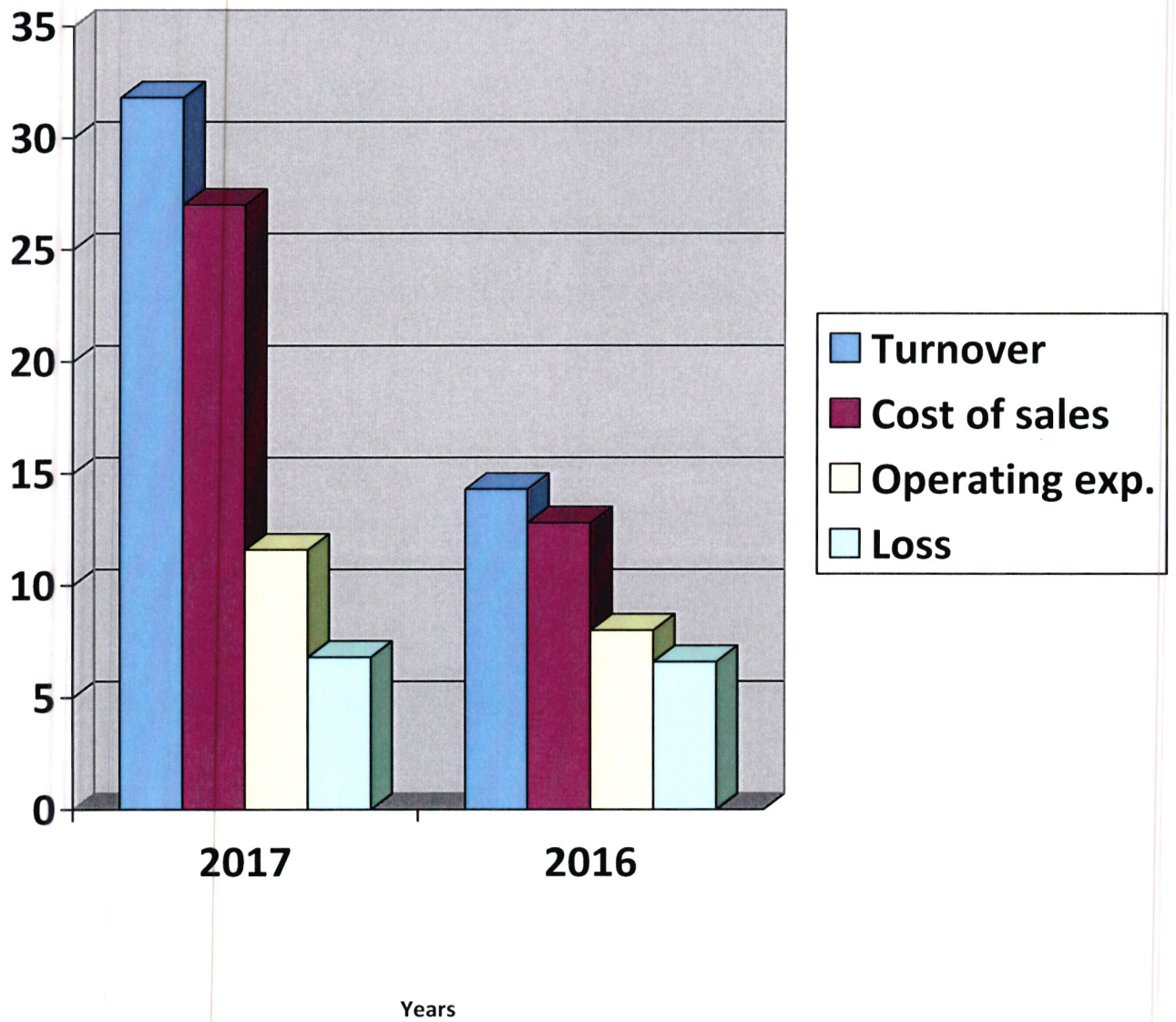
The Company's turnover increased from Ksh. 14,324,415 to Ksh.31, 813,378 in the current year under review. This represents 122% increase when compared with the previous year. On the other hand, cost of sales increased from Ksh.12, 893,069 in the previous year to Ksh.27, 067,306 in the current year under review, representing 110% increase. Further, the operational costs increased from Ksh. 8,129,287 in the previous year to Ksh. 11,631,413 in the current year under review, representing 43% increase. This information is highlighted in figure 1, in the form of a bar chart.

The Company's loss for the current financial year 2016/2017 went up by 3% as compared by the previous year's loss. The loss can be attributed to the availability of cheap imported rice in the market. The other reason is that despite the availability of cheap imported rice, the cost of production for our local rice has remained high. Hence, making the price for the raw material for the Company to be very high. And as a result, making the cost of production to be high.

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

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

Figure 1: X Axis represents Ksh. In Millions



CORPORATE SOCIAL RESPONSIBILITY

Western Kenya Rice Mills (WKRM) is committed to carrying out its business and affairs in a socially responsible, sustainable and meaningful way, taking into account ethics, the environment and society at large.

Through the expansive array of life changing corporate initiatives, WKRM continues to make a positive impact on its stakeholders, customers and general public guided by its Corporate Social Responsibility guideline. These activities span from education, sports promotion, community involvement, environmental protection, gender equity, health among others.

In the financial year 2016/2017, the Company supported the tree planting activity that was held in Ahero.

REPORT OF THE DIRECTORS

The directors submit this report together with the financial statements for the year ended 30th June 2017 which show the state of the Western Kenya Rice Mills Ltd Company's affairs.

Principal activities

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

Results

The results of the Company for the year ended June 30th 2017 are set out on pages 1 to 4 of the financial statements.

Dividends

Subject to the approval of the shareholders, the Directors did not recommend the payment of a first and final dividend for the year ended 30th June 2017. This is because the Company has not been performing well.

Directors

The members of the Board of Directors who served during the year are shown on pages 4 to 8. The Board of Directors for the Company comprises of the Chairman who is also the Chairman of the NIB's Board of Directors, two National Government representatives. Namely; the PS-National Treasury, Ministry of Water and Irrigation and the office of the Inspectorate of State Corporations as an ex-officio member, the Managing Director who also serves as the General Manager for NIB, the Chairmen of Ahero Multi-Purpose Co-op Society, West Kano Farmers Co-op Society and Magombe Multi-Purpose Co-op Society. The farmers' representatives' directorship only ceases once they stop serving in those capacities for their Societies.

Auditors

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

By Order of the Board

Sign.....

Mr. Dennis Banda Aroka
Company Secretary.

Date:.....23/04/2018.....

STATEMENT OF DIRECTOR'S RESPONSIBILITY

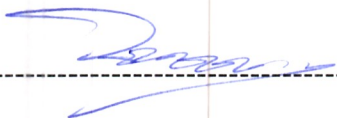
Section 81 of the Public Finance Management Act, 2012 and *Companies Act, 2016* require the Directors to prepare financial statements in respect of Western Kenya Rice Mills, which give a true and fair view of the state of affairs of the *Company* at the end of the financial year/period and the operating results of the *Company* for that year/period. The Directors are also required to ensure that the *Company* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *Company*. The Directors are also responsible for safeguarding the assets of the *Company*.

The Directors are responsible for the preparation and presentation of the *Company's* financial statements, which give a true and fair view of the state of affairs of the *Company* for and as at the end of the financial year (period) ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the *Company*; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *Company*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *Company's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the Companies Act, 2016. The Directors are of the opinion that the *Company's* financial statements give a true and fair view of the state of *Company's* transactions during the financial year ended June 30, 2017, and of the *Company's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *Company*, which have been relied upon in the preparation of the *Company's* financial statements as well as the adequacy of the systems of internal financial control.

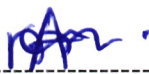
Approval of the financial statements

The *Company's* financial statements were approved by the Board on 23/04/2018 and signed on its behalf by:

Sign -----

Director: Joe Peter Onyango,

DATE 23/04/2018-----

Sign -----

Director: Amos Owiti Owiti

DATE 23/04/2018-----

Sign -----

Director: Dismas M. Oundo

DATE 23/04/2018-----

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON WESTERN KENYA RICE MILLS LTD FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Western Kenya Rice Mills Ltd set out on pages 1 to 22, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of cash flows and statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Western Kenya Rice Mills Ltd as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion, Emphasis of Matter and Other Matter sections of my report, I confirm that public money has been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Property, Plant and Equipment

As previously reported, the property, plant and equipment balance of Kshs.5,020,010 as at 30 June 2017 excludes the value of land without title on which the Company's buildings are located in Ahero, Kisumu County. It has not been possible therefore to confirm ownership of the land and whether the carrying amount as stated in the financial statements, reflects the fair value of property, plant and equipment as at 30 June 2017.

2. Current Liabilities - Long Outstanding Tax Remittance

As previously reported, the total current liabilities balance of Kshs.38,965,553 as at 30 June 2017 includes unpaid provision for tax on profits made during earlier years totaling Kshs.10,440,516.51 dating back to the year 1996. However, penalties and interest in

Report of the Auditor-General on the Financial Statements of Western Kenya Rice Mills Ltd for the year ended 30 June 2017

respect of the unpaid taxes have not been provided for in the financial statements. This has, in effect, overstated the profits, the retained earnings and tax provision for the year.

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

3. Share Capital

As previously reported, the financial statements reflect share capital of Kshs.35,049,935 whereas records available at the registrar of Companies reflect shares valued at Kshs.32,428,860 thus resulting in an unexplained difference of Kshs.2,621,075. Although the management has explained that the difference is as a result of shares acquired by farmers which are however not reflected in the Registrar's records, no evidence has been presented for the audit to confirm the management's assertion.

In the circumstances, it has not been possible to confirm the accuracy and validity of Kshs.35,049,935 share capital balance as at 30 June 2017.

4. Going Concern

As reported in the previous year, the statement of comprehensive income shows a loss of Kshs.6,690,842 for the year ended 30 June 2016 and Kshs.6,881,340 for the year under review. Further, current assets and current liabilities amounting to Kshs.20,001,039 and Kshs.38,965,553 respectively thus resulting in a negative working capital balance of Kshs.18,964,514 as at 30 June 2017 an even more precarious position than 30 June 2016 when the balance was Kshs.12,639,375.

Further, the liquidity ratio of the Company is 0.51 which means the current liabilities of the company are more than its current assets and as such the Company would not be able to meet its short term obligations.

In the circumstances, the going concern status of the Company is doubtful and its operations are dependent on support from its creditors and the National Government.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of my report. I am independent of Western Kenya Rice Mills Ltd in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Milling Income- under-absorption

I draw your attention to the Company's income statement which disclosed an amount of Kshs.155,618.00 from milling income against a budget of Kshs.1,225,000.00 and against prior year performance of Kshs.594,122.00 thus representing a 74% drop in milling income and under absorption of 87% against the budget. The audit revealed that the Company has not yet taken aggressive measures to improve its productivity despite it being already aware that the type of machinery it uses is inefficient. As a result, productivity has remained low in the face of rising competition from other millers.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion, Emphasis of Matter and Other Matter sections of my report, I have determined that there are no Key Audit Matters to communicate in my report

Other Matter

Board Expenses

During the year under review, the Company held only one meeting contrary to section 8 of the State Corporations Act, Cap 446 of the Laws of Kenya which stipulates that a minimum of four (4) Board meetings be held in each financial year. In the absence of board meetings, it has not been clear how the strategic policy and governance issues of the Company were managed.

Responsibilities of Management and those Charged with Governance for the Financial Statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (Accrual Basis) and for such 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.

In preparing the financial statements, management is responsible for assessing the company's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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.

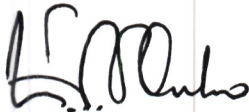
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated and separate 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 our 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the General Manager.
- Conclude on the appropriateness of the General Manager use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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



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

Nairobi

30 May 2018

WESTERN KENYA RICE MILLS LTD




STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	NOTE	2016/2017 KSHS	2015/2016 KSHS
Turnover	12	31,813,378	14,324,415
Cost of sales	13	(27,067,306)	(12,893,069)
Gross profit/(Loss)		4,746,072	1,431,346
Other Income	14	4,000	7,100
Administrative expenses	15	(10,387,457)	(6,868,938)
Other expenses	16	(1,226,556)	(1,260,349)
Board Members	17	(17,400)	-
Profit (loss) before Taxation		(6,881,340)	(6,690,842)
Tax provision (30%)		-	-
Profit (Loss) for the year		(6,881,340)	(6,690,842)

WESTERN KENYA RICE MILLS LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

ASSETS	NOTE	2016/2017 KSHS	2015/2016 KSHS
<u>NON - CURRENT ASSETS</u>			
<u>PROPERTY, PLANT & EQUIPMENT</u>	2	5,020,010	5,576,211
<u>CURRENT ASSETS</u>			
Inventories	3	12,361,011	19,623,039
Trade & Other Receivables	4	6,431,820	8,084,848
Cash & Cash Equivalents	5	1,208,208	2,082,641
		<u>20,001,039</u>	<u>29,790,528</u>
TOTAL ASSETS		<u>25,021,049</u>	<u>35,366,739</u>
<u>EQUITY & LIABILITIES</u>			
Share Capital	7	35,049,935	35,049,935
Retained earnings(Loss)	8	(48,994,438)	(42,113,099)
		<u>(13,944,503)</u>	<u>(7,063,164)</u>
<u>CURRENT LIABILITIES</u>			
NIB Current	9	26,426,152	31,279,331
Trade & Other Payables	10	2,098,883	642,527
Taxation	11	10,440,517	10,508,044
		<u>38,965,553</u>	<u>42,429,902</u>
TOTAL EQUITY & LIABILITIES		<u>25,021,049</u>	<u>35,366,739</u>
The financial statements were approved by the Board on 23/04/2018 And signed on its behalf by:			
Sign..... 	Sign..... 	Sign..... 	
MR. JOSEPH K. KIGOTHO SENIOR ACCOUNTANT- NO. '17161	MR. GITONGA MUGAMBI MANAGING DIRECTOR	HON. IMMANUEL ICHOR IMANA CHAIRMAN	
DATE..... 23/04/2018	DATE..... 23/04/2018	DATE..... 23/04/2018	

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2017**

	Share Capital	Revaluation Reserve	Retained Earnings	Total
	Kshs	Kshs	Kshs	Kshs
At 1 July 2015	35,049,935	30,000	(35,422,256)	(342,321)
Amortisation	-	(30,000)	-	(30,000)
Profit/Loss for the year	-	-	(6,690,842)	(6,690,842)
At 30 June 2016	35,049,935	-	(42,113,098)	(7,063,163)
At 1 July 2016	35,049,935	-	(42,113,098)	(7,063,163)
Loss for the year	-	-	(6,881,340)	(6,881,340)
At 30 June 2017	35,049,935	-	(48,994,439)	(13,944,504)

**STATEMENT OF CASH FLOWS FOR THE
YEAR ENDED 30 JUNE, 2017**

	Notes	2016/2017 KSHS	2015/2016 KSHS
Deficit		(6,881,340)	(6,690,842)
Adjustment for non cash items			
Depreciation	2	556,202	557,639
Operating Profit before working Capital changes		(6,325,138)	(6,133,203)
<u>Working Capital changes</u>			
(Increase)Decrease in Inventories		7,262,028	3,738,442
Increase(Decrease) in Receivables		1,653,028	(1,793,018)
(Increase)Decrease in Payables		(3,464,352)	(1,415,318)
Net cash generated from operating activities		(874,433)	(5,603,097)
<u>Investing Activities</u>			
Purchase of Assets		-	-
Net cash generated from Investing activities		-	-
<u>Financing Activities</u>			
Net cash generated from financing activities		-	-
Net increase/(decrease) in Cash & Equivalent for the year		(874,433)	(5,603,097)
Cash & cash equivalents at beginning of the year		2,082,641	7,685,738
Cash & cash equivalent at end of the year	5	1,208,208	2,082,641

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30TH JUNE, 2017

A) WHITE RICE:

PRODUCT	RECOVERY	QUANTITY KGS	PRICE/KG	TOTAL
Non- Aromatic Grade 1(IR	55%	200,000	100	20,000,000
Non- Aromatic Grade 1(ITA	50%	150,000	105	15,750,000
Aromatic Pishori Grade 1	50%	50,000	145	7,250,000
T/ INCOME				43,000,000

B) BY- PRODUCTS:

BY-PRODUCT	RECOVERY	QUANTITY KGS	PRICE PER KG	TOTAL
Broken Rice	4%	15,000	50	750,000.00
Chicken feed	2%	10,000	25	250,000.00
Bran meal	10%	25,000	15	375,000.00
T/ INCOME				1,375,000.00

C) PROJECTED COMMERCIAL MILLING

EXPECTED FROM	QUANTITY(BAGS)	UNIT PER BAG	PRICE PER KG (KSHS)	MILLS INCOME(KSHS)
N.C.P.B	200,000	75 KGS	3.5	700,000.00
OTHERS	150,000	75KGS	3.5	525,000.00
T/ INCOME				1,225,000.00

RECURRENT BUDGET FOR WKRM LTD FOR THE FY 2016/17

	VOTES	PROJECTED BUDGET	ACTUAL	VARIANCE
		2016/2017	2016/2017	2016/2017
		Kshs	Kshs	Kshs
Expected income		45,600,000	31,817,378	13,782,622
Expenditure				
Salaries & Wages Adm	951	3,000,000	2,916,506	83,494
Providend fund	951	-	-	-
House allowance	961	156,000	156,000	-
Casual wages	957	1,500,000	1,450,640	49,360
Training expenses	825	100,000	76,560	23,440
Medical allowance	838	30,000	24,999	5,001
Inpatient	840	160,000	76,223	83,777
Uniforms	849	53,000	10,000	43,000
Travelling, Meals & Acc.	847	2,500,000	2,443,685	56,315
Electricity – Factory	914	810,000	265,779	544,221
Building mtce -Factory	731	380,000	288,700	91,300
Offices	711	320,000	24,048	295,952
P & M mtce –Mills spares	641	2,002,000	-	2,002,000
Motor vehicle mtce	621	376,400	373,473	2,927
Board expenses	851	100,000	17,400	82,600
Printing & Stationery	832	1,200,000	1,062,634	137,366
Insurance	834	600,000	-	600,000
Donations	873	50,000	-	50,000

Rate & Rents	841	15,000	-	15,000
Subscription & Periodicals	842	70,000	56,888	13,112
Telephones	911	150,000	145,750	4,250
Postage	913	20,000	16,100	3,900
Legal & Professional Fee	839	1,300,000	1,293,003	6,997
Production Levy	342	100,000	-	100,000
Bank charges	836	80,000	41,196	38,804
Office tea	846	130,000	126,761	3,239
Consumables	858	5,000	410	4,590
Audit Fee	833	348,000	348,000	-
Other expenses	824	500,000	483,650	16,350
NSSF	951	15,000	-	15,000
Leave Allowance	810	55,000	50,986	4,014
Paddy Purchases	349	12,500,000	12,311,620	188,380
White rice Purchases	350	12,500,000	12,385,800	114,200
Marketing /Advertising	843	100,000	76,297	23,703
Petrol Cost	917	5,000	3,300	1,700
Diesel Cost	916	550,000	538,910	11,090
Oil & Grease	918	2,000	-	2,000
Packing materials	881	120,000	116,178	3,822
Computer Expenses	854	5,000	-	5,000
Office Machinery	852	10,000	6,500	3,500
Depreciation	54999	-	556,202	(556,202)
NIB Admin & Accout. Fee	52010	1,000,000	954,521	45,479
Total Recurrent Budget		42,917,400	38,698,718	4,218,682
Surplus (Deficit)		2,682,600	(6,881,340)	9,563,940
Capital Budget				
Mill Modernization	40	11,500,000	-	11,500,000
Mills Rehabilitation	40	3,000,000	-	3,000,000
Purchase of computer	52	50,000	-	50,000
Purchase of photocopier	52	120,000	-	120,000
New office block	30	5,750,000	-	5,750,000
Furniture purchases	52	150,000	-	150,000
Total Capital Budget		20,570,000	-	20,570,000

ACCOUNTING POLICIES

1 General Information

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

- i Ahero Multi-Purpose Co-op. Society Ltd.
- ii West Kano Farmers Co-op. Society Ltd.
- iii Magombe Multi-Purpose Co-op. Society Ltd.

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

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

2 Statement of compliance and basis of preparation

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

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

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

3 Adoption of New And Revised Standards

- (i) No relevant new standards and amendments to published standards effective for the year ended 30 June 2017 were used in the year under review.

Standard/Amendment to a standard	Effective date	Impact
IFRS 14 Regulatory Deferral Accounts (issued in January 2014)	1st Jan 2016	The new standard, effective for annual accounting periods beginning on or after 1 January 2016, defines a regulatory deferral account balance and allows entities to continue to apply their existing policy for regulatory deferral account balances, but requires certain disclosures.
Amendments to IFRS 11 titled Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)	1st Jan 2016	The amendments, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles and disclosure in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not re-measured).

Amendments to IAS 16 and IAS 38 titled Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014)	1st Jan 2016	The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances.
Amendments to IAS 16 and IAS 41 titled Agriculture: Bearer Plants (issued in June 2014)	1st Jan 2016	The amendments, define bearer plants – ie living plants which are used solely to grow produce over several periods and usually scrapped at the end of their productive lives (eg grape vines, rubber trees, oil palms) - and include them within IAS 16's scope while the produce growing on bearer plants remains within the scope of IAS 41
Amendments to IAS 27 titled Equity Method in Separate Financial Statements (issued in August 2014)	1st Jan 2016	The amendment, clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.
Amendment to IFRS 5 (Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014)	1st Jan 2016	The amendment adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued.
Amendment to IFRS 7 (Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014)	1st Jan 2016	The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset.
Amendments to IFRS 10, IFRS 12 and IAS 28 titled Investment Entities: Applying the Consolidation Exception (issued in December 2014)	1st Jan 2016	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
Amendments to IAS 1 titled Disclosure Initiative (issued in December 2014)	1st Jan 2016	The amendments, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

<p>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)</p>	<p>1st Jan 2016</p>	<p>The amendments clarify that:</p> <ul style="list-style-type: none"> . Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. <p>The carrying amount of an asset does not limit the estimation of probable future taxable profits.</p> <p>Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.</p> <p>An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.</p>
<p>Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)</p>	<p>1st Jan 2017</p>	<p>The amendments' objective is that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, the IASB requires that the following challenges in liabilities arising from financing activities are disclosed (to the extent necessary):</p> <ul style="list-style-type: none"> (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes
<p>Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 Disclosure of interests in other entities</p>	<p>1st Jan 2017</p>	<p>Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.</p>

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June. 2017.

IFRS 15 Revenue from Contracts with Customers (issued in May 2014)	1st Jan 2018	The new standard, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.
IFRS 9 Financial Instruments (issued in July 2014)	1st Jan 2018	<p>This standard will replace IAS 39 (and all the previous versions of IFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition:</p> <ul style="list-style-type: none"> . IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics. . For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch. . For the impairment of financial assets, IFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised. . For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures. . The derecognition provisions are carried over almost unchanged from IAS 39.

IFRS 16: Leases (issued in January 2016)	1st Jan 2019	The new standard introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.
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The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2017.

4 Summary of Significant Accounting Policies

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

(a) Revenue recognition

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

- (i) Revenue from the sale of goods and services is recognised in the year in which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- (ii) The Company does not receive any grants from the National Government.
- (iii) Finance income comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method. Though the Company did not receive such income during the year under audit.
- (iv) Dividend income is recognised in the income statement in the year in which the right to receive the payment is established. However, the company did not receive such income during the year under audit.
- (v) Rental income is recognised in the income statement as it accrues.
- (vi) Other income is recognised as it accrues.

(vii) Financial Risk management

Market risk

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

Credit risk

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

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

Liquidity risk

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

(b) In-kind contributions

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

© Property, Plant and Equipment

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

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

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

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

(d) Depreciation and impairment of property, plant and equipment

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

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

The annual rates in use are:

Buildings	4%	
Plant & Machinery	12.5%	
Workshop Equipment	12.5%	
Tools & Equipment	12.5%	
Office Machinery	12.5%	
Motor vehicles	25.0%	(Straight Line)

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

(di) Depreciation and impairment of property, plant and equipment

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

(e) Intangible assets

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

(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.

WESTERN KENYA RICE MILLS LIMITED

NOTE 2 : PROPERTY ,PLANT & EQUIPMENT AS AT 30 JUNE 2017

	OFFICE FURN & EQUIP.	BUILDINGS	PLANT & MACHINERY	MOTOR VEHICLES	TOOLS & EQUIPMENT	WORKSHOP & MACHINERY	TOTAL
	KSH	KSH	KSH	KSH	KSH	KSH	KSH
COST:							
AS AT 01.07.2015	447,988	6,836,487	29,994,849	3,259,080	1,230,018	678,735	42,447,157
ADDITIONS	-	-	-	(30,000)	-	-	(30,000)
Elimination of Rev. Amount							
AS AT 30 - 06 - 2016	447,988	6,836,487	29,994,849	3,229,080	1,230,018	678,735	42,417,157
DEPRECIATION:							
AS AT 1st July 2015	390,279	3,070,306	28,453,910	2,560,681	1,167,169	610,962	36,253,307
CHARGE FOR THE YEAR	8,244	96,569	221,366	212,800	8,978	9,682	557,639
Revaluation adjustment	-	-	-	30,000	-	-	30,000
AS AT 30.06.2016	398,523	3,166,875	28,675,276	2,803,480	1,176,148	620,644	36,840,946
N.B.V. AS AT 30.06.2016	49,465	3,669,612	1,319,573	425,600	53,870	58,091	5,576,211
COST:							
AS AT 01.07.2016	447,988	6,836,487	29,994,849	3,229,080	1,230,018	678,735	42,417,157
Elimination of Rev. Amount							
AS AT 30 - 06 - 2017	447,988	6,836,487	29,994,849	3,229,080	1,230,018	678,735	42,417,157
DEPRECIATION:							
AS AT 1st July 2016	398,523	3,166,875	28,675,276	2,803,480	1,176,148	620,644	36,840,946
CHARGE FOR THE YEAR	8,244	96,569	219,929	212,800	8,978	9,682	556,202
AS AT 30.06.2017	406,767	3,263,443	28,895,205	3,016,280	1,185,126	630,326	37,397,147
NET BOOK VALUE:							
AS AT 30th June 2017	41,221	3,573,044	1,099,644	212,800	44,892	48,409	5,020,010
AS AT 30th June 2016	49,465	3,669,612	1,319,573	425,600	53,870	58,091	5,576,211

(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. However, the Company does not own any investment property.

(h) Finance and operating leases

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

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

(i) Fixed interest investments (bonds)

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

(j) Quoted investments

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

(k) Unquoted investments

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

(l) Inventories

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

(m) Trade and other receivables

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

(n) Taxation***Current income tax***

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

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

Deferred tax

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

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

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

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

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

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

(o) Cash and cash equivalents

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

(p) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable 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. However, there were no such borrowings within the year under review.

(q) Trade and other payables

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

(r) Retirement benefit obligations

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

(s) Provision for staff leave pay

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

(t) Exchange rate differences

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

(u) Budget information

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

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

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

(v) Comparative figures

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

(w) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30th, 2017.

5 Significant Judgements and Sources of Estimation Uncertainty

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

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

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

Provisions

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

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

6 EARNINGS PER SHARE

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

7 DIVIDEND PER SHARE

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

8 REVALUATION RESERVE

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

9 FAIR VALUE ADJUSTMENT RESERVE

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

10 RETAINED EARNINGS

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2017 (CONTINUED)**

3 INVENTORIES	2016/2017	2015/2016
	KSHS	KSHS
Factory Spares	1,082,745	1,153,872
General store	99,834	123,883
Paddy stocks	7,680,750	12,774,375
Packing Materials	182,741	82,349
Milled Rice	3,256,540	5,163,360
By products stores	58,400	325,200
	<u>12,361,011</u>	<u>19,623,039</u>
4 TRADE & OTHER RECEIVABLES	2016/2017	2015/2016
	KSHS	KSHS
Farmers total account	2,157,930	2,157,930
Staff imprest	52,518	33,258
Salary Advance	103,645	158,078
Trade & Other Receivables	6,293,278	7,911,133
TOTAL	8,607,371	10,260,399
Less: provision for bad debts	(2,175,551)	(2,175,551)
	<u>6,431,820</u>	<u>8,084,848</u>
5 CASH AND CASH EQUIVALENTS	2016/2017	2015/2016
	KSHS	KSHS
A/c Nos		
KCB Nairobi - Kip.Hse 1107178711	199,405	203,591
KCB Kisumu-Kisumu 1108288707	971,993	1,867,008
Cash in Hand	36,810	12,041
	<u>1,208,208</u>	<u>2,082,641</u>
6 REVALUATION RESERVE	2016/2017	2015/2016
	KSHS	KSHS
Balance b/f	-	30,000
Less: Depreciation for the year	-	30,000
Balance c/f	<u>-</u>	<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2017 (CONTINUED)**

	2016/2017	2015/2016
	KSHS	KSHS
7 SHARE CAPITAL		
Authorised share capital		
420000 shares at 100/- per value		
The shares have been paid up as follows:		
National Irrigation Board	25,200,000	25,200,000
Ahero Multi-Purpose Co-op Society Ltd	4,910,072	4,910,072
West Kano Farmers Co-op. Society Ltd	2,392,984	2,392,984
Magombe Multi-Purpose Co-op. Society Ltd	2,546,879	2,546,879
	<u>35,049,935</u>	<u>35,049,935</u>
8 RETAINED EARNINGS /(LOSS)	2016/2017	2015/2016
	KSHS	KSHS
Balance b/f	(42,113,098)	(35,422,256)
Excess/(Deficit) for the year	<u>(6,881,340)</u>	<u>(6,690,842)</u>
Balance c/f	<u>(48,994,438)</u>	<u>(42,113,098)</u>
9 NIB CURRENT ACCOUNT	2016/2017	2015/2016
	KSHS	KSHS
	<u>26,426,152</u>	<u>31,279,331</u>
	<u>26,426,152</u>	<u>31,279,331</u>
These are transactions between Western Kenya Rice Mills Ltd. and National Irrigation Board		
10 TRADE & OTHER PAYABLES	2016/2017	2015/2016
	KSHS	KSHS
Audit Fee Provision	618,512	270,512
Trade	1,412,844	372,016
Others	<u>67,527</u>	<u>-</u>
	<u>2,098,883</u>	<u>642,528</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2017 (CONTINUED)**

11 TAXATION	2016/2017	2015/2016
	KSHS	KSHS
Unpaid balance brought forward	10,508,044	10,492,036
Others	<u>(67,527)</u>	<u>16,008</u>
BALANCE C/F	<u>10,440,517</u>	<u>10,508,044</u>

The provision is based on 30% corporation tax rate.

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

12 TURNOVER	2016/2017	2015/2016
	KSHS	KSHS
Basmati rice sales	3,336,575	2,534,753
Sindano rice sales	26,772,185	10,174,940
Bran meal sales	265,500	274,850
Broken rice sales	1,160,000	670,100
Course bran sales	-	900
Chicken feed sales	123,500	72,500
Basmati paddy sales	-	900
Sindano paddy sales	-	1,350
Milling income	<u>155,618</u>	<u>594,122</u>
	<u>31,813,378</u>	<u>14,324,415</u>

13 COST OF PRODUCTION	2016/2017	2015/2016
	KSHS	KSHS
Sindano paddy to mills	7,207,075	7,610,880
Sindano white rice purchases	12,385,800	-
Basmati Paddy to mills	5,104,545	2,432,370
Salaries & Wages - Casuals	1,450,640	1,197,202
Electricity	265,779	804,578
Plant & Machinery(Factory) Mtee	288,700	379,006
Depreciation - Tools& w/shop	18,660	18,660
Uniforms & Protective Clothing	10,000	52,010
Depreciation - Plant & Equipment	219,929	221,366
Packing Materials	<u>116,178</u>	<u>176,997</u>
TOTAL	<u>27,067,306</u>	<u>12,893,069</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2017 (CONTINUED)**

14 OTHER INCOME	2016/2017	2015/2016
	KSHS	KSHS
Miscellaneous income	4,000	7,100
	<u>4,000</u>	<u>7,100</u>
15 ADMINISTRATION	2016/2017	2016
	KSHS	KSHS
Staff Costs		
Salaries and Wages -Regular	2,041,700	2,032,416
NSSF	14,400	14,400
Pension Fund Employer	203,932	200,689
House Allowance	156,000	156,000
Leave & Transfer Allowance	50,986	60,165
Medical expenses (In-patient)	76,223	154,295
Medical expenses (out-patient)	24,999	24,999
Sub-total	<u>2,568,240</u>	<u>2,642,965</u>
Administration Costs		
Travelling and entertainment	2,443,685	1,758,164
Legal & professional fee	1,293,003	5,772
Audit fees	348,000	348,000
Printing and Stationery	1,062,634	31,702
NIB Administration & Accountancy fee	954,521	429,945
Office Machinery & Furn. Depreciation	8,244	8,244
Buildings Mtce.- Offices	24,048	49,509
Buildings Depreciation	96,569	96,569
Motor Vehicles Maintenance	373,473	371,504
Motor Vehicles depr.	212,800	212,800
Telephone	145,750	66,000
Training expenses	76,560	35,000
Computer & Accessories mtce	-	14,700
Security Services	292,814	361,912
General Admin. Services	363,660	388,115
Domestic water equipment & supply mtce.	75,760	-
Office equipment mtce	6,500	-
Insurance	-	7,500
Bank Charges	41,196	40,537
Sub-total	<u>7,819,217</u>	<u>4,225,974</u>
TOTAL	<u>10,387,457</u>	<u>6,868,938</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2017 (CONTINUED)**

16 OTHER EXPENSES	2016/2017	2015/2016
	KSHS	KSHS
Advertising/ Marketing	76,297	265,064
Office Tea	126,761	174,308
Subscriptions & periodicals	56,888	310,875
Consumables	410	-
General expenses	3,500	70,000
Show expenses	-	134,811
Petrol	3,300	4,480
Diesel	538,910	299,800
Postages	16,100	1,010
Hire of Transport	404,390	-
TOTAL	<u>1,226,556</u>	<u>1,260,348</u>

17 Board Members Expenses	2016/2017	2015/2016
	KSHS	KSHS
Sitting allowance	17,400	-
Mileage allowance	-	-
Accomodation allowance	-	-
Travel expenses	-	-
Lunch allowance	-	-
	<u>17,400</u>	<u>-</u>

18 RELATED PARTY TRANSACTIONS

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

(b) The company management and the board of directors did not have any related party transactions with the company. However, there were some transactions between the NIB and the Company. This is further disclosed under note 6 of the notes to the financial statements.