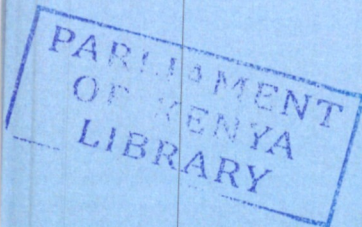


REPUBLIC OF KENYA



Paper Laid
By Hon Aden Duale, MP
On 12.10.2017 (pm)

OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR
ENDED 30 JUNE 2016**

WESTERN KENYA RICE MILLS LTD

**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

30TH JUNE 2016

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



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COMPANY PROFILE

Western Kenya Rice Mills (WKRM) Ltd was incorporated in 1993 and is jointly owned by National Irrigation Board (60% shareholding and Western Kenya Schemes Rice Farmers at 40% of shareholding)

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

Its core business is processing and marketing of milled white rice mainly from Western Kenya Schemes. However due to changes in the business environment, it may as well deal with marketing of paddy on commission basis.

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 4 to 9.

DIRECTORS' PROFILE

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 and 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 if 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..

MR. GITONGA MUGAMBI MANAGING DIRECTOR



Mr. Gitonga Mugambi is a holder of B.Sc. in Agriculture from University of Nairobi. He is currently undergoing MBA classes in Strategic Management. Mr. Mugambi is a well accomplished agriculture expert, having gathered experience of over 27 years in Planning and Design, Administration, Management, Operation and Maintenance, Policy and Strategy formulation in National Irrigation Board.

Eng. WILFRED ONCHWARI ONCHOKE-55, REPRESENTATIVE PERMANENT 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 Permanent 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 WKRM Limited implements are in line with the Government policy.

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. He is in the final stage of a Professional Course in Supplies Management. Mr.Oundo brings vast knowledge, experience and leadership gained from Bunyala Irrigation Scheme rice growing area.

MOS 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.

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 & rain fed rice farming horticulture, poultry, pig, bee keeping and fish farming in the region.

Mr. R.K. Gaita – Alternate to Permanent Secretary, Ministry of Water & Irrigation, Non-Executive Director



Mr. Charles Kairu – Alternate to Permanent Secretary, Ministry of Finance, Non-Executive Director



Beatrice Mbingi



Beatrice Mbingi before joining this board had worked with ‘Maendeleo Ya Wanawake’ as the Vice Chairlady attending and representing members at different meetings and conferences. Helping women to grow in terms of business, empowering women to educate their children and giving loans to members. Beatrice comes in with excellent management, developmental and motivational abilities for the realization of set objectives, interpersonal and organizational skills. She also possess customer relations skills with a wide range of experience in the customer relations, administration and sales skills.

FIDUCIARY OVERSIGHT ARRANGEMENTS

BOARD OF DIRECTORS:

**Dr. Ekal Charles Imana
Eng. Daniel K. Barasa
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- building
P.O BOX 30372-00100
NAIROBI**

FACTORY:

P.O BOX 1010 KISUMU

AUDITORS:

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

LAWYERS:

**Lillian G Kimani
Agip House
P.O BOX 73076-00200
NAIROBI**

BANKERS:

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

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

SECRETARIAT MANAGEMENT

The Secretariat team comprises of the Director General, Directors, and assistant Directors as follows:

Mr. Gitonga Mugambi, - Managing director.



Mr. Gitonga Mugambi is a holder of B.Sc. in Agriculture from University of Nairobi. He is currently undergoing MBA classes in Strategic Management. Mr. Mugambi is a well accomplished agriculture expert, having gathered experience of over 27 years in Planning and Design, Administration, Management, Operation and Maintenance, Policy and Strategy formulation in National Irrigation Board.

Dennis Banda Aroka MBA, FCPS (K) - Company Secretary



Dennis Banda Aroka is the Company Secretary of National Irrigation Board. Prior to joining the Board in 2013, he had practiced as a consultant Company Secretary and held other similar positions for 20 years. He holds an Executive MBA from Moi University. He is also a fellow member of the Institute of Certified Public Secretaries of Kenya and a council member of the same institute. Currently he is pursuing LLB course at Catholic University of East Africa.

CHAIRMAN'S MESSAGE

The performance of the company has been depressed due to reduced turnover from KShs.17.6m in 2015 to KShs.14.3 m in 2016. The reduction of sales is attributed to competition from cheap rice that is imported into the country and sold at a lower value.

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.

CEO'S MESSAGE

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.

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 2015/2016, the Company supported the implementation of CSR activities as highlighted below.

ECD School feeding program

Western Kenya Rice Mills in partnership with Kisumu County Government, initiated a school feeding program within the rice growing region of Kisumu County. WKRM milled 3000 bags of rice to be distributed to schools for ECD centers and the Kisumu Governor; Hon. Jack Ranguma launched the program at Ahero Irrigation Scheme. The Role of WKRM in the partnership is to mill and distribute the rice, whereas the county government buys the rice from the farmers within the region.

Feeding program for flood displaced victims

WKRM assisted more than 100 displaced families in Ahero Irrigation Scheme with rice for food at the evacuation center in Ahero. A total of 100 bags of rice were distributed witnessed by the County Commissioner and Director of Special Programs. This was done in December 2015.

These factors inspired the WKRM Ltd to sponsor the events as a way of giving back to the community as well as reaching our stakeholders.

STATEMENT OF DIRECTOR'S RESPONSIBILITY


The Companies Act requires the directors to prepare financial statement for each financial year, which gives a true and fair view of the state of affairs of the board as at the end of the financial year and of its operation results for that year. It also requires the directors to ensure the company keeps proper accounting records, which disclose with reasonable accuracy the financial position of the company. They are also responsible for safeguarding the assets of the board.

The directors accept responsibilities for the annual financial statement, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with international financial reporting standards and the requirement of the companies Act.

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. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

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

The Financial Statements have been signed on its behalf by:



MR. GITONGA MUGAMBI
Ag. MANAGING DIRECTOR

DATE 28/04/2017



HON. IMMANUEL ICHOR IMANA
CHAIRMAN

DATE 28. 4. 2017

REPORT OF THE DIRECTORS

The directors submit this report together with the financial statements for the year ended 30th June 2016.

Principal activities

The principal activities of the entity are processing and marketing of milled white rice mainly from Western Kenya Schemes.

Results

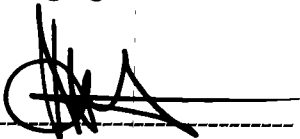
The results of the entity for the year ended June 30th 2016 are set out on page 2 of the financial statements.

Auditors

Kenya National Audit Office audits the accounts of WKRM Ltd.

Ag. Managing Director

Date; _____





OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON WESTERN KENYA RICE MILLS LIMITED FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Western Kenya Rice Mills Limited set out on pages 1 to 13, which comprise the statement of financial position as at 30 June 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

Management's Responsibility for the Financial Statements

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

The 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to

Report of the Auditor-General on the Financial Statements of Western Kenya Rice Mills Limited for the year ended 30 June 2016

the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1. Property, Plant and Equipment

As previously reported, the property, plant and equipment balance of Kshs.5,576,211 as at 30 June 2016 excludes undermined value of the parcel of land without title on which the company's buildings are located at Ahero in 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 the property as at 30 June 2016.

2. Board Members

During the year under review, the Company did not hold any Board meeting and thus breached 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 the Board of Directors for two consecutive years, it has not been clear how the strategic policy and governance issues of the Company were managed.

3. Current Liabilities

i. Unpaid Tax Liability

As previously reported, the total current liabilities balance of Kshs. 42,429,903 as at 30 June 2016 includes unpaid provision for tax on profits totaling Kshs.10,508,044 (2014/2015 Kshs.10 492,036) dating back to the year 1996. However, penalties and interest in 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.

ii. National Irrigation Board Account

The statement of assets reflects a current liabilities balance of Kshs.42,429,903 as at 30 June 2016 which includes a sum of Kshs.31,921,860 in respect of National

Irrigation Board current account which however, differs from the balance of Kshs.72,073,134 reflected in the books of the Board by Kshs.40,151,274 which variance has not been explained.

As a result of the anomaly, it has not been possible to confirm the accuracy and completeness of the current liabilities balance of Kshs.42,429,903 reflected in the financial statements.

4. Share Capital

As previously reported, the financial statements reflect share capital of Kshs.35,049,935 whereas records available at the Register 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 result of shares acquired by farmers which are, however not reflected in the Registrar's records because the Company has no Board of Directors to make submission, no evidence has been presented for the audit to confirm the managements assertion.

In the circumstance, it has not been possible to confirm the accuracy and validity of the Kshs.35,049,935 share capital balance as at 30 June 2016.

5. Going-concern

The statement of comprehensive income shows a loss of Kshs.6,690,842 (2015: Kshs.7,876,420) for the year ended 30 June 2016. Further, current assets and current liabilities amount to Kshs.29,790,528 and Kshs.42,429,903 respectively thus resulting in negative working capital balance of Kshs.12,639,375 as at 30 June 2016 an even more precarious position than 30 June 2015 when the balance was (Kshs.6,163,850).

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

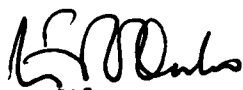
Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Western Kenya Rice Mills Limited as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenya Company's Act, 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; and,
- (ii) in my opinion, proper books of account have been kept by the company, so far as appears from my examination of those books; and,
- (iii) the company's statement of financial position is in agreement with the books of account.




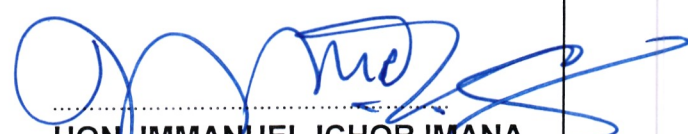
FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

12 June 2017

WESTERN KENYA RICE MILLS LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

| ASSETS | NOTE | 2016 KSHS | 2015 KSHS |
|--|--------|--------------------|-------------------|
| <u>NON - CURRENT ASSETS</u> | | | |
| <u>PROPERTY, PLANT & EQUIPMENT</u> | 2 | 5,576,211 | 6,163,850 |
| <u>CURRENT ASSETS</u> | | | |
| Inventories | 3 | 19,623,039 | 23,361,481 |
| Trade & Other Receivables | 4 | 8,084,848 | 6,291,830 |
| Cash & Cash Equivalents | 5 | 2,082,641 | 7,685,738 |
| | | 29,790,528 | 37,339,050 |
| TOTAL ASSETS | | 35,366,739 | 43,502,900 |
| <u>EQUITY & LIABILITIES</u> | | | |
| Share Capital | 7 | 35,049,935 | 35,049,935 |
| Revaluation Reserve | 8 | - | 30,000 |
| Retained earnings(Loss) | 9 | (42,113,098) | (35,422,256) |
| | | (7,063,163) | (342,321) |
| <u>CURRENT LIABILITIES</u> | | | |
| Trade & Other Payables | 6 & 10 | 31,921,860 | 33,353,186 |
| Taxation | 11 | 10,508,044 | 10,492,036 |
| | | 42,429,903 | 43,845,222 |
| TOTAL EQUITY & LIABILITIES | | 35,366,740 | 43,502,900 |
| <div style="display: flex; justify-content: space-between;"> <div style="width: 45%;">  <p>MR. MUGAMBI GITONGA Ag. MANAGING DIRECTOR</p> <p>DATE.....28.04.2017.....</p> </div> <div style="width: 45%;">  <p>HON. IMMANUEL ICHOR IMANA CHAIRMAN</p> <p>DATE.....28.4.2017.....</p> </div> </div> | | | |

WESTERN KENYA RICE MILLS LTD

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

| | NOTE | 2016 KSHS | 2015 KSHS |
|--------------------------------------|------|--------------------|--------------------|
| Turnover | 12 | 14,324,415 | 17,620,441 |
| Cost of sales | 13 | (12,893,069) | (16,640,457) |
| Gross profit/(Loss) | | 1,431,346 | 979,984 |
| Other Income | 14 | 7,100 | 74,050 |
| Administrative expenses | 15 | (6,868,938) | (7,513,102) |
| Other expenses | 16 | (1,260,349) | (744,948) |
| Profit (loss) before Taxation | | (6,690,842) | (7,204,016) |
| Tax provision (30%) | | - | (672,404) |
| Profit (Loss) for the year | | (6,690,842) | (7,876,420) |

**STATEMENT OF CASH FLOWS FOR THE
YEAR ENDED 30 JUNE, 2016**

| | 2016 | 2015 |
|--|-------------------------|-------------------------|
| | KSHS | KSHS |
| Surplus(Deficit) | (6,690,842) | (7,876,420) |
| Adjustment for non cash items | | |
| Depreciation | 557,639 | 561,121 |
| Retained Earnings Adjustments | - | |
| Operating Profit before working Capital changes | <u>(6,133,203)</u> | <u>(7,315,299)</u> |
| Working Capital changes | | |
| (Increase)Decrease in Inventories | 3,738,442 | 8,767,847 |
| Increase(Decrease) in Receivables | (1,793,018) | 2,745,978 |
| (Increase)Decrease in Payables | (1,415,318) | 762,436 |
| Increase(Decrease) in NIB Current account | - | 814,195 |
| Net cash generated from operating activities | <u>(5,603,097)</u> | <u>5,775,157</u> |
| Investing Activities | | |
| Purchase of Assets | <u>-</u> | <u>-</u> |
| Net cash generated from Investing activities | - | - |
| Financing Activities | | |
| Net cash generated from financing activities | <u>-</u> | <u>-</u> |
| Net increase/(decrease) in Cash & Equivalent for the year | (5,603,097) | 5,775,157 |
| Cash & cash equivalents at beginning of the year | 7,685,738 | 1,910,581 |
| Cash & cash equivalent at end of the year | <u><u>2,082,641</u></u> | <u><u>7,685,738</u></u> |

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2016**

| | Share Capital | | Revaluation Reserve | | Retained Earnings | | Total | |
|--------------------------|---------------|---|---------------------|---|-------------------|---|-------------|--|
| | Kshs | | Kshs | | Kshs | | Kshs | |
| At 30 June 2014 | 35,049,935 | - | 60,000 | - | (27,545,837) | - | 7,564,098 | |
| At 1 July 2014 | 35,049,935 | | 60,000 | | (27,545,837) | | 7,564,098 | |
| Revaluation | - | | - | | - | | - | |
| Amortisation | - | | (30,000) | | - | | (30,000) | |
| Profit/Loss for the year | - | | - | | (7,876,419) | | (7,876,419) | |
| At 30 June 2015 | 35,049,935 | | 30,000 | | (35,422,256) | | (342,321) | |
| At 1 July 2015 | 35,049,935 | | 30,000 | | (35,422,256) | | (342,321) | |
| Revaluation | - | | - | | - | | - | |
| 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) | |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2016**

1. ACCOUNTING POLICIES

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

(a) 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 and actuarially determined liabilities at their present value. 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 company's accounting policies.

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

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

a (i) Financial instruments are valued at fair value.

(b) 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;

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.

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.

Dividend income is recognised in the income statement in the year in which the right to receive the payment is established. The company did not receive such income during the year under audit.

Rental income is recognised in the income statement as it accrues.

Other income is recognised as it accrues.

© **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. However, the company did not incur such expense in the year under audit.

(d) **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.

(e) **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.

(f) **Taxation**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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

(g) **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.

(h) **Retirement benefit obligations**

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

(i) 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, 2016.

(j) Significant judgments and estimates policy

There were no significant judgements and estimates made during the financial year ended 30/6/2016.

(k) Financial Risk management objectives and policies**i Market risk**

Market risk is the risk that the fair value of financial instruments will fluctuate because of 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.

ii 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.

iii Liquidity risk

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

(l) All items of Property, Plant and Equipment are initially measured at cost. After initial recognition they are stated at historical cost less depreciation.

Depreciation on assets is calculated using straight line method. Unless otherwise stated.

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

(m) Inventories

Inventories have been valued at lower of cost and estimated net realisable value. Cost comprises of direct materials and where applicable, direct labour cost and those overheads incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less estimated cost of disposal.

(n) Cash and cash equivalents

For the purpose of the cashflow statement, cash and cash equivalents include bank balances and short term liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of change in value.

(o) Contingent Assets and Liabilities

There were no contingent assets and liabilities affecting Western Kenya Rice Mills Ltd within the year:

WESTERN KENYA RICE MILLS LTD

WESTERN KENYA RICE MILLS LIMITED

NOTE 2 : PROPERTY ,PLANT & EQUIPMENT AS AT 30 JUNE 2016

| | OFFICE FURN & EQUIP. | BUILDINGS | PLANT & MACHINERY | MOTOR VEHICLES | TOOLS & EQUIPMENT | WORKSHOP & MACHINERY | TOTAL |
|--------------------------------|----------------------|------------------|-------------------|------------------|-------------------|----------------------|-------------------|
| | KSH | KSH | KSH | KSH | KSH | KSH | KSH |
| COST: | | | | | | | |
| AS AT 01.07.2014 | 447,988 | 6,836,487 | 29,994,849 | 3,229,080 | 1,230,018 | 678,735 | 42,417,157 |
| ADDITIONS | | | | 30,000 | | | 30,000 |
| Revaluation adjustment | | | | | | | |
| AS AT 01.06.2015 | 447,988 | 6,836,487 | 29,994,849 | 3,259,080 | 1,230,018 | 678,735 | 42,447,157 |
| DEPRECIATION: | | | | | | | |
| AS AT 01.07.2014 | 382,164 | 2,973,740 | 28,229,547 | 2,227,882 | 1,156,230 | 602,082 | 35,571,645 |
| CHARGE FOR THE YEAR | 8,732 | 96,569 | 224,360 | 242,800 | 8,978 | 9,682 | 591,121 |
| Revaluation adjustment | - | - | - | 30,000 | - | - | 30,000 |
| Depreciation Adjustment: | (617.17) | (2.65) | 3.34 | 89,999 | 1,960.81 | (802.20) | 90,541 |
| AS AT 30.06.2015 | 390,279 | 3,070,306 | 28,453,910 | 2,590,681 | 1,167,169 | 610,962 | 36,283,307 |
| N.B.V. AS AT 30.06.2015 | 57,709 | 3,766,179 | 1,540,942 | 668,399 | 62,848 | 67,773 | 6,163,850 |
| 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 |
| Elimination of Rev. Amount | - | - | - | (30,000) | - | - | (30,000) |
| 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 |
| NET BOOK VALUE: | | | | | | | |
| AS AT 30th June 2016 | 49,465 | 3,669,612 | 1,319,573 | 425,600 | 53,870 | 58,091 | 5,576,211 |
| AS AT 30th June 2015 | 57,709 | 3,766,179 | 1,540,942 | 668,399 | 62,848 | 67,773 | 6,163,850 |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)**

| 3 INVENTORIES | 2016 | 2015 |
|--|--------------------------|--------------------------|
| | KSHS | KSHS |
| Factory Spares | 1,153,872 | 1,126,569 |
| General store | 123,883 | 121,752 |
| Paddy stocks | 12,774,375 | 19,692,345 |
| Packing Materials | 82,349 | 99,446 |
| Milled Rice | 5,163,360 | 2,321,370 |
| By products stores | 325,200 | - |
| | <u>19,623,039</u> | <u>23,361,481</u> |
| | | |
| 4 TRADE & OTHER RECEIVABLES | 2016 | 2015 |
| | KSHS | KSHS |
| Farmers total account | 2,157,930 | 2,157,930 |
| Staff imprest | 33,258 | 160,191 |
| Salary Advance | 158,078 | - |
| Trade & Other Receivables | 7,911,133 | 6,149,260 |
| TOTAL | 10,260,399 | 17,912,744 |
| Less: provision for bad debts | <u>(2,175,551)</u> | <u>(2,175,551)</u> |
| | <u>8,084,848</u> | <u>15,737,193</u> |
| | | |
| 5 CASH AND CASH EQUIVALENTS | 2016 | 2015 |
| | KSHS | KSHS |
| KCB Nairobi | 203,591 | 547,828 |
| KCB Kisumu | 1,867,008 | 6,953,986 |
| Cash in Hand | 12,041 | 183,924 |
| | <u>2,082,641</u> | <u>7,685,738</u> |
| | | |
| 6 NIB CURRENT ACCOUNT | 2016 | 2015 |
| | KSHS | KSHS |
| | <u>31,279,331</u> | <u>32,773,186</u> |
| | <u>31,279,331</u> | <u>32,773,186</u> |

These are transactions between Western Kenya Rice Mills Ltd. and National Irrigation Board

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)**

| | 2016 | 2015 |
|--|---------------------|---------------------|
| | 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 REVALUATION RESERVE | | |
| | 2016 | 2015 |
| | KSHS | KSHS |
| Balance b/f | 30,000 | 60,000 |
| Less: Depreciation for the year | 30,000 | 30,000 |
| Balance c/f | <u>-</u> | <u>30,000</u> |
| 9 RETAINED EARNINGS /(LOSS) | | |
| | 2016 | 2015 |
| | KSHS | KSHS |
| Balance b/f | (35,422,256) | (27,545,837) |
| Excess/(Deficit) for the year | (6,690,842) | (7,876,419) |
| Balance c/f | <u>(42,113,098)</u> | <u>(35,422,256)</u> |
| 10 TRADE & OTHER PAYABLES | | |
| | 2016 | 2015 |
| | KSHS | KSHS |
| Audit Fee Provision | 270,512 | 580,000 |
| Trade | 372,016 | - |
| | <u>642,528</u> | <u>580,000</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, 2016 (CONTINUED)**

| 11 TAXATION | 2016 KSHS | 2015 KSHS |
|--------------------------------|--------------------------|--------------------------|
| Unpaid balance brought forward | 10,492,036 | 9,768,112 |
| Tax Provision | - | 672,405 |
| Others | 16,008 | 51,519 |
| BALANCE C/F | <u>10,508,044</u> | <u>10,492,036</u> |

Taxation of kshs 9,715,299. relates to a provision for tax on profits made in earlier years (1996,1998 and 1999) and had not been paid.The provision is based on 30% corporation tax rate. The figure shown above is cummulative.

| 12 TURNOVER | 2016 KSHS | 2015 KSHS |
|---------------------|--------------------------|--------------------------|
| Basmati rice sales | 2,534,753 | 2,708,287 |
| Sindano rice sales | 10,174,940 | 10,175,635 |
| Bran meal sales | 274,850 | 393,800 |
| Broken rice sales | 670,100 | 891,650 |
| Course bran sales | 900 | 51,300 |
| Chicken feed sales | 72,500 | 109,000 |
| Basmati paddy sales | 900 | - |
| Sindano paddy sales | 1,350 | - |
| Milling income | 594,122 | 3,290,769 |
| | <u>14,324,415</u> | <u>17,620,441</u> |

Restatement of the basmati and sindano rice sales for the 2014/15 in respect of sales invoices which had been wrongly treated as cash sales.The figure had overstated the sales and debtors in 2014/2015 financial year by Ksh. 9,445,363.

| 13 COST OF PRODUCTION | 2016 KSHS | 2015 KSHS |
|----------------------------------|--------------------------|--------------------------|
| Sindano paddy to mills | 7,610,880 | 9,734,451 |
| Basmati Paddy to mills | 2,432,370 | 2,759,100 |
| Salaries & Wages - Casuals | 1,197,202 | 1,561,660 |
| Electricity | 804,578 | 801,678 |
| Plant & Machinery(Factory) Mtce | 379,006 | 519,176 |
| Depreciation - Tools& w/shop | 18,660 | 18,661 |
| Uniforms & Protective Clothing | 52,010 | - |
| Depreciation - Plant & Equipment | 221,366 | 224,360 |
| Packing Materials | 176,997 | 1,021,371 |
| TOTAL | <u>12,893,069</u> | <u>16,640,457</u> |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2016 (CONTINUED)**

| | | |
|---------------------------------------|-------------------------|-------------------------|
| 14 OTHER INCOME | 2016 | 2015 |
| | KSHS | KSHS |
| Miscellaneous income | 7,100 | 59,650 |
| Rental income | - | 14,400 |
| | <u>7,100</u> | <u>74,050</u> |
| | | |
| 15 ADMINISTRATION | 2016 | 2015 |
| | KSHS | KSHS |
| Staff Costs | | |
| Salaries and Wages -Regular | 2,032,416 | 2,013,228 |
| NSSF | 14,400 | 10,800 |
| Salaries and Wages -Gratuity | - | 496,880 |
| Pension Fund Employer | 200,689 | 138,359 |
| House Allowance | 156,000 | 117,000 |
| Leave & Transfer Allowance | 60,165 | 25,179 |
| Medical expenses (In-patient) | 154,295 | 205,772 |
| Medical expenses (out-patient) | 24,999 | - |
| Sub-total | <u>2,642,965</u> | <u>3,007,218</u> |
| | | |
| Administration Costs | | |
| Travelling and entertainment | 1,758,164 | 1,052,310 |
| Legal & professional fee | 5,772 | 354,147 |
| Audit fees | 348,000 | 348,000 |
| Printing and Stationery | 31,702 | 475,660 |
| NIB Administration & Accountancy fee | 429,945 | 814,196 |
| Office Machinery & Furn. Depreciation | 8,244 | 8,732 |
| Buildings Mtce.- Offices | 49,509 | 422,543 |
| Buildings Depreciation | 96,569 | 96,569 |
| Motor Vehicles Maintenance | 371,504 | 540,537 |
| Motor Vehicles depr. | 212,800 | 212,800 |
| Telephone | 66,000 | 127,835 |
| Training expenses | 35,000 | 6,000 |
| Computer & Accessories mtce | 14,700 | 18,496 |
| Security Services | 361,912 | - |
| General Admin. Services | 388,115 | - |
| Insurance | 7,500 | - |
| Bank Charges | 40,537 | 28,059 |
| Sub-total | <u>4,225,974</u> | <u>4,505,884</u> |
| | | |
| TOTAL | <u>6,868,938</u> | <u>7,513,102</u> |
| | | |
| 16 OTHER EXPENSES | 2016 | 2015 |
| | KSHS | KSHS |
| Advertising/ Marketing | 265,064 | - |
| Office Tea | 174,308 | 88,002 |
| Subscriptions & periodicals | 310,875 | 249,256 |
| Consumables | - | 8,170 |
| General expenses | 70,000 | 187,480 |
| Show expenses | 134,811 | - |
| Petrol | 4,480 | 2,300 |
| Diesel | 299,800 | 191,020 |
| Oils & Grease | - | 17,100 |
| Postages | 1,010 | 1,620 |
| TOTAL | <u>1,260,348</u> | <u>744,948</u> |

17 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 farmers for the former to provide administrative and accountancy services, after which NIB charges for the same at 3 % of gross revenue for the year.
- (b) The company management and the board of directors did not have any related party transactions with the the company.

18 CHAIRMAN'S MESSAGE

The performance of the company has been depressed due to reduced turnover by 6% from competition from KShs.23.7m in 2015 to KShs14.3 m in 2016. The reduction in sales is attributed to cheap rice that is imported into the country and sold at a lower value.

In order to reverse the negative trend, the company is focusing on progressive marketing especially to big institutions like universities, colleges and even programmes 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.

19 CEO'S MESSAGE

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.

20 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 sports by its Corporate Social Responsibility guideline. These activities span from education, promotion, community involvement, environmental protection, gender equity, health among others.

In the financial year 2015/2016, the Company supported the implementation of CSR activities as highlighted below.

ECD School feeding program

Western Kenya Rice Mills in partnership with Kisumu County Government, initiated a school feeding program within the rice growing region of Kisumu County. WKRM milled 3000 bags of rice to be distributed to schools for ECD centers and the Kisumu Governor, Hon. Jack Ranguma launched the program at Ahero Irrigation Scheme. The Role of WKRM in the partnership is to mill and distribute the rice, whereas the county government buys the rice from the farmers within the region.

Feeding program for flood displaced victims

WKRM assisted more than 100 displaced families in Ahero Irrigation Scheme with rice for food at the evacuation center in Ahero. A total of 100 bags of rice were distributed witnessed by the County Commissioner and Director of Special Programs. This was done in December 2015. These factors inspired the WKRM Ltd to sponsor the events as a way of giving back to the community as well as reaching our stakeholders.

21 BANK ACCOUNT Details

| | |
|-------------|------------|
| KCB Nairobi | 1107178711 |
| KCB Kisumu | 1108288707 |