

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



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**REPORT**

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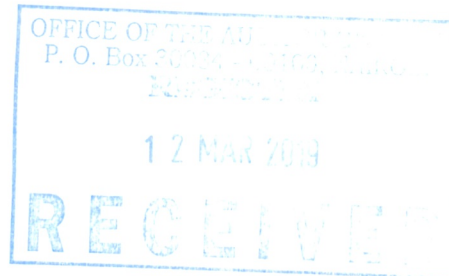
**THE AUDITOR-GENERAL**

**ON**

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

**FOR THE YEAR  
ENDED 30 JUNE 2018**

# **WESTERN KENYA RICE MILLS LTD**



## **ANNUAL REPORT AND FINANCIAL STATEMENTS**

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

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

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## **Background Information**

Western Kenya Rice Mills (WCRM) 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

WCRM 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.

## **BOARD OF DIRECTORS**

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

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



Mr. Mudzo was appointed as the Chairman to the Board on 5th July 2018. He holds Master's Degree in Business Administration (MBA) from Kenya Methodist University (KeMU) Nairobi Campus, Bachelor's Degree in Travel and Tourism Management (First Class Honors) from Kenya Methodist University (KeMU) Nairobi Campus) and Diploma in Tourism and Business Studies. He brings in wide range of leadership experience. He served as the chairperson of Kenya National Union of Teachers (KNUT), Vice Chairperson NHIF, Acting Chairperson NHIF, Assistant Deputy Secretary General Kenya National Union of Teachers, Assistant Secretary General, Kenya National Union of Teachers, member of National Executive Council Coast Region (KNUT) and Executive Secretary (Kinango Branch) KNUT. He also attended African Corporate Governance Conference in Johannesburg South Africa and Universal Health Training in Thailand.

**MR. GITONGA MUGAMBI - MANAGING DIRECTOR**



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

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



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

He holds a Bachelors of Arts Degree from University of Nairobi and Masters in Business Administration, Strategic Studies from Moi University. He has also attended a number of local and overseas courses.

He has served the Public Service in various capacities from a District Office, District Commissioner, and County Commissioner. His experience in Public Service spans 30 years.

**MR. MICHAEL CONGO OUMA, NON – EXECUTIVE DIRECTOR**



Mr. Michael Congo Ouma joined the Company's Board on 29<sup>th</sup> May, 2018. 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.

His previous assignments include, a member of the Steering committee Bunyala Family Development project funded by World Vision Kenya from 1988-1997, Secretary to Ford Kenya Budalangi Sub-Branch in 1996 and Councilor Bunyala South Ward as well as Chairman of the full council (Busia County Council) from 1999-2007.

**MR. OBURA OWUOTH, NON - EXECUTIVE DIRECTOR**



Mr. Owuoth was appointed to the board on 5<sup>th</sup> December 2015 as a non- Executive Director representing West Kano Farmers' Co-operative Society Ltd. He has been the West Kano farmers sscheme Chairman since 1981. He previously served in the Board between 1994 to 2001.

He is a holder of Association of Chartered Certified Accountants ( ACCA) part 2 certificate. He has previously worked as an Accounts Assistant with Kenya Shell & British Petroleum and Kenya Power as Deport Manager in Nairobi.

He was appointed a councilor representing Kawino Ward, Kisumu County from 1983 to 1988.

**MR. JOE PETER ONYANGO, 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**



the National Treasury.

Mr. Charles Kairu was appointed to the Board on 14<sup>th</sup> 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

## **FIDUCIARY OVERSIGHT ARRANGEMENTS**

### ***BOARD OF DIRECTORS:***

**Mr. Mudzo Kuhenderwa Nzili  
Mr. Gitonga Mugambi  
PS. Ministry of Water & Irrigation  
PS. Ministry of Finance  
Mr. Amos Owiti Owiti  
Mr. Michael Congo Ouma  
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**

On behalf of the Board, I am pleased to present to you my statement on the performance of Western Kenya Rice Mills for the financial year ended 30th June 2018.

### **Performance**

2017/18 finished on a positive but challenging note, in spite of the shadow cast by an uncertain political climate in the country and more so in western region, but I remain positive and confident about the future of this company. The performance of the company has improved as compared to the last financial year where the Company incurred a loss of Ksh. 6.8m giving us 62% improvement. However, there was a decline in the turnover from Ksh. 31.8m to Ksh. 24.8m giving us a negative variance of 22%. The decrease in turnover is attributed to the non-availability of the raw material (paddy) during the year under review.

On the other hand, cost of sales decreased from Ksh.27m to Ksh.19m giving us 30% decrease in the current financial year. The operational expenses decreased from Ksh. 11.6m in the previous year to Ksh. 8.4m giving us 28% decrease in the current financial year. In order to reverse the negative trends we continue to invest in emerging markets and expanding our production capacities to enable future volume growth. An example of this is that of the County school feeding programs, health institutions and universities. Furthermore, plans to modernize our milling plant are being progressed through earlier presentation by the mills management.

### **Company**

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

The mill however continue to face challenges among them aging milling plant that need constant repairs, leading to low efficiency in its output. With this challenge, the mill faced stiff competition from modern millers offering superior quality rice with high efficiency.

## Future Outlook

As we look to the next two or three years, we anticipate that profits will continue to come under pressure as a consequence of foreseen high capital investments in mill repairs and modernization, inflationary increases in commodity prices, and competition from imported rice. Looking forward and continuing with our transformation agenda to align ourselves to the changing consumer and market needs, the aim of the Board and management is to see the mill quickly return to growth and profitability.

To address this situation realistically, and to ensure sustained growth and enhanced shareholder value, the company is committed to:

- Adoption of innovative production and marketing processes, to gain necessary competitive advantage;
- Continued focus on the long-term goal of building its core business of milling and distributing superior quality rice through plant modernization and increased market coverage;
- Constant investment in our staff through training and development, linked with the adoption of best operational and management practices;
- Looking at the rice import-export gap in Kenya continued increase in the rate of rice consumption in Kenya, there are potential opportunities for new growth and investment in the rice sub-sector. To this end, we continue to explore and evaluate value added partnership and acquisition opportunities to expand geographical coverage where there is a synergy based on our market knowledge, distribution leverage and respected product range.

## Appreciation

In conclusion, I wish to take this opportunity to convey my appreciation to my fellow directors for their support and diligence and to the management and staff for their hard work and dedication, which made it possible to realize the good results.

Sign:  .....

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

**MR. MUDZO KUHENDERWA NZILI**

**CHAIRMAN, WESTERN KENYA RICE MILLS LTD**

## **REPORT OF THE MANAGING DIRECTOR**

It is my pleasure to present the summary of our performance for the period ending 30th June, 2018 with a key focus on the Mills operations and efficiencies, product marketing, and our staff. As indicated in the Chairman's Statement, The performance of the company has improved as compared to the last financial year where the Company incurred a loss of Ksh. 6.8m giving us 62% improvement. However, there was a decline in the turnover from Ksh. 31.8m to Ksh. 24.8m giving us a negative variance of 22%. The decrease in turnover is attributed to the non-availability of the raw material (paddy) during the year under review.

As also noted, cost of sales decreased from Ksh.27m to Ksh.19m giving us 30% decrease in the current financial year. The operational expenses decreased from Ksh. 11.6m in the previous year to Ksh. 8.4m giving us 28% decrease in the current financial year. Looking ahead, we expect that our concerted focus on marketing and Mills improvement will yield positive gains across the markets in which we operate.

The year 2017 was a challenging year for the company because of inconsistent paddy supply due to drought within the schemes that affected rice production as well as political instability occasioned by the National Elections. This made it difficult for the mill to purchase paddy for milling due to inadequate supply thereby affecting the operations of the Mill. We then resorted into the purchase of Milled rice in order to service the orders of the County Government of Kisumu among others.

There had been also a serious breakdown of the mill during the year and due to the old nature of the mill, it took time to repair. The mill therefore need Up-grading; the mill efficiency is very low and the final product does not compete favorably with other products, hence need to modernize the mill for quality output. For instance there is need to install a color sorter and destoner.

Despite these challenges, the key milestones undertaken by the company is its belief in constant innovation in marketing as a solution to meet the evolving needs of our consumers. To achieve this, we have undertaken a number of initiatives to ensure that our products are available to our consumers on time and in full. Some we undertook in 2018 include; a) Partnership with Kisumu county Government for supply of milled rice to ECD schools across the county, which helped to improve turnaround time and reduced our operational costs.

b) The opening of a sales depot in Ahero for packed milled rice.

c) The integration of Mpesa paybill system to our accounts for accountability and ease of customer service among others.

As we look forward to the coming year, we will ensure that all our customer touch points are aspirational, relevant and effortless every single time. We will achieve this by ensuring that we understand the changing consumer behavior, create convenience for them and ensure that we offer our products at the right quality and right price. We anticipate that we will continue to enjoy the benefits of bulk rice supplies of superior quality under the brand “Local rice”; and proximity to large scale rice producing schemes. We have put in place measures to ensure the company comes back to profitability; among them include the adoption of market driven business approach, determining the key areas of management concern that is necessary in enhancing revenue generation from the operations of key business and maximization on return on investments for the shareholders through adoption of new business models aimed at investing Kshs. 30,000,000.00.

Finally, it is important to note that, WKRM has delivered more Human welfare benefits in ways not directly captured in audited financial reports. We have improved community welfare through stable prices and provision of local employment -both directly and indirectly.

As I reflect on the accomplishments of the year ended 30th June, 2018, I am grateful for the unwavering support of all our shareholders. I also take this opportunity to appreciate the Board, Management and employees, who have performed above and beyond expectations to ensure that we continue to deliver quality rice on time, in full and in line with our core values. Our customers have over the years continued to enjoy our array of products and for that we are grateful. We promise to continually work to address their ever evolving needs. We also appreciate our suppliers, other business partners and regulators for their invaluable support. Finally, I extend my gratitude to my fellow directors for their contribution and commitment to the Company.

Sign: 

Date: 12/03/2019

**MR. GITONGA MUGAMBI**

**MANAGING DIRECTOR, WESTERN KENYA RICE MILLS LTD**

## **CORPORATE GOVERNANCE STATEMENT**

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

### **Good Corporate Governance seeks to promote:**

- ❖ Efficient, effective and sustainable corporations that contribute to the welfare of society by creating wealth, employment and solutions to emerging challenges.
- ❖ Responsive and accountable corporations.
- ❖ Legitimate corporations that are managed with integrity, probity and transparency.
- ❖ Recognition and protection of stakeholder rights.
- ❖ An inclusive approach based on democratic ideals, legitimate representation and participation.

### **The pillars of successful corporate governance are:**

- ❖ Accountability
- ❖ Fairness
- ❖ Transparency
- ❖ Assurance
- ❖ Leadership
- ❖ Stakeholder management.

### **The benefits of corporate governance include:**

- ❖ Ensuring corporate success and economic growth.
- ❖ Strong corporate governance maintains investors' confidence, as a result of which, company can raise capital efficiently and effectively.
- ❖ It lowers the capital cost.
- ❖ There is a positive impact on the share price.

At 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**

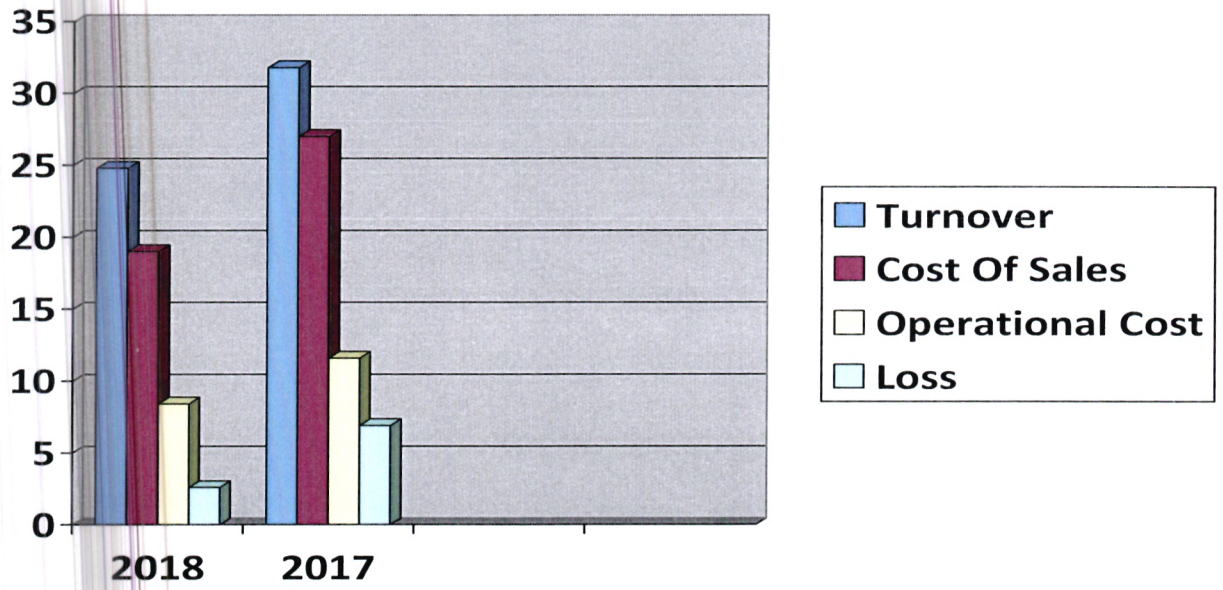
The Company's turnover for the current financial year is Ksh. 24,798,050. While the previous year had Ksh. 31,813,378. Hence, 23% decrease as compared to the previous financial year 2016/2017. On the other hand, the cost of sales decreased from Ksh.27, 067,306 in the previous year to Ksh.19, 031,070 in the current year. Thus resulting to 30% decrease in cost of sales when comparing the two financial years. This information is highlighted in figure 1, in the form of a bar chart.

The Company's loss for the current financial year 2017/2018 dropped from Ksh. 6,881,340 to Ksh. 2,646,388 representing 61%. Despite the fact that the company's loss has gone down in the current financial year, it still faces some challenges which include, the availability of cheap imported rice and high cost of production for our local rice. 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 of an old mill which has been in use since its inception in early 1960's. This has resulted to low recoveries of the finished product.

In order to turnaround the business of the Company, the management has plans of coming up with both short term and long term business strategies. 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**

The (CSR) movement aimed at encouraging companies to be more aware of the impact of their business on the rest of society, including their own stakeholders and the environment.

Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society including economic, social, and environmental. To engage in CSR means that, in the normal course of business, a company is operating in ways that enhance society and the environment, instead of contributing negatively to it.

WKRM Ltd remains committed to provide continued support to the farming communities residing in our areas of operation. This is because we believe that our farmers' efforts are a force for good and important for our growth. Some of the key corporate social responsibilities initiatives undertaken during this financial year are:

- a) ECD School feeding program: The Company provided free transport of 5200 bags of rice to over 20 schools across Kisumu County in January 2018. This is in support of the county program towards ensuring every child going to school has access to food for productive learning. We therefore milled, packed and transported 5200 bags of rice, which had been procured by the county Government of Kisumu. This activity promotes education particularly in rice growing regions.
  
- b) Environmental conservation; WKRM participated in environmental clean-up and tree planting which coincided with World Environment Day on 5 June 2018. Riding on the day's theme 'connecting people to nature ', the company cleaned, slashed bushes within the villages and planted 200 trees in NIB compound. Additionally an environmentalist delivered a talk on environmental sustainability.
  
- c) Contribution of foodstuff to flood affected families; Western Kenya schemes majority of which located in Kano plains experienced heavy flooding in the period May to July 2018. More than 100 families were displaced and evacuated to Ahero irrigation scheme evacuation center. WKRM provided 20 bags of milled sindano rice towards feeding the affected families.

## **REPORT OF THE DIRECTORS**

The directors submit this report together with the financial statements for the four quarters ending 30<sup>th</sup> June. 2018 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 four quarters ending 30<sup>th</sup> June. 2018 are set out on pages 1 to 3 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 four quarters ending 30<sup>th</sup> June. 2018. This is because the Company has not been performing well.

### **Directors**

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: 12/03/2019 .....

## STATEMENT OF DIRECTOR'S RESPONSIBILITY

Section 81 of the Public Finance Management Act, 2012 and *Companies Act, 2015* require the Directors to prepare financial statements in respect of 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 four quarters ending 30<sup>th</sup> June. 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the *Company*; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *Company*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *Company's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the Companies Act, 2015. The Directors are of the opinion that the *Company's* financial statements give a true and fair view of the state of *Company's* transactions during the four quarters ending 30<sup>th</sup> June. 2018, and of the *Company's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *Company*, which have been relied upon in the preparation of the *Company's* financial statements as well as the adequacy of the systems of internal financial control.

### Approval of the financial statements

The *Company's* financial statements were approved on \_\_\_\_\_ and signed on its behalf by:

Sign -----

**Director: Joe Peter Onyango**

DATE 12/03/2019-----

Sign -----

**Director: John Obura Owuoth**

DATE 12/03/2019-----

Sign -----

**Director: Michael Congo Ouma**

DATE 12/03/2019-----

# REPUBLIC OF KENYA

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

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

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Western Kenya Rice Mills Limited set out on pages 1 to 24, which comprise the statement of financial position as at 30 June 2018, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Western Kenya Rice Mills Limited as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act, 2015.

#### Basis for Qualified Opinion

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

The property, plant and equipment balance of Kshs.4,463,808 as at 30 June 2018 excludes as similarly reported in the past, undetermined 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 legal 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 2018.

##### 2. Unaccounted for Inventories in the Financial Statements

The statement of financial position reflects inventories balance of Kshs.877,268 as at 30 June 2018. An examination of stock sheets, however, revealed that the inventory items do not have carrying amounts attached to them. Consequently, it is not clear how the value of Kshs.877,268 disclosed in these financial statements was arrived at.

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

Under the circumstances, the completeness and accuracy of the inventories balance of Kshs.877,268 cannot be confirmed.

### **3. Unsupported Receivables**

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.18,757,915 under trade and other receivables. As disclosed in Note 4 to the financial statements, the balance includes an amount of Kshs.2,157,930 relating to farmers total account, which is a figure brought forward from the previous year and has not been analyzed or supported with any documentation. Consequently, the accuracy and completeness of the debtors' figure of Kshs.2,157,930 cannot be confirmed. Further, the management does not appear to have an ageing policy on debtors.

### **4. Share Capital**

The statement of financial position as at 30 June 2018 reflects share capital of Kshs.35,049,935 whereas records available at the registrar of Companies reflect shares amounting to Kshs.32,428,860 thus, resulting in a 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 the additional increase in share capital of Kshs.2,621,075 as at 30 June 2018.

### **5. Inter Company Transactions**

The statement of financial position reflects a balance of Kshs.27,950,094 under NIB Current Account and as disclosed in Note 8 to the financial statements, the amount relates to transactions between the company and the National Irrigation Board (NIB). However, the NIB books reflects an amount of Kshs.79,331,536 on the account of the Company. The resulting difference of Kshs.51,381,442 between the two sets of records has not been explained or reconciled.

Consequently, the accuracy and completeness of the NIB Current Account balance of Kshs.27,950,094 cannot be ascertained.

### **6. Failure to Remit Statutory Deductions**

The statement of financial position reflects a balance of Kshs.2,607,430 under trade and other payables. As disclosed under Note 9 to the financial statements, the amount comprises of outstanding audit fees, trade creditors and other creditors. Other creditors – Kshs.1,090,698 relate to statutory deductions in respect of NSSF, PAYE and Sacco that had not been remitted to the relevant authorities as of 30 June 2018. No reason has been given for the failure to remit the deductions.

Failure to remit statutory deductions may attract penalties, which have not been provided for in these financial statements.

## **7. Current Liabilities - Long Outstanding Tax Remittance**

The statement of financial position reflects a balance of Kshs.10,440,517 under taxation as at 30 June 2018 and as disclosed in Note 10 to the financial statements the amount includes unpaid provision for tax on profits made during earlier years dating back to the year 1996. However, penalties and interest in respect of the unpaid taxes have not been provided for in these financial statements. This has, in effect, understated the tax provision and loss for the year.

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

## **8. Material Uncertainty in Relation to Going Concern**

During the year ended 30 June 2018 the Company recorded a loss of Kshs.2,646,388 (2017: a loss of Kshs.6,881,340), which depleted the retained earnings further from negative Kshs.48,994,438 as at 30 June 2017 to negative Kshs.51,576,126 as at 30 June 2018. In addition, the current liabilities of Kshs.40,998,041 exceeded the current assets of Kshs.20,008,042 by Kshs.20,989,999. The company is, therefore, technically insolvent.

The precarious financial performance and position indicated above is an indication of the existence of a material uncertainty which may cast a significant doubt on the Company's ability to continue as a going concern and to meet its obligations as and when they fall due. The financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive financial support from the National Government and its creditors. However, this material uncertainty in relation to going concern and any mitigating measures put in place by the Company's directors to reverse the undesirable precarious financial position have not been disclosed in the notes to the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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.

## **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described

in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections, I have determined that there are no other key audit matters to communicate in my report.

### **Other Information**

The directors are responsible for the other information. The other information comprises the report of directors as required by the Companies Act, 2015, and the statement of the directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Milling Income-Under-Absorptions**

Disclosed in Note 11 to the financial statements is a turnover of Kshs.24,798,050 for the year ended 30 June 2018, representing a drop of Kshs.7,015,328 or 22% from the previous year's turnover of Kshs.31,813,378. As noted, the turnover trend for the various rice have tremendously gone down. No explanation has been provided by the Company for the reduced turnover.

Further, during the period under review, the Company earned Kshs.33,565 from milling income against a budget of Kshs.525,000 and against prior year performance of Kshs.155,618, representing a 78% drop in milling income and under absorption of 94% against the budget. The audit revealed that the Company has not taken measures to improve its productivity since the type of machinery it uses is inefficient. As a result, productivity has remained low in the face of rising competition from other millers.

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

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

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

### **Basis for Conclusion**

#### **1. Board Expenses**

The statement of profit and loss and other comprehensive income reflects board members' expenses of Kshs.187,335 during the year ended 30 June, 2018 compared to Kshs.17,400 in the previous year an increase of Kshs.169,935. It has been observed that the board of Western Kenya Rice Mills Ltd held only one meeting during the year under review on 16 September 2018 contrary to Section 8(1) (a) of the State Corporations Act, Cap 446. In the absence of board meetings, it has not been clear how the strategic policy and governance issues of the Company were managed during the year under review.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's statement of financial position and statement of profit and loss and other comprehensive income are in agreement with books of account; and
- (iv) In my opinion the information given in the report of the directors on page **xix**, is consistent with the financial statements.

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

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

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

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

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

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

## **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

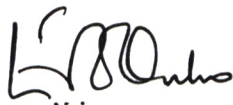
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide

a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Western Kenya Rice Mills Limited to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Western Kenya Rice Mills Limited to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

**Nairobi**

**22 March 2019**

# WESTERN KENYA RICE MILLS LTD

## STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	NOTE	2017/2018 KSHS	2016/2017 KSHS
<b>Turnover</b>	11	24,798,050	31,813,378
Cost of sales	12	(19,031,070)	(27,067,306)
Gross profit/(Loss)		<b>5,766,980</b>	<b>4,746,072</b>
<b>Other Income</b>	13	-	4,000
Administrative expenses	14	(7,620,415)	(10,387,457)
Other expenses	15	(605,618)	(1,226,556)
Board Members	16	(187,335)	(17,400)
<b>Profit (loss) before Taxation</b>		<b>(2,646,388)</b>	<b>(6,881,340)</b>
Tax provision (30%)		-	-
<b>Profit (Loss) for the year</b>		<b>(2,646,388)</b>	<b>(6,881,340)</b>

# WESTERN KENYA RICE MILLS LIMITED

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

ASSETS	NOTE	2017/2018 KSHS	2016/2017 KSHS
<b><u>NON - CURRENT ASSETS</u></b>			
<b><u>PROPERTY, PLANT &amp; EQUIPMENT</u></b>	2	4,463,808	5,020,010
<b><u>CURRENT ASSETS</u></b>			
Inventories	3	877,268	12,361,011
Trade & Other Receivables	4	18,757,915	6,431,820
Cash & Cash Equivalents	5	372,859	1,208,208
		<u>20,008,042</u>	<u>20,001,039</u>
<b>TOTAL ASSETS</b>		<u><u>24,471,849</u></u>	<u><u>25,021,049</u></u>
<b><u>EQUITY &amp; LIABILITIES</u></b>			
Share Capital	6	35,049,935	35,049,935
Retained earnings(Loss)	7	(51,576,126)	(48,994,438)
		<u>(16,526,191)</u>	<u>(13,944,503)</u>
<b><u>CURRENT LIABILITIES</u></b>			
NIB Current	8	27,950,094	26,426,152
Trade & Other Payables	9	2,607,430	2,098,883
Taxation	10	10,440,517	10,440,517
		<u>40,998,041</u>	<u>38,965,553</u>
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<u><u>24,471,849</u></u>	<u><u>25,021,049</u></u>
The financial statements were approved by the Board on .....			
Sign..... <b>MR. JOSEPH K. KIGOTHO</b> <b>SENIOR ACCOUNTANT-</b> <b>NO. 17191</b>		Sign..... <b>MR. GITONGA MUGAMBI</b> <b>MANAGING DIRECTOR</b>	And signed on its behalf by:   Sign..... <b>MR. MUDZO KUHENDERWA NZILI</b> <b>CHAIRMAN</b>
DATE.....		DATE.....	DATE.....

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30TH JUNE 2018**

	Share Capital	Retained Earnings	Total
	Kshs	Kshs	Kshs
At 1 July 2016	35,049,935	(42,113,098)	<b>(7,063,163)</b>
Loss for the year	-	(6,881,340)	<b>(6,881,340)</b>
At 30 June 2017	<b>35,049,935</b>	<b>(48,994,438)</b>	<b>(13,944,503)</b>
At 1 July 2017	35,049,935	(48,994,438)	(13,944,503)
Prior year Adjustment	-	64,700	64,700
Loss for the year	-	(2,646,388)	<b>(2,646,388)</b>
At 30 June 2018	<b>35,049,935</b>	<b>(51,576,127)</b>	<b>(16,526,192)</b>

# WESTERN KENYA RICE MILLS LTD

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE, 2018

	Notes	2017/2018 KSHS	2016/2017 KSHS
<b>Cash Flows From Operating</b>			
<b>Activities</b>			
Deficit		(2,646,388)	(6,881,340)
Prior year adjustment		64,700	-
<b>Adjustment for non cash items</b>			
Depreciation	2	556,202	556,202
<b>Net cash from operating activities</b>		<b>(2,025,486)</b>	<b>(6,325,138)</b>
<b>Working Capital changes</b>			
(Increase)Decrease in Inventories		11,483,742	7,262,028
Increase(Decrease) in Receivables		(12,326,095)	1,653,028
(Increase)Decrease in Payables		2,032,488	(3,464,351)
<b>Net cash generated from operating activities</b>		<b>(835,350)</b>	<b>(874,433)</b>
<b>Cash Flows From Investing</b>			
<b>Activities</b>			
Purchase of Assets		-	-
<b>Net cash generated from Investing activities</b>		<b>-</b>	<b>-</b>
<b>Cash Flows From Financing</b>			
<b>Activities</b>			
<b>Net cash generated from financing activities</b>		<b>-</b>	<b>-</b>
Net increase/(decrease) in Cash & Equivalent for the year		(835,350)	(874,433)
Cash & cash equivalents at beginning of the year		1,208,208	2,082,641
<b>Cash &amp; cash equivalent at end of the year</b>	<b>5</b>	<b>372,858</b>	<b>1,208,208</b>

The prior adjustment figure of Ksh. 64,700 refers to unrepresented cheque No. 001924 for the previous financial year 2016/2017.

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30TH JUNE, 2018**

**A) WHITE RICE:**

PRODUCT	RECOVERY	QUANTITY KGS	PRICE/KG	TOTAL
Non- Aromatic Grade 1(IR	55%	50,500	100	5,050,000
Non- Aromatic Grade 1(ITA	50%	100,000	120	12,000,000
Aromatic Pishori Grade 1	50%	81,000	170	13,770,000
			<b>T/ INCOME</b>	<b>30,820,000</b>

**B) BY- PRODUCTS:**

BY-PRODUCT	RECOVERY	QUANTITY KGS	PRICE PER KG	TOTAL
Broken Rice	4%	20,000	50	1,000,000.00
Chicken feed	2%	10,000	25	250,000.00
Bran meal	10%	5,750	15	86,250.00
			<b>T/ INCOME</b>	<b>1,336,250.00</b>

**C) PROJECTED COMMERCIAL MILLING**

EXPECTED FROM	QUANTITY( BAGS)	UNIT PER BAG	PRICE PER KG (KSHS)	MILLS INCOME(KSHS)
N.C.P.B	100,000	75KGS	3.5	350,000.00
OTHERS	50,000	75KGS	3.5	175,000.00
<b>TOTAL INCOME</b>			<b>T/ INCOME</b>	<b>525,000.00</b>

**RECURRENT BUDGET FOR WKRM LTD FOR THE FY 2017/18**

	VOTES	PROJECTED BUDGET	ACTUAL	VARIANCE
		2017/2018	2017/2018	2017/2018
		Kshs	Kshs	Kshs
<b>Expected income</b>		<b>32,681,250</b>	<b>24,798,050</b>	<b>7,883,200</b>
<b>Expenditure</b>				
Salaries & Wages Adm	951	3,100,000	3,075,599	24,401
House allowance	961	156,000	156,000	-
Casual wages	957	1,500,000	1,437,630	62,370
Training expenses	825	14,000	13,250	750
Medical allowance	838	25,000	24,999	1
Inpatient	840	200,000	50,000	150,000
Travelling, Meals & Acc.	847	1,500,000	1,394,160	105,840
Electricity – Factory	914	170,000	159,900	10,100
Building mtce -Factory	731	400,000	390,561	9,439
Offices	711	37,000	35,590	1,410
P & M mtce –Mills spares	641	110,000	100,000	10,000
Motor vehicle mtce	621	300,000	297,389	2,611
Board expenses	851	200,000	187,335	12,665
Printing & Stationery	832	70,000	68,876	1,124
Subscription & Periodicals	842	85,000	81,970	3,030
Telephones	911	120,000	119,250	750
Postage	913	500	450	50

Bank charges	836	30,000	27,013	2,987
Office tea	846	40,000	39,297	703
Consumables	858	6,500	6,076	424
Audit Fee	833	348,000	348,000	-
NSSF	951	15,000	14,400	600
Leave Allowance	810	55,000	52,493	2,507
Paddy Purchases	349	12,800,000	12,759,860	40,140
White rice Purchases	350	5,000,000	4,787,250	212,750
Marketing /Advertising	843	70,000	67,040	2,960
Fuel & Lubricants	916	450,000	410,785	39,215
Packing materials	881	40,000	39,120	880
Depreciation	54999	557,000	556,202	798
NIB Admin & Accout. Fee	52010	800,000	743,942	56,059
<b>Total Recurrent Budget</b>		<b>28,199,000</b>	<b>27,444,438</b>	<b>754,562</b>
<b>Surplus (Deficit)</b>		<b>4,482,250</b>	<b>(2,646,388)</b>	<b>7,128,638</b>
<b>Capital Budget</b>				
Mill Modernization	40	-	-	-
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
<b>Total Capital Budget</b>		<b>9,070,000</b>	<b>-</b>	<b>9,070,000</b>

## 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 30th June 2018 were used in the year under review.

Standard/Amendment to a standard	Effective date	Impact
IFRS 15: Revenue from Contracts with Customers (Issued 28 May 2014)	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1st Jan 2018	IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:  Identify the contract with the customer Identify the performance obligations in the contract Determine the transaction price Allocate the transaction price to the performance obligations in the contracts. Recognise revenue when (or as) the entity satisfies a performance obligation. Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.  However, there were no contracts with customers within the financial year under review.

<p>IFRIC 22: Foreign Currency Transactions and Advance Consideration(Issued 8 December 2016)</p>	<p>Applicable to annual reporting periods beginning on or after 1st Jan 2018</p>	<p>The interpretation addresses foreign currency transactions or parts of transactions where:</p> <p>there is consideration that is denominated or priced in a foreign currency;</p> <p>the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and</p> <p>the prepayment asset or deferred income liability is non-monetary.</p> <p>The Interpretations Committee came to the following conclusion:</p> <p>The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.</p> <p>If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.</p> <p>However, there were no contracts with customers within the financial year under review.</p>
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<p>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) (Issued 19 January 2016)</p>	<p>Effective for annual periods beginning on or after 1st Jan 2017</p>	<p>Amends IAS 12 Income Taxes to clarify the following aspects:</p> <p>Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.</p> <p>The carrying amount of an asset does not limit the estimation of probable future taxable profits.</p> <p>Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.</p> <p>An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.</p> <p>There were no debt transactions within the financial year under review.</p>
<p>Disclosure Initiative (Amendments to IAS 7) (Issued 29 January 2016)</p>	<p>Effective for annual periods beginning on or after 1st Jan 2017</p>	<p>Amends IAS 7 Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities</p> <p>All the relevant disclosures have been provided in the notes</p>

<p>Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Issued 12 April 2016)</p>	<p>Effective for annual periods beginning on or after 1st Jan 2018</p>	<p>Amends IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.</p> <p>The Company did not have any contracts within the financial year under review.</p>
<p>Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (Issued 20 June 2016)</p>	<p>Effective for annual periods beginning on or after 1st Jan 2018</p>	<p>Amends IFRS 2 Share-based Payment to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.</p> <p>There were no Share -based payments during the financial period under review.</p>
<p>Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) (Issued 12 September 2016)</p>	<p>Overlay approach to be applied when IFRS 9 is first applied. Deferral approach effective for annual periods beginning on or after 1st Jan 2018 and only available for three years after that date</p>	<p>Amends IFRS 4 Insurance Contracts provide two options for entities that issue insurance contracts within the scope of IFRS 4:</p> <p>an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;</p> <p>an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach</p> <p>The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.</p> <p>There were no Insurance Contracts during the financial period under review.</p>
<p>Transfers of Investment Property (Amendments to IAS 40) (Issued 8 December 2016)</p>	<p>Effective for annual periods beginning on or after 1st Jan 2018</p>	<p>The amendments to IAS 40 Investment Property:</p> <p>Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.</p> <p>The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.</p> <p>There were no transfers to, or from, investment property to any other use by the management within the financial year under review.</p>

Annual Improvements to IFRS Standards 2014–2016 Cycle (Issued 8 December 2016)	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1st Jan 2018, the amendment to IFRS 12 for annual periods beginning on or after 1st Jan 2017	<p>Makes amendments to the following standards:</p> <p>IFRS 1 - Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose</p> <p>IFRS 12 - Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity’s interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</p> <p>IAS 28 - Clarifies that the election to measure at fair value through profit or loss of an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.</p> <p>The company did not engage in any joint venture investments within the financial year under review.</p>
IFRS 16: Leases (Issued 13 January 2016)	Effective for annual periods beginning on or after 1st Jan 2019	<p>IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.</p> <p>The company did not engage in any kind of lease transactions during the financial year under review.</p>
IFRS 17 Insurance Contracts (Issued 18 May 2017)	Effective for annual periods beginning on or after 1st Jan 2021	<p>IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.</p> <p>There were no insurance liabilities at the end of the financial year under review.</p>
IFRIC 23: Uncertainty over Income Tax Treatments (Issued 7 June 2017)	Effective for annual periods beginning on or after 1st Jan 2019	<p>The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:</p> <p>Whether tax treatments should be considered collectively</p> <p>Assumptions for taxation authorities' examinations</p> <p>The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</p> <p>The effect of changes in facts and circumstances</p> <p>There were no tax credits during the financial year under review.</p>

<p>Prepayment Features with Negative Compensation (Amendments to IFRS 9) (Issued 12 October 2017)</p>	<p>Annual periods beginning on or after 1st Jan 2019</p>	<p>Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.</p> <p>The amendment did not affect the business of the company during the financial year under review.</p>
<p>Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) (Issued 12 October 2017)</p>	<p>Annual periods beginning on or after 1st Jan 2019</p>	<p>Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.</p> <p>The amendment did not affect the business of the company during the financial year under review.</p>
<p>Annual Improvements to IFRS Standards 2015–2017 Cycle (Issued 12 December 2017)</p>	<p>Annual periods beginning on or after 1st Jan 2019</p>	<p>Makes amendments to the following standards:</p> <p>IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.</p> <p>IAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.</p> <p>IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.</p> <p>The amendment did not affect the business of the company during the financial year under review.</p>
<p>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) (Issued 7 February 2018)</p>	<p>Annual periods beginning on or after 1st Jan 2019</p>	<p>The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are:</p> <p>If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.</p> <p>In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.</p> <p>The amendment did not affect the business of the company during the financial year under review.</p>

Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018)	Annual periods beginning on or after 1st Jan 2020	<p>Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.</p> <p>The amendment did not affect the business of the company during the financial year under review.</p>
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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 2018.

**4 Summary of Significant Accounting Policies**

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

**(a) Revenue recognition**

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

- (i) Revenue from the sale of goods and services is recognised in the year in which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- (ii) Grants from National Government are recognised in the year in which the entity actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

The Company does not receive any grants from the National Government.

- (iii) Finance income comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method. Though the Company did not receive such income during the year under 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.

**Foreign currency risk**

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The Company did not have any Foreign Currency Risk during the year under review.

**Credit risk**

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

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

**Liquidity risk**

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

**(b) In-kind contributions**

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

**© Property, Plant and Equipment**

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

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

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

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

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

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

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

The annual rates in use are:

Buildings	4%
Plant & Machinery	12.5%
Workshop Equipment	12.5%
Tools & Equipment	12.5%
Office Machinery	12.5%
Motor vehicles	25% (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 availed 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 2018

	OFFICE FURN & EQUIP.	BUILDINGS	PLANT & MACHINERY	MOTOR VEHICLES	TOOLS & EQUIPMENT	WORKSHOP & MACHINERY	TOTAL
	KSH	KSH	KSH	KSH	KSH	KSH	KSH
<b>COST:</b>							
AS AT 01.07.2016	447,988	6,836,487	29,994,849	3,229,080	1,230,018	678,735	42,417,157
ADDITIONS							
<b>AS AT 30 - 06 - 2017</b>	<b>447,988</b>	<b>6,836,487</b>	<b>29,994,849</b>	<b>3,229,080</b>	<b>1,230,018</b>	<b>678,735</b>	<b>42,417,157</b>
<b>DEPRECIATION:</b>							
AS AT 1st July 2015	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
<b>AS AT 30.06.2017</b>	<b>406,767</b>	<b>3,263,443</b>	<b>28,895,205</b>	<b>3,016,280</b>	<b>1,185,126</b>	<b>630,326</b>	<b>37,397,147</b>
<b>N.B.V. AS AT 30.06.2017</b>	<b>41,221</b>	<b>3,573,044</b>	<b>1,099,644</b>	<b>212,800</b>	<b>44,892</b>	<b>48,409</b>	<b>5,020,010</b>
<b>COST:</b>							
AS AT 01.07.2017	447,988	6,836,487	29,994,849	3,229,080	1,230,018	678,735	42,417,157
<b>AS AT 30 - 06 - 2018</b>	<b>447,988</b>	<b>6,836,487</b>	<b>29,994,849</b>	<b>3,229,080</b>	<b>1,230,018</b>	<b>678,735</b>	<b>42,417,157</b>
<b>DEPRECIATION:</b>							
AS AT 1st July 2017	406,767	3,263,443	28,895,205	3,016,280	1,185,126	630,326	37,397,147
CHARGE FOR THE YEAR	8,244	96,569	219,929	212,799	8,978	9,682	556,201
<b>AS AT 30.06.2018</b>	<b>415,011</b>	<b>3,360,012</b>	<b>29,115,134</b>	<b>3,229,079</b>	<b>1,194,104</b>	<b>640,008</b>	<b>37,953,349</b>
<b>NET BOOK VALUE:</b>							
AS AT 30th June 2018	32,977	3,476,475	879,715	1	35,914	38,727	4,463,808
AS AT 30th June 2017	41,221	3,573,044	1,099,644	212,800	44,892	48,409	5,020,010

**(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 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.

**(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 expenses in the statement of financial performance, whereas, the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

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

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

**(v) Service concession arrangements**

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

**(w) Comparative figures**

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

**(x) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30th, 2018.

**5 Significant Judgements and Sources of Estimation Uncertainty**

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

**Estimates and assumptions**

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

**Useful lives and residual values**

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

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

**Provisions**

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE, 2018 (CONTINUED)**

<b>3 INVENTORIES</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
Factory Spares	611,324	1,082,745
General store	77,822	99,834
Paddy stocks	-	7,680,750
Packing Materials	168,121	182,741
Milled Rice	20,000	3,256,540
By products stores	-	58,400
	<u>877,268</u>	<u>12,361,011</u>

<b>4 TRADE &amp; OTHER RECEIVABLES</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
Farmers total account	2,157,930	2,157,930
Staff imprest	43,158	52,518
Salary Advance	72,345	103,645
Trade & Other Receivables	18,660,033	6,293,278
<b>TOTAL</b>	<b>20,933,466</b>	<b>8,607,371</b>
Less: provision for bad debts	(2,175,551)	(2,175,551)
	<u>18,757,915</u>	<u>6,431,820</u>

It is the policy of the company to provide for bad debts at 5% for the debts that have been outstanding for more than 5 years

<b>5 CASH AND CASH EQUIVALENTS</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
A/c Nos		
KCB Nairobi - Kip 1107178711	59,416	199,405
KCB Kisumu-Kisu: 1108288707	312,773	971,993
Mpesa	200	-
Cash in Hand	471	36,810
	<u>372,859</u>	<u>1,208,208</u>

<b>6 SHARE CAPITAL</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
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 Lt	2,546,879	2,546,879
	<u>35,049,935</u>	<u>35,049,935</u>

<b>7 RETAINED EARNINGS /(LOSS)</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
Balance b/f	(48,994,438)	(42,113,098)
Prior year adjustment	64,700	-
Excess/(Deficit) for the year	(2,646,388)	(6,881,340)
Balance c/f	<u>(51,576,126)</u>	<u>(48,994,438)</u>

**10 RETAINED EARNINGS**

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

**11 INCORPORATION**

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

**12 EVENTS AFTER THE REPORTING PERIOD**

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

**13 CURRENCY**

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE, 2018 (CONTINUED)**

<b>8 NIB CURRENT ACCOUNT</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
	27,950,094	26,426,152
	<u>27,950,094</u>	<u>26,426,152</u>

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

<b>9 TRADE &amp; OTHER PAYABLES</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
Audit Fee Provision	966,512	618,512
Trade	550,220	1,412,844
Others	1,090,698	67,527
	<u>2,607,430</u>	<u>2,098,883</u>

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

<b>10 TAXATION</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
<b>Unpaid balance brought forward</b>	<b>10,508,044</b>	<b>10,508,044</b>
<b>Others</b>	<b>(67,527)</b>	<b>(67,527)</b>
<b>BALANCE C/F</b>	<b>10,440,517</b>	<b>10,440,517</b>

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.

	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
<b>11 <u>TURNOVER</u></b>		
Basmati rice sales	1,997,415	3,336,575
Sindano rice sales	16,122,620	26,772,185
Bran meal sales	97,200	265,500
Broken rice sales	181,250	1,160,000
Course bran sales	-	-
Chicken feed sales	28,500	123,500
Basmati paddy sales	6,337,500	-
Sindano paddy sales	-	-
Milling income	33,565	155,618
	<u>24,798,050</u>	<u>31,813,378</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE, 2018 (CONTINUED)**

	2017/2018	2016/2017
	KSHS	KSHS
<b>12 COST OF PRODUCTION</b>		
Sindano paddy to mills	4,049,370	7,207,075
Sindano white rice purchases	4,787,250	12,385,800
Basmati Paddy to mills	8,710,490	5,104,545
Salaries & Wages - Casuals	555,790	1,450,640
Electricity	159,900	265,779
Plant & Machinery(Factory) Mtce	490,561	288,700
Depreciation - Tools& w/shop	18,660	18,660
Uniforms & Protective Clothing	-	10,000
Depreciation - Plant & Equipment	219,929	219,929
Packing Materials	39,120	116,178
<b>TOTAL</b>	<b><u>19,031,070</u></b>	<b><u>27,067,306</u></b>
<b>13 OTHER INCOME</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
Miscellaneous income	-	4,000
	<u>-</u>	<u>4,000</u>
<b>14 ADMINISTRATION</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
<b>Staff Costs</b>		
Salaries and Wages -Regular	2,164,564	2,041,700
NSSF	14,400	14,400
Pension Fund Employer/Gratuity	911,036	203,932
House Allowance	156,000	156,000
Leave & Transfer Allowance	52,493	50,986
Medical expenses (In-patient)	50,000	76,223
Medical expenses (out-patient)	24,999	24,999
<b>Sub-total</b>	<b><u>3,373,491</u></b>	<b><u>2,568,240</u></b>
<b>Adminstration Costs</b>		
Travelling and entertainment	1,394,160	2,443,685
Legal & professional fee	-	1,293,003
Audit fees	348,000	348,000
Printing and Stationery	68,876	1,062,634
NIB Administration & Accountancy fee	743,942	954,521
Office Machinery & Furn. Depreciation	8,245	8,244
Buildings Mtce.- Offices	35,590	24,048
Buildings Depreciation	96,569	96,569
Motor Vehicles Maintenance	297,389	373,473
Motor Vehicles depr.	212,799	212,800
Telephone	119,250	145,750
Training expenses	13,250	76,560
Security Services	242,329	292,814
General Admin. Services	639,511	363,660
Domestic water equipment & supply mtce.	-	75,760
Office equipment mtce	-	6,500
Bank Charges	27,013	41,196
<b>Sub-total</b>	<b><u>4,246,923</u></b>	<b><u>7,819,217</u></b>
<b>TOTAL</b>	<b><u>7,620,415</u></b>	<b><u>10,387,457</u></b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE, 2018 (CONTINUED)**

<b>15 OTHER EXPENSES</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
Advertising/ Marketing	67,040	76,297
Office Tea	39,297	126,761
Subscriptions & periodicals	81,970	56,888
Consumables	6,076	410
General expenses		3,500
Show expenses		-
Petrol		3,300
Diesel	410,785	538,910
Postages	450	16,100
Hire of Transport		404,390
<b>TOTAL</b>	<b><u>605,618</u></b>	<b><u>1,226,556</u></b>

<b>16 Board Members Expenses</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>KSHS</b>	<b>KSHS</b>
Sitting allowance	44,000	17,400
Mileage allowance	-	-
Accomodation allowance	24,000	-
Travel expenses	97,335	-
Lunch allowance	22,000	-
	<b><u>187,335</u></b>	<b><u>17,400</u></b>

**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 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 (15) of the notes to the financial statements as NIB Administration & Accountancy fee.

**PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Ref. to Appendix 1

<b>Reference No. on the external audit</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Focal Point person to resolve the issue (Name and designation)</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>