

REPORT OF THE AUDITOR-GENERAL ON SOUTH NYANZA SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

The accompanying financial statements of South Nyanza Sugar Company Limited set out on pages 27 to 72, which comprise the statement of financial position as at 30 June 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by PricewaterhouseCoopers, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

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 South Nyanza Sugar Company Limited as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion section of my report, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Property Plant and Equipment

The property, plant and equipment figure of Kshs.3,032,796,000 (2015-2016 Kshs.3,385,075,000). The Company policy on property, plant and equipment states that property, plant and equipment are stated at fair less depreciation based on valuation by the external independent valuers done on a periodic basis of at least once every five years. IAS 16 requires re-valuations to be done with sufficient regularity so that the carrying amount does not differ materially from fair value at the end of the reporting period. Note 13 under property, plant and equipment indicates the last valuation was done by external valuers seven years ago. In the absence of a recent re-valuation, we are unable to confirm whether the carrying values of property, plant and equipment materially differ from that which would have been determined using fair values at the end of the year.

2. Receivables from Outgrowers

As reported in the previous year, the Company's statement of financial position as at 30 June 2017 reflects receivables from outgrowers of Kshs.234,613,000 (2015/16:Kshs.134,524,000) as shown under note 19. The balance arises from the Company's provision of agricultural inputs and services to the outgrowers and the related accrued interest recoverable. The gross receivables balance is an aggregation of outgrowers' balances from the main Agricultural Management Systems (AMS), outgrowers' ledger and old balances uploaded in a separate

ledger in the AMS system. Included in the aggregate balance is a sum of Kshs.351,023,000 being old balances uploaded into the AMS sub-ledger that has however, not been linked into individual farmer's accounts.

Further, validation of the individual outgrowers' balances revealed several unsupported transactions in the outgrowers' ledger, inconsistent transactions between the underlying outgrowers files and ledger, and transactions on outgrowers files not recorded in the ledger. In addition, a provision for impairment of receivables from outgrowers totaling Kshs.829,843,000 (2015/16: Kshs.873,654,000) was made at the year end.

As a result of the numerous material shortcomings in the accounting records for outgrower transactions, it has not been possible to confirm the accuracy and recoverability of the receivables and the related accrued interest income.

3. Statement of Changes in Equity

The statement of changes in equity balance of Kshs.439,635,000 includes Kshs.13,121,000 in respect of other reserves. However, the management did not provide description on the nature and purpose of the 'other reserves'. The equity should disclose the nature and purpose of all the reserves held by the entity during the period under review. As per IAS 1 paragraph 79 (b) an entity shall disclose the following, either in the statement of financial position or the statement of changes in equity, or in the notes: A description of the nature and purpose of each reserve within equity.

Consequently, the accuracy and validity of the other reserve figure of Kshs.13,121,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of South Nyanza Sugar Company Limited 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 opinion.

Key Audit Matters

Key audit matters are those matters which, 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 Emphasis of matter sections of my report. I determine that these were no Key Audit Matters to communicate in my report.

Emphasis of Matter

1. Going Concern

Note 2 (a) to the financial statements states that South Nyanza Sugar Company Limited incurred a net loss after tax of Kshs.296,782,000 (2015/16: loss after tax of Kshs.770,341,000) and as of that date, the company's current liabilities exceeded its current assets by Kshs.1,822,397,000 (2015/16: Kshs.2,299,796,000). These events or conditions, along with other matters as set forth in Note 2(a) to the financial statements indicate the existence of a material uncertainty which may cast

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significant doubt about the ability of the Company to continue as a going concern, and further implies that the Company's existence is dependent upon continued support from the shareholders and creditors.

2. Unpaid Tax

As similarly reported in the previous year, under note 25 to the financial statements, there are outstanding Value Added Tax (VAT) payables totalling Kshs.547 million (2015/16: Kshs.657 million) spanning several months of non-payment during the year under review.

Management has indicated that it has paid some of the outstanding obligations and intends to approach the Kenya Revenue Authority for waiver of applicable interest and penalties.

Other Information Included in the Annual Report

The directors are responsible for the other information, which comprises the report of directors as required by the Kenyan Companies Act, 2015. The other information does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance thereon. In connection with my 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 my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed on the other information which I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal control as directors determine are necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting assumption. The directors are also responsible for submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due

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

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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 Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities 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 to the directors a statement that I have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters which may reasonably be thought to bear on my independence, and where applicable, related safeguards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENT

As required by the 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 the audit;
- (ii) In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records;
- (iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the accounting records; and
- (iv) In my opinion, the information given in the report of the directors is consistent with the financial statements.



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

Nairobi

10 May 2018