REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)

FOR THE YEAR ENDED 30 JUNE, 2023

MUHORONI SUGAR COMPANY LTD

(IN RECEIVERSHIP)

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
REPORT OF THE JOINT RECEIVERS/MANAGERS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

CORPORATE INFORMATION

JOINT RECEIVER MANAGERS	Harun Kirui Francis Ooko-Terminated on 22 May 2023
REGISTERED OFFICE	Muhoroni Sugar Company Limited (In Receivership) P.O Box 2 Muhoroni
BANKERS	Kenya Commercial Bank Limited P O Box 20 Muhoroni
	Standard Chartered Bank Kenya Limited Kisumu Branch P.O Box 354 Kisumu
	National Bank of Kenya Limited Kisumu Branch Kisumu
ADVOCATES	Otieno Ragot & Company Advocates Al Imram Plaza, 4th Floor Oginga Odinga Road P O Box 3051-40100 Kisumu
	Kale Maina Budotich Teleposta Building Kenyatta Avenue P O Box 10674-00100 Nairobi

REPORT OF THE JOINT RECEIVER MANAGERS

The Joint Receiver Managers present their report together with the audited financial statements of the company for the year ended 30 June 2023.

PRINCIPAL ACTIVITIES

The principal activities of the company is manufacturing of sugar and the provision of support to sugar cane out-growers.

OPERATIONS OF THE COMPANY

The government, as the major shareholder, plans to divest its stake in the sugar company to improve its performance and competitiveness through privatisation.

RESULTS

	2023 KSh	2022 KSh
Loss before taxation	(467,863,963)	(594,551,386)
Taxation	-	-
Loss for the year transferred to accumulated deficit	(467,863,963)	(594,551,386)

CORPORATE SOCIAL RESPONSIBILITIES

1 Continued with supply of improved quality water to the surrounding community, churches and schools as part of social corporate responsibility.
2 Roads rehabilitation and maintenance within Muhoroni Sugar out grower zone was carried out to enhance zonal mobility, but was limited on account of funds.
3 Provided health services to the community in collaboration with Ministry of Health, Aphia Plus, OGRA and ICAP. This included:
 - Provision of ARVs to the surrounding community to a total of 369 persons registered.
 - Antenatal care with an annual target of 45 persons.
4 In collaboration with the County Government of Kisumu, repaired the road to the Nyayo sub county hospital for easier access by the community.

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITORS

With respect to each receiver/manager at the time this report was approved:-

(a) There is so far as the person is aware, no relevant audit information of which the Company Auditor is unaware; and

(b) The person has taken all the steps that the person ought to have taken as a Director so as to be aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

BY ORDER OF THE JOINT RECEIVER MANAGERS

Joint Receiver Manager

Date 18TH JUNE 2024

STATEMENT OF JOINT RECEIVER MANAGERS' RESPONSIBILITIES

The Kenya Companies Act requires the Joint Receiver Managers to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the Joint Receiver Managers to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The Joint Receiver Managers are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenya Companies Act and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

The Joint Receiver Managers accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The Joint Receiver Managers are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The Joint Receiver Managers further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Joint Receiver Managers acknowledge that the continued existence of the company as a going concern depends on continued support from the debenture holders and the government and the success of the measures that the Joint Receiver Managers and the government have put in place to return the company to normal business operations and profitability. The Joint Receiver Managers are of the view that once the planned measures are adopted, the company will successfully return to profitability. In view of the foregoing, the Joint Receiver Managers consider it appropriate to prepare financial statements on a going concern basis.

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Joint Receiver Manager

Date 17TH JUNE 2024

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP) FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

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

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

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of set out on pages 4 to 23, which comprise of the statement of financial position as at 30 June, 2023, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Variances in the Financial Statements

Review of the annual report and financial statements revealed variances between the amounts reflected in the statement of comprehensive income and statement of financial position with the ledgers and supporting documents as indicated below:

(i) The statement of comprehensive income and as disclosed in Appendix I to the financial statements reflects an amount of Kshs.1,656,089,145 in respect of revenue, however, the ledgers provided for audit revealed an amount of Kshs.1,927,307,800, resulting in a variance of Kshs.271,218,655 that has not been reconciled or explained.

(ii) The statement of comprehensive income and as disclosed in Appendix II reflects an amount of Kshs.23,757,472 relating to other operating income, while the supporting ledgers reflects an amount of Kshs.24,302,582 resulting to unreconciled variance of Kshs.545,110.

(iii) Further, the statement of comprehensive income reflects an amount of Kshs.1,669,080,368 relating to cost of sales and as disclosed in Appendix I to the financial statements. The cost of sales differed with ledger balances of Kshs.1,650,225,151 by Kshs.18,855,217.

(iv) The comprehensive income further reflects administrative expenses amounting to Kshs.478,630,212, while supporting ledgers reflects amount of Kshs.168,734,645 resulting to unreconciled variance of Kshs.309,895,567.

(v) The statement of financial position and as disclosed in Note 13 reflects trade and other receivables balance of Kshs.390,492,491 net of provision of doubtful debts. However, the ledgers provided for audit review had a balance of Kshs.266,056,997 resulting to an unreconciled variance of Kshs.124,435,495.

(vi) The statement of financial position reflects an amount of Kshs.217,415,087 in respect of inventories. However, the supporting ledgers amounts to Kshs.352,364,325 results to unreconciled variance of Kshs.134,949,238.

(vii) In addition, the statement of financial position and as disclosed in Note 17 to the financial statements includes trade and other payables amounting to Kshs.19,908,316,918, while the supporting ledgers amounted to Kshs.783,789,914 resulting to unreconciled variance of Kshs.19,124,527,005.

(viii) Further, the statement of financial position and as disclosed in Note 16 to the financial statements reflects borrowings balance of Kshs.9,689,313,375, while the supporting ledgers reflected an amount of Kshs.9,519,033,636, resulting to unreconciled amount of Kshs.170,279,739.

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

2. Unsupported Trade and Other Receivables

The statement of financial position and as disclosed in Note 13 to the financial statements, reflects trade and other receivables net balance of Kshs.390,492,491. However, the following unsatisfactory matters were noted:

(i) Included in the balance are trade receivables, other receivables and deposits and prepayments of Kshs.75,588,688, Kshs.166,584,565 and Kshs.1,839,713 respectively. However, the supporting ledger details of the debtors' balances together with the relevant dates when the debts were incurred were not provided for audit review.

(ii) Management did not provide correspondences with the customers to support efforts made to recover the outstanding amounts from the debtors as required by the State Corporations Act, 2012 Section 15(1) on accountability which states that a Board shall be responsible for the proper management of the affairs of a state corporation.

(iii) The financial statements reflect Kshs.154,501,307 as provision for doubtful debts. However, the provision was not backed by any rate or policy.

In the circumstances, the full recoverability of the net accounts' receivables balance Kshs.390,492,491 could not be confirmed.

3. Unsupported Cash and Bank Balances

The statement of financial position reflects cash and bank balance of Kshs.7,273,174. However, the balance contains the following anomalies:

(i) The cash and bank balance include an amount of Kshs.7,316,274 in respect to six (6) bank accounts and one (1) overdrawn accounts of Kshs.50,000. However, the bank reconciliation statements, cashbooks and certificate of bank balances were not provided for audit review contrary to Regulation 90(1) of the Public Finance Management (National Government) Regulations, 2015.

(ii) Further, Standard Chartered Farmers account was overdrawn contrary to Regulation 82(7) of the Public Finance Management (National Government) Regulations, 2015 which states that no official Government bank account shall be overdrawn, nor shall any advance or loan be obtained from a bank account for official purposes beyond the limit, authorized by the National Treasury in line with Section 28(4) of the Act.

(iii) The balance also includes petty cash account balance of Kshs.6,900 of which the cash survey certificates were not provided for audit verification.

(iv) Further, Management provided a list of three (3) bank accounts operated by the Company. However, the supporting schedule provided indicated that seven (7) bank accounts were maintained by the Company.

(v) Management has not properly disclosed cash and bank balances as per the PSASB template which requires provisions of short appropriate explanations on cash at bank and cash in hand.

In the circumstances, the accuracy and completeness of the cash and bank balance of Kshs.7,273,174 as at 30 June, 2023 could not be confirmed.

4. Long Outstanding and Unsupported Trade Payables

The statement of financial position and Note 17 to the financial statements reflects trade and other payables balance of Kshs.19,908,316,918. Included in the trade payables balance were opening balances detailed as follows;

Payables	Opening Balances (Kshs.)
PAYE	692,639,476
NHIF	45,957,152
NSSF	51,321,422

However, Management has not supported the balances with a detailed listing and invoices indicating the specific entities to which the amounts are owed. Further, no ageing analysis had been provided for audit verification.

Further, the trade and other payables balance includes balances of Kshs.1,188,690,503, Kshs.16,715,674,187 and Kshs.736,081,907 in respect of trade payables, taxes, penalties and fines and other payables and accruals for which ledgers and invoices to support the balances were not provided for audit.

5. Outstanding Tax Arrears

The statement of financial position reflects trade payables balance of Kshs.19,908,316,918 as disclosed in Note 17 to the financial statements which includes taxes, penalties and fines of Kshs.16,715,674,187. However, the following observations were made;

(i) The tax arrears for the year increased by Kshs.480,626,517 from the prior year balance of Kshs.16,235,047,671.

(ii) Management did not provide the movement schedule in respect of individual tax accrued from the opening balance, additions for the year and repayments and interest to support the closing balance of Kshs.16,715,674,187.

(iii) Documents provided by Management vide letter Ref:TNT/CONF 28/03 dated 09 October, 2023 from The National Treasury indicated that the Company owe KRA Kshs.3,238,703,456. However, the financial statements reflect Kshs.16,715,674,187 resulting to a variance of Kshs.13,476,970,731 which had not been explained.

In the circumstances, the accuracy and completeness taxes, penalties and fines balance of Kshs.16,715,674,187 could not be confirmed.

6. Borrowings

The statement of financial position reflects a balance of Kshs.9,689,313,375 which, as disclosed in Note 16 to the financial statements comprise of loans issued by the Government of Kenya, loans guaranteed by Government of Kenya and loans from Kenya Sugar Board of Kshs.2,486,940,412, Kshs.904,185,261 and Kshs.2,584,819,282 respectively. These loans which have accrued a huge interest of Kshs.3,689,894,487 were long overdue some dating as far back as 1975 and no repayments were being made as required by Regulation, 42(1)(a) of the Public Finance Management (National Government) Regulations, 2015 which states that debt service payments shall be a first charge and the Accounting Officer shall ensure this is done to the extent possible that the Government does not default on debt obligations.

Further, no loan agreement or application details were provided to confirm how the loans were advanced.

In the circumstances, the completeness, accuracy, and servicing of the borrowings amounting to Kshs.9,689,313,375 could not be confirmed.

7. Provision for Leave and Gratuity

The statement of financial position and as disclosed in Note 17 to the financial statements reflects trade and other payables balance Kshs.19,908,316,918 which includes provision for leave and gratuity of Kshs.380,444,440 and Kshs.35,416,434 respectively. However, the ledgers and analysis of this balances per staff member was not provided for audit verification as required by IAS 1.15 which states that the financial statements must "present fairly" the financial position, financial performance and cash flows of an entity.

In the circumstances, the accuracy and completeness of the provision for leave and gratuity could not be confirmed.

8. Understatement of Revenue

The statement of comprehensive income and as disclosed in Appendix I to the financial statements reflects revenue of Kshs.1,656,089,145 which includes sugar sales of Kshs.1,510,725,656. Review of monthly sales revealed that the Company made revenue of Kshs.29,112,200 and Kshs.15,141,140 from brown sugar and molasses respectively in the month of June, 2023. However, the aggregate amount of Kshs.44,253,340 was at variance with the computed revenue of Kshs.44,040,350 using the approved price list provided resulting to an unexplained variance of Kshs.212,990 as indicated below;

Product	Quantity in Tonnes	Ledger (Invoice) Amount (Kshs.)	Computed Amount (Kshs.)	Variance (Kshs.)
Brown Sugar	178	29,112,200	28,794,000	318,200
Molasses	575	15,141,140	15,246,350	(105,210)
	753	**44,253,340**	**44,040,350**	**212,990**

No prior year adjustment to correct the understatement had been made as prescribed by Regulation 23(1 d) of the Public Finance Management (National Government) Regulations, 2015 which requires that the Accounting Officers be accountable to the National Assembly for measures taken to prepare the financial reports that reflect a true and fair financial position of the entity.

In the circumstances, the accuracy and completeness of the sugar sales amounting to Kshs.1,510,725,656 could not be confirmed.

9. Unreconciled Payroll Records

As disclosed in Appendix II and III to the financial statements, the cost of sales and administrative expenses includes staff costs under factory, agricultural and administrative units of Kshs.233,911,309, Kshs.58,477,827 and Kshs.125,309,630 respectively totalling Kshs.417,698,765. However, the payroll records for permanent employees and schedules supporting wages to casual workers amounted to Kshs.494,827,104 resulting to an unexplained variance of Kshs.77,128,338. Further, Note 7 to the financial statements, reflects expenditure on staff costs of Kshs.473,625,343 against departmental cost totalling Kshs.417,698,765 resulting in a variance of Kshs.55,926,577 which had not been reconciled. In addition, no adjustments had been done to correct the variances contrary to IAS 1.15 which states that the financial statements must "present fairly" the financial position, financial performance and cash flows of an entity.

In the circumstances, the accuracy and completeness of staff costs could not be confirmed.

10. Unsupported Contractual Labour Cost

Review of payroll records and staff cost schedules revealed that contractual labour cost amounted to Kshs.19,545,731. However, the following unsatisfactory matters were noted:

(i) An amount of Kshs.108,000 (exclusive of VAT) was paid to a firm as professional fees for indirect tax training. However, procurement documents, including contractual agreement and/or LSO for the consultancy services were not presented for audit review. The terms of reference for the services could not be confirmed. Further, it not clear and the Management has not explained when the training took place.

(ii) Additionally, records provided for audit revealed that a firm made a claim against the Company for supply of (Cane Loader) Bell 125A at a cost of Kshs.348,000 whose two (2) invoices had not been settled. However, the payment records indicated a payment of Kshs.513,000 resulting into an unexplained variance of Kshs.164,000.

(iii) The staff costs further include a payment of Kshs.264,500 made to an individual dated 28 November, 2022 for hire of a 130HP Tractor. However, the payment was made vide a requisition from Agricultural Engineer dated 21 January, 2020 which falls under year ended 30 June, 2020. Further, it was not clear what criteria informed per hour dry rate of Kshs.2,300.

In the circumstances, the accuracy and validity of the contractual labour cost of Kshs.1,285,500 could not be confirmed.

11. Unsupported Legal and Professional Fees

The statement of comprehensive income and Appendix II to the financial statements, reflects administrative expenses of Kshs.478,630,212. Included in the expenses are legal and professional fees of Kshs.5,979,643. Review of the fee notes raised and payment records provided revealed that legal fees totalling Kshs.3,240,902 was paid in the year under review. However, the accuracy of the fee notes raised could not be confirmed since the type and magnitude of the cases could not be established as supporting documents were not provided for audit review. Similarly, there was no criteria to classify cases that could be handled by the internal advocates and those that required external advocates, exposing the Company to unnecessary extra-legal costs. In addition, Management did not provide an effective risk management program to enable the Company to avoid or minimize to a reasonable level, matters with high negative impact, which could expose it to huge legal costs.

Further, the legal and professional fees include an amount of consultancy fee of Kshs.2,738,741 made in favour of two (2) consultants. However, procurement documents including advertisements, tender evaluation and awarding process were not provided for audit review. It was therefore not possible to confirm how the consultants were identified and if proper procurement procedures were followed. This was contrary to Section 91(1) of the Public Procurement and Asset Disposal Act, 2015 which provides that open tendering shall be the preferred procurement method for procurement of goods, works and services.

In the circumstances, the accuracy and regularity of the legal fee expenditure amounting to Kshs.5,979,643 could not be confirmed.

12. Material Uncertainty Related to Going Concern

The statement of comprehensive income reflects a loss of Kshs.467,863,963 2021/2022 - loss Kshs.594,551,386 thus increasing the accumulated loss from Kshs.28,713,922,376 to Kshs.29,181,786,339 as at year end. Further, the current liabilities of Kshs.29,810,463,910 exceed the current assets of Kshs.869,409,322 resulting in a negative working capital of Kshs.28,941,054,588. However, this fact has not been disclosed in the notes to the financial statements as required under IAS 1:25 on presentation of financial statements.

The current ratio for the company has been decreasing over the years and has been lower than generally acceptable level of 1.00 indicating that the Company was not able to meet its current liabilities. Similarly, a higher debt to assets ratio, especially above 1.0 implies that the company is significantly funded by debt and may have difficulties in meeting its obligations when they fall due. Computation of the company's debt to assets ratio resulted to a ratio of 46.9113 up from 41.2804 in the financial year ended 30 June, 2022.

Further, Management has not demonstrated tangible measures being undertaken to reverse the negative trend which casts doubt on the Company's ability to sustain services in the foreseeable future.

In the circumstances, these conditions alongside other matters on profitability are indicative of the Company's inability to continue as a going concern.

13. Avoidable Interest on Delayed or Late Payments

Review of status report on litigation matters against Muhoroni Sugar Company revealed that thirty-seven (37) court cases were pending. The analysis revealed that the Company initially owed legal fees totalling Kshs.7,012,523. However, due to non-payment, the fees has escalated to Kshs.36,721,741 due to interest accrued of Kshs.29,709,218. The payment of interest on defrayment of delayed payments leads to loss of funds which could have been avoidable.

In the circumstances, the Company runs the risk of incurring significant unquantified interest costs and penalties with the continued delay in settling invoiced bills by litigants representing the Company.

14. Late Submission of Financial Statements

The financial statements for the year ended 30 June, 2023 were submitted to the Auditor-General on 04 December, 2023. This was contrary to Section 47(1) of the Public Audit Act, 2015 which requires that financial statements should be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.

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

15. Unauthorized Engagement of Delegated Auditors

Review of the financial records of the Company revealed that since the Government of Kenya took control of the Company in 1992, the accounts were submitted and audited by the Auditor-General till the financial year 1999/2000. The Company was placed under receivership in 2001 by National Bank of Kenya Limited and Kenya Sugar Board. The Receiver Managers appointed M/s Delloite & Touche to audit the financial statements from the financial year 2000/2001 to 2008/2009 when the bank was paid off by the Government through the Kenya Sugar Board. Kenya Sugar Board continued indicating that the Company was still under receivership and appointed two (2) of its employees as Receiver Managers. The Receiver Managers irregularly appointed M/s Mathenge & Associates to audit the financial statements for the financial years 2009/2010 to 2019/2020 without the approval of the Auditor-General in line with Section 23 of Public Audit Act, 2015 which requires that delegated auditors should be appointed with the knowledge, consent and approval of the Auditor-General, since Kenya Sugar Board was fully owned Government entity.

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

16. Incorporation Certificate

Review of the Articles of Association and Memorandum of Association revealed that Muhoroni Sugar Company Limited (MUSCO) was incorporated on the 18 October, 1961 as a private company limited by shares under the name East African Sugar Industries with registration No.C.8/61. The shares in the capital of the company were held by seven (7) shareholders with the share capital valued at Kshs.10,000,000 divided into 500,000 ordinary shares of Kshs.20 each. Although Management provided a certificate of change of name from East African Sugar Industries to Muhoroni Sugar Company Limited (MUSCO) company's ownership documents of the Company's assets including land were still under the name of East African Sugar Industries.

In the circumstances, the ownership of the assets of the Company could not be confirmed.

17. Unsupported Receivership Process

The Company was placed under joint receivership in March, 2001 by the then Kenya Sugar Board (a Directorate of Agriculture and Food Authority) and National Bank of Kenya (NBK) pursuant to debenture instruments registered under them with the main objective of preserving the assets awaiting the approved privatization process. Records of the Company revealed four (4) joint receiver managers have been appointed since 2001. However, documents which initiated the receivership process by the holder of the floating charge, Kenya Sugar Board and the terms of reference were not provided for audit review contrary to Section 534 of the Insolvency Act, 2015.

Further, no evidence was provided to confirm that the appointed receiver managers were insolvency practitioner's contrary to Section 526 of the Insolvency Act, 2015 which states that a person may be appointed as administrator of a company only if the person is an authorized insolvency practitioner.

In the circumstances, the regularity of the Company's receivership could not be confirmed.

18. Transfer of Land Lease

The statement of financial position reflects land net book value of Kshs.1,845,650,000 as disclosed at Note 9. Records provided on land and owner's rights over that land indicated that the Company owns five (5) parcels of land. However, Management did not provide for audit, ownership documents for one parcel of land measuring 1,786 acres. Although Management indicated that the title deed was misplaced, evidence of steps taken to replace the title deed were not provided. Further, three title deeds were not registered in the name of Muhoroni Sugar Company. No evidence was provided that ownership of the land had been reverted to the Company.

In the circumstances, valuation and ownership of the total land value of Kshs.1,845,650,000 could not be confirmed.

19. Allocation of Company's Land

Records provided for audit revealed that Muhoroni Sugar Company Limited, formerly East African Sugar Industries Limited originally owned 8,083 acres of Nucleus estate out of which 102.37 acres were allocated to Agrochemical Company Limited, 454 acres to squatters and 1,577.97 acres to third parties. Further, other parts of the land were donated to churches, County Government of Kisumu, Muhoroni Factory Primary School as part of Corporate Social Responsibility (CSR). No evidence was provided that the County Government signed a lease agreement with the Management. Management also indicated cases of encroachment by Koguta Clan through a claim that was determined by the National Lands Commission and Koketch Estate under Pombo Area. The Court matters had not been determined as at February, 2023 and ownership of the parcels could not be confirmed.

Documents provided by Management revealed that the 1,577.97 acres included 1,399.50 acres allocated to eighteen (18) individuals by authority of Agricultural Development Corporation (ADC) in the 1980s with the difference of 178.47 being road reserves and riparian land. Management explained that of the eighteen (18) allotees, fourteen (14) obtained title deeds and ownership changed hands. The land allocated to the four (4) allotees were exercised by the Company. It is not clear, and it has not been explained whether there was any benefit accruing to the Company on the land allocated to third parties as prescribed by Section 12(1) of the Lands Act, 2012 which states that the Commission may, on behalf of the National or County Governments, allocate public land by way of (a) public auction to the highest bidder at prevailing market value subject to and not less than the reserved price; (b) application confined to a targeted group of persons or groups in order to ameliorate their disadvantaged position. Although Management has requested the National Lands Commission to confirm the legality of these allotments as well as the squatters claim, any administrative and/or legal actions taken by National Lands Commission could not be confirmed.

In the circumstances, the actual land owned by the company could not be confirmed.

20. Irregular Payments for Goods before Delivery

Review of purchase orders and movement schedules under costs of sales revealed that during the year under review, prepaid customers' orders amounted to Kshs.143,193,082. The movement schedule revealed that as at 30 June, 2023, orders amounting to Kshs.115,130,019 had not been executed in terms of goods delivery or rendering of services. No explanation had been given for the failure by the supplier to supply or render services and no evidence had been provided of efforts being made by the Management to have the goods supplied or services rendered. This was contrary to Section 46 of the Public Procurement and Asset Disposal Act, 2015 which requires that no works, goods or services contract shall be paid for before they are executed or delivered and accepted by the Accounting Officer of a procuring entity. Further, the contract agreements were not provided to confirm that the advance payment was provided for in the contract.

In the circumstances, the payments made in respect of supplies and services which had not been delivered or rendered respectively were therefore irregular.

21. Staff Advances

As disclosed in Note 13 to the financial statements, the statement of financial position reflects net trade and other receivables balance of Kshs.390,492,491 which includes staff receivables balance of Kshs.16,196,987. However, review of the trade receivables analysis and related records revealed the following anomalies;

(i) Analysis of personnel records for the year ended 30 June, 2023 revealed that officers had been issued with salary advances of Kshs.1,371,903. However, advances totalling Kshs.452,403 had been outstanding for more than three (3) months contrary to Section 5.1.6.2 (VII) of the Human Resource Manual, 2015 which states the staff contingency advances is payable within three (3) months.

(ii) Further, seventeen (17) officers were issued multiple advances of Kshs.400,000 during the year under review before clearing the previous advance contrary Section 5.1.6.2 (VII) of the Human Resource Manual, 2015. No explanation was provided by Management for the anomaly.

In the circumstances, the recoverability of staff advances of Kshs.1,371,903 could not be confirmed.

22. Irregular Management and Control of Impressts

Review of the systems for the management, safeguarding and maintenance of temporary imprests records revealed the following anomalies;

(i) Examination of temporary imprest records revealed that outstanding imprests as at 30 June, 2023 amounted to Kshs.3,164,980 dating back from 2016. These imprests were, therefore, not accounted for or surrendered by the imprests holders within seven (7) working days after returning to duty station, contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015.

(ii) Several officers were issued with multiple imprests before surrendering previous imprest amounting to Kshs.2,761,270 contrary to Regulation 93(4) of the Public Finance Management (National Government) Regulations, 2015 which prohibits issue of new imprests to officers with outstanding imprest. No explanation was provided by Management for the anomaly.

(iii) Further, no evidence has been provided to show that the imprests are being recovered with interest from the defaulting officers' salaries as required by Regulation 93(6) of the Public Finance Management (National Government) Regulations, 2015.

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

23. Disclosure of Borrowings and Finance Costs

The statement financial position and Note 16 reflects borrowings balance of Kshs.9,689,313,375. However, the borrowings were reported under current liabilities which are non-current in nature contrary to Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: AG.3/88 Vol. VII (26) dated 09 May, 2023. Further, the statement of comprehensive income reflects a Nil balance in respect of net finance costs. However, the borrowings accrued interest as at 30 June, 2023.

In the circumstances, the presentation of the financial statements does not conform to IPSAS.

24. Non-Compliance with Procurement Procedures

The financial statements reflect cost of sales and administrative expenses of Kshs.1,669,080,368 and Kshs.478,630,212 respectively. However, the following anomalies were noted;

(i) Further Management made various accrued expenses of Kshs.29,188,520. However, the services were procured through direct procurement even though no evidence was provided that the conditions for use of the method as provided under Section 103(2) of the Public Procurement and Asset Disposal Act, 2015 had been met.

(ii) During the year under review, Management engaged four (4) firms to supply and deliver farm inputs and factory equipment. However, Management used request for quotation instead of open tender to procure the farm inputs and the machine whose costs were beyond the prescribed threshold of Kshs.3,000,000 for Request for Quotation. This was contrary to Regulation 26 of the Public Procurement and Asset Disposal Regulations, 2020 which states that the threshold matrix shall be as provided for in the second schedule.

(iii) The Management did not maintain a list of registered suppliers contrary to Section 71 of the Public Procurement and Asset Disposal Act, 2015 which requires that the Head of Procurement function to maintain and continuously update lists of registered suppliers, contractors and consultants in various specific categories of goods, works or services according to its procurement needs.

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

25. Staff Serving in Acting Capacity

Review of the payroll and human resources records revealed that one hundred and eighteen (118) officers were serving in acting positions for more than six (6) months and drawing acting allowances totalling Kshs.13,050,230. The Management attributed the failure to appoint the employees in substantive positions to the instructions issued by the Ministry of Agriculture, Livestock, Fisheries and Co-operatives through circular Ref: MOEALF&C/CS/ADM/30 dated 07 July, 2020, to the sugar millers that they should not hire any new employees or effect any new promotions or offer additional benefits other than what existing staff were then entitled to. However, this exceeded the statutory duration provided for in the Human Resource Policies and Procedures Manual for the Public Service, 2016 which states that an officer may be appointed in an acting capacity for a period of at least thirty (30) days but not exceeding a period of six months. Further, forty-three (43) permanent and casual employees were paid acting allowance in excess of the stipulated 20% of their basic salary contrary to Section C.14(1) of the HRM Policy Manual, 2016.

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

26. Staff Serving in Grades Higher than their Substantive Grades

Payroll records provided for audit review revealed that an officer drew acting allowance amounting to Ksh.187,500 while serving in acting capacity in his substantive Job Grade 8. This was in contravention of Section C.14(8) of the Public Service Commission Human Resource Policy and Procedures Manual, 2016 which prohibits paying of acting allowances for posts that fall within a common establishment. Additionally, sixty-nine (69) employees were serving in acting capacity without the requisite qualifications as per the job descriptions contrary to Section C.14(1) which requires legibility for officers to serve in acting capacity.

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

27. Staff Establishment

Review of payroll reports for the year under review revealed that two (2) officers in the positions of Agronomist and Planning Manager were earning higher basic salaries at Kshs.200,000 each than their entitlement of Kshs.62,450. Management did not explain why the officers were paid beyond their structured basic salary.

Further, review of payroll records and Management status reports indicated that the Company had a workforce of six hundred and thirty-three (633) officers in various cadres. However, there were variations between the staff in post and the approved establishment. The Management exceeded the approved staff establishment in various cadres by thirty-three (33) staff and understaffed other cadres by two hundred and sixty (260) staff. No justifiable explanation was provided for the overstaffing and understaffing of staff.

In the circumstances, internal controls on staffing were not effective.

28. Lack of Approved Human Resource Policy

Review of records revealed that Muhoroni Sugar Company had not developed and approved a human resource policy recruitment of casuals. This was contrary to OP/SCAC.9/21/I/I of 15 May, 2017 on HR Instruments which states that under those guidelines, the State Corporations Advisory Committee is required to provide advisory services to State Corporations in developing their own HR instruments and also approve the same.

In the circumstances, Management may not be able to prepare and manage its human resource needs in a changing business environment or successfully achieve its core mandate.

29. Lack of Approved Procurement Plan

The financial statements reflect cost of sales and administrative expenditures expenses which were incurred without a procurement plan contrary to Section 53(2) of the Public Procurement and Asset Disposal Act, 2015 which requires the Accounting Officer to prepare an annual procurement plan within the approved budget prior to commencement of each financial year as part of the annual budget preparation process.

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

30. Lack of a Strategic Plan

The Company did not have a current strategic plan as it had expired in June, 2017. Review of the expired plan indicates that the Company did not meet the set objectives including the expansion of factory crushing capacity from 2,200 tonnes of cane per day to 4,000 tonnes cane, annual plant maintenance, return of the company to profitability and expansion of nucleus estates. Management is yet to indicate when the Strategic Plan will be reviewed and approved which was contrary to Section 68(2)(g) of the Public Finance Management Act, 2012.

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

31. Unsupported Debentures

The Company was placed under joint receivership in March, 2001 by the then Kenya Sugar Board (now Agriculture and Food Authority) and National Bank of Kenya (NBK) pursuant to debenture instruments registered under them with the main objective of preserving the assets awaiting the approved privatization process. The NBK has since been paid off making the former Kenya Sugar Board (now AFA) the sole debenture holder valued at Kshs.2,272,723,286. However, the statement of financial position and as disclosed in Note16 to the financial statements reflects loans from Kenya Sugar Board at a principal of Kshs.2,584,819,292 resulting to a variance of Kshs.312,096,006 which had not been explained.

Further, the unsecured debentures were issued based on the future profitability of the Company and assets held. However, this basis to cushion the debenture holder against default is at risk since the Company is not a going concern.

In the circumstances, the debenture holder is at risk as the Company is not a going concern.

32. Lack of Standard Costing

The statement of comprehensive income reflects cost of sales amount of Kshs.1,669,080,368 which, as disclosed in Appendix II to the financial statements, includes an amount of Kshs.1,139,899,072 being the cost of cane supplied. Included in the cost of sales were factory and agricultural costs of Kshs.452,946,427 and Kshs.76,234,869 respectively. However, the following audit issues were noted:

(i) The Management apportioned staff costs at 56% to factory costs, 14% to agricultural costs and 30% under administration costs. However, the standard costings and an approved policy on cost apportionment of its main product, sugar was not provided for audit review. The unit cost that went into producing a kilogram of sugar and the basis of the apportioning staff costs to the departments could not be determined.

(ii) The Management indicated that they used process costing in calculating the cost of sales. However, the process was not supported by the actual activities as the direct labour costs in factory and agriculture departments were being apportioned to administration costs contrary to IAS 2 which states that costs of conversion of inventories include costs directly related to the units of production, such as direct labour.

(iii) The Management reported total cost of Kshs.1,194,497,343 of cane supplied. However, supporting schedules reviewed revealed that cane milled was valued Kshs.1,139,899,072 resulting to an unexplained cane loss valued at Kshs.54,598,271.

(iv) Records provided by Management indicated that the Company milled 283,521 tonnes of cane during the year under review and produced 19,632.16 tonnes of bagged sugar resulting to a conversion rate of 14.44 to 1 of the produced sugar. However, the ratio of 1:14.44 was below the Agriculture and Food Authority (AFA) recommended conversion ratio of 1:10.

In the circumstances, the efficiency of the factory was below the standards set by the Industry.

33. Valuation of Assets

The statement of financial position reflects property, plant and equipment value of Kshs.3,665,430,999 as disclosed in Note 9 to the financial statements. Review of the asset register maintained by the Company revealed that motor vehicles with historical cost of Kshs.63,989,653 had been fully depreciated to Nil book values. However, the assets were still in use and the Company continues to derive benefits and incurring operational costs on fuel and maintenance. Further, Management confirmed that the Company's assets were last revalued in October, 2019. However, the valuation assets report of Muhoroni Sugar Company was not adopted and approved by the Management and those charged with governance. Additionally, the adjustments of the assets were not supported with authorized journal entries.

In the circumstances, the value of property, plant and equipment balance reflected in the financial statements could not be confirmed.

34. Incomplete Fixed Assets Register

The statement of financial position reflects property, plant and equipment balance of Kshs.3,665,430,999 and as disclosed in Note 9 to the financial statements. However, the register of assets maintained and provided for audit review did not contain comprehensive details of the assets such as cost, disposals, depreciation, location of the asset, tagging and the officer responsible for each asset, among other details, as required under Regulation 143(2) of Public Finance Management Regulations, 2015 and the Treasury Circular 1 No.5/2020 of 25 February, 2020.

In the circumstances, the completeness and proper safeguard of the reported assets could not be confirmed.

35. Unconfirmed Ownership of Motor Vehicles

Included in property, plant and equipment historical cost of Kshs.4,040,870,053 reported under Note 9 to the financial statements are motor vehicles valued at Kshs.63,989,653. Review of the Company's vehicles register revealed that out of the eighty-six (86) vehicles only seven (7) had log books or 8%. Further, sixteen (16) of the vehicles either had the logbooks co-owned or under names of E.A Sugar Industries Limited or Kenya Sugar Board which is now Agriculture and Food Authority (AFA).

In the circumstances, the ownership of the motor vehicle could not be confirmed.

36. Grounded Motor Vehicles and Machinery

Review of the status of the Company's fleet of motor vehicles and machinery revealed that eighty-six (86) motor vehicles and heavy machinery were grounded with no indication of whether the vehicles would be repaired or disposed off as required by Section 163(1) of the Public Procurement and Asset Disposal Act, 2015 which provides guidelines and procedures for disposal of unserviceable, obsolete, or surplus stores, equipment or assets. Physical verification of the vehicles at the garage in February, 2024 confirmed that they were dilapidated and were way beyond their economic value. Additionally, one hundred and twelve (112) machinery and motor vehicles were scrapped, grounded and obsolete and were marked for disposal in July, 2007 by valuers. However, these assets had been lying in the field workshop for more than nine (9) years with no indication of whether there were plans to dispose them as they continue to depreciate in value. In addition, Management did not prepare an annual disposal plan.

In the circumstances, the effectiveness of mechanisms in safeguarding motor vehicles and machines could not be confirmed.

37. Management of Inventories

The statement of financial position and Note 12 to the financial statements reflects inventories net balance of Kshs.217,415,087. However, the Management did not provide a stock taking report or stock sheets in support of total carrying amount of inventories contrary to IAS 2:36 which states that the financial statements shall disclose the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity.

Further, the inventories balance of Kshs.217,415,087 is net of an impairment of Kshs.10,602,098 which the Management indicated were obsolete inventories. However, no annual asset disposal plan was provided for audit review.
In the circumstances, the basis of valuing the inventory totalling Kshs.217,415,087 could not be confirmed.

38. Internal Audit Function

During the year under review, no evidence was provided to confirm that Management discussed, adopted and implemented the internal audit report recommendations. Further, the Internal Audit Department had only three (3) staff as at 30 June, 2023 against an establishment of six (6) with only one (1) of the officers on permanent terms which is an indication that the Department was under-staffed.

In the circumstances, the effectiveness of the internal audit function could not be confirmed.

39. Provision of Impairment Allowances

As disclosed in Note 14 to the financial statements, the deferred farmers loans and debts nil balance is net of provision for doubtful debts of Kshs.872,344,647. However, the impairment allowance (provision) on the outstanding loan balance of Kshs.872,344,647 was not backed by any previous trend or Company policy contrary to IAS 37.14. Further, Management did not provide movement schedules of individual loans from the opening balance, additions during the year and repayments and interest to support the gross balance of Kshs.872,344,647.

In the circumstances, the accuracy and validity of deferred loans and debts could not be confirmed.

40. Contingent Liabilities

As disclosed in Note 20 to the financial statements, the Company had contingent liabilities arising from various litigations and claims, which disclosed several cases with potential total claim of Kshs.179,094,038 and others whose total claim was not provided for audit review. However, a breakdown of these liabilities indicating details of Court cases were not provided for audit review contrary to IAS 37.14 which states that a provision shall be recognized when a reliable estimate can be made of the amount of the obligation. Further, Management has indicated that liabilities are not likely to crystallize to warrant provision of contingent liabilities in the financial statements. However, the financial impact on the Company would be significant if the rulings are not in its favor.

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

41. Non-Inclusion of Statement of Comparison of Budget and Actual Amounts

Review of the financial statements revealed that the statement of comparison of budget and actual amounts has not been included contrary to the requirements of the reporting template prescribed by the Public Sector Accounting Standards Board (PSASB).

In the circumstances, the financial statements have not been prepared in conformity with the reporting template prescribed by the Public Sector Accounting Standards Board (PSASB).

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company or cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion on lawfulness and effectiveness in use of public resources, and on effectiveness of internal controls, risk management and governance.

I am independent of the Muhoroni Sugar Company Limited (In Receivership) Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

21 August, 2024

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 KSh	2022 KSh
REVENUE (APPENDIX I)		1,656,089,145	1,603,129,598
Fair value gain/ (loss) on growing produce	11	-	-
OPERATING INCOME		1,656,089,145	1,603,129,598
Cost of sales (Appendix I)		(1,669,080,368)	(2,098,326,827)
GROSS LOSS		(12,991,223)	(495,197,229)
Other operating income (Appendix II)		23,757,472	32,991,553
Grant income	4	-	166,461,577
Administrative expenses (Appendix III)		(478,630,212)	(298,807,287)
OPERATING LOSS BEFORE FINANCE COSTS		(467,863,963)	(594,551,386)
Net finance costs	5	-	-
LOSS BEFORE TAXATION	6	(467,863,963)	(594,551,386)
Taxation	8	-	-
LOSS FOR THE YEAR		(467,863,963)	(594,551,386)

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023

	Note	2023 KSh	2022 KSh
ASSETS			
NON - CURRENT ASSETS			
Property, plant and equipment	9	3,665,430,999	3,742,431,601
Investments	10	-	-
		3,665,430,999	3,742,431,601
CURRENT ASSETS			
Growing produce	11	254,228,570	200,667,118
Inventories	12	217,415,087	180,013,515
Trade and other receivables	13	390,492,491	482,590,834
Deferred farmers loans and debts	14	-	-
Cash and bank balances		7,273,174	6,509,219
		869,409,322	869,780,687
TOTAL ASSETS		4,534,840,321	4,612,212,288
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	15	55,741,920	55,741,920
Revaluation Reserve		3,850,420,831	3,850,420,831
Accumulated loss		(29,181,786,339)	(28,713,922,376)
Shareholders' deficit		(25,275,623,588)	(24,807,759,625)
NON - CURRENT LIABILITIES			
Borrowings	16	-	-
CURRENT LIABILITIES			
Borrowings	16	9,689,313,375	9,689,313,375
Trade and other payables	17	19,908,316,918	19,532,812,793
Due to related parties	18	212,833,616	197,845,745
		29,810,463,910	29,419,971,913
TOTAL EQUITY AND LIABILITIES		4,534,840,321	4,612,212,288

The financial statements on page 4 to 23 were approved by the Joint Receivers Managers on 17TH JUNE ....2024 and were signed by:

Joint Receiver Manager

IUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
TATEMENT OF CHANGES IN EQUITY
OR THE YEAR ENDED 30 JUNE 2023

	Note	Share capital	Revaluation Reserve	Accumulated loss	Total
		KSh	Kshs	KSh	KSh
)21					
t 1 July 2020		55,741,920	3,850,420,831	(28,262,604,461)	(24,356,441,710)
oss for the year	26	-	-	(594,551,386)	(594,551,386)
t 30 June 2022		55,741,920	3,850,420,831	(28,857,155,847)	(24,950,993,096)
)22					
t 1 July 2023		55,741,920	3,850,420,831	(28,857,155,847)	(24,950,993,096)
oss for the year		-	-	(467,863,963)	(467,863,963)
t 30 June 2023		55,741,920	3,850,420,831	(29,325,019,811)	(25,418,857,060)

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 KSh	2022 KSh
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash generated from operating activities	19	763,954	5,414,151
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	-	(5,250,635)
Net cash used in investing activities		-	(5,250,635)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings	16	-	-
Borrowings repaid	16	-	-
Net cash from financing activities		-	-
INCREASE IN CASH AND CASH EQUIVALENTS		763,954	163,516
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		6,509,220	6,345,705
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	19	7,273,175	6,509,220

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards.

Adoption of new and revised International Financial Reporting Standards

The company did not early-adopt new or amended standards or interpretations in 2023.

Basis of preparation

The financial statements are prepared on the historical cost basis of accounting as modified to include the revaluation of certain assets.

Revenue recognition

Sales of sugar and molasses are recognised upon delivery or collection of the products by customers and are stated net of taxes, levies and discounts.

Government grant income is recognised when there is reasonable assurance that the company will comply with any conditions attached to the grant and the grant will be received.

All other income earned by the company is recognised on the accrual basis.

Taxation

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on the straight-line method to write off the cost of the assets to their estimated residual values over their estimated useful lives. The annual rates in use are:

Freehold land	Nil
Roads and drainage (developments on land)	2.00%
Buildings	2.00%
Factory, plant and machinery	5.00%
Motor vehicles	25.00%
Tractors and trailers	20.00%
Agricultural equipment	20.00%
Office machines, furniture, fittings and equipment	7.50%
Computer and household equipment	33⅓%

1 ACCOUNTING POLICIES(Continued)

Inventories

Finished sugar and molasses inventories are stated at the lower of cost and net realisable value. Cost comprises expenditure directly incurred in the manufacturing process and an allocation of normal production overheads attributable to the process. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Sugar in process is converted to units of finished sugar at the estimated cane conversion rate for the year.

Sugarcane in yard is stated at cost.

Spares, fertilizers, chemicals and other consumable stores are stated at cost. Cost is calculated on the weighted average basis and includes the direct purchase cost, insurance, freight and other incidental costs.

Growing produce

Growing produce assets (cane plantations) are stated at fair values less estimated point-of-sale costs.

The fair value of growing cane is determined based on the present value of expected net cash flows. The fair value of harvested cane is determined based on the prices of cane existing in the market less point-of-sale costs.

Immature growing cane is valued at cost.

Financial instruments

Financial assets and financial liabilities are recognised in the company's statement of financial position when the company becomes a party to the contractual provisions of the instrument. The company has the following key financial instruments:

Trade and other receivables
Trade and other receivables are carried at their anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Impairment losses are recognised in the income statement after all efforts of recoverv have been exhausted.

Term deposits
Term deposits are stated at amortised cost.

Trade payables
Trade payables are stated at their nominal value.

Investments
Unquoted investments are stated at cost less provision for impairment where, in the opinion of the Joint Receivers Managers, there is a permanent diminution in value. Such diminution is charged to the income statement in the year in which it is identified.

Borrowings
Interest bearing loans are recorded at the proceeds received, net of direct costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on the accrual basis and are added to the carrying amount of the instrument to the extent that thev are not settled in the period in which thev arise.

1 ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

Deferred farmers loans and debts
Deferred farmers' loans and debts relate to advances and loans to cane growers for cane development and are carried at the anticipated realisable value. Impairment losses are recognised in the income statement whenever the carrying amount of the loans exceeds the recoverable amount.

Impairment

At each statement of financial position date, the company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the income statement whenever the carrying amount of the asset exceeds its recoverable amount

Cash and cash equivalents

For the purpose of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which were within three months to maturity when acquired; less advances from banks repayable within three months from the date of the advance.

Employee entitlements

Provision for staff leave pay
Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated monetary liability for annual leave as a result of services rendered by employees as at the balance sheet date.

Retirement benefits obligations

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme for which the company's obligation is limited to a specified contribution per employee per month. Currently, the contribution is limited to a maximum of KSh 200 per employee per month. The company's contributions are charged to the income statement in the year to which they relate

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2 CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

In the application of the company's accounting policies, which are described in note 1, the Joint Receiver Managers are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key areas of judgment and key sources of estimation uncertainty in applying the company's accounting policies are dealt with below:

Growing produce
In determining the fair value of growing produce, management uses estimates based on historical data relating to yields and prices of sugar. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce potential differences between estimates and actual experience. The significant assumptions used are set out in note 12.

Impairment losses
This involves determination of whether assets are impaired and requires an estimation of the value of the assets.

Property, plant and equipment
Critical estimates are made by the Joint Receiver Managers in determining the useful lives for property, plant and equipment.

Contingent liabilities
The company is exposed to various contingent liabilities in the normal course of business. The Joint Receiver Managers evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the Joint Receiver Managers" evaluation, a present obligation has been established.

3 GOING CONCERN

At 30 June 2020, the Company had a shareholders' deficit of KSh 25,527,050,584 (2022 - KSh 24,807,759,625). The financial statements have, however, been prepared on the going concern basis. This basis may not be appropriate considering that the company is under receivership. The validity of this assumption depends on the success of the various strategic measures the Joint Receiver Managers and the government have put in place to return the company to profitability as well as the company continuing to receive adequate financial support from the debenture holders and other providers of finance to enable it to pay its liabilities as they fall due for the foreseeable future. Should the company be unable to continue trading, adjustments will be required to restate the assets to their realisable values, to reclassify non current assets and long term liabilities to current liabilities and to provide for any further losses and liabilities that may arise.

As stated in the report of the Joint Receiver Managers, the government has, from May 2009, instituted the process of privatization. The Joint Receiver Managers are, therefore, confident that this will return the company to profitability and consequently, the financial statements have been prepared on a going concern basis.

	2023 KSh	2022 KSh
4 GRANT INCOME		
Government of Kenya non-reimbursable grant income	-	166,461,577

The grant represents direct payments by Government of Kenya to the company's cane and other suppliers.

	2023 KSh	2022 KSh
5 NET FINANCE COSTS		
Interest accrued on borrowings	-	-
6 LOSS BEFORE TAXATION		
Loss before taxation is arrived at after charging:		
Staff costs (note 7)	364,823,052	473,625,343
Depreciation of property, plant and equipment	77,000,602	77,000,602
Joint receiver managers fees and expenses	3,728,800	4,039,610
Auditors' remuneration – current year	3,500,000	7,083,600
7 STAFF COST		
Salaries and wages	362,465,277	466,122,253
Other staff costs	214,220	1,911,119
NSSF contributions	-	1,292,800
Medical expenses	2,143,555	4,294,170
	364,823,052	473,620,343

The average number of employees for the company during the year was 750 (2022: 821)

	2023 KSh	2022 KSh
8 TAXATION		
Tax charge	-	-

No tax liability has arisen due to losses made by the company.

	2023 KSh	2022 KSh
Deferred tax	-	-

No deferred tax has been recognised due to accumulated tax losses (Note 11).

9 PROPERTY, PLANT AND EQUIPMENT

Year ended 30 June 2023	Nil Freehold land KSh	2.00% Land Development KSh	2.00% Buildings KSh	5.00% Factory Plant and Machinery KSh	20.00% Heavy Mobile Machinery KSh	25.00% Motor Vehicles KSh	7.50% Other Equipment and Fixtures KSh	Total KSh
COST								
AT 1 JULY 2022	1,845,650,000	10,410,217	982,748,970	1,128,716,912	-	63,989,653	9,354,301	4,040,870,053
Additions								-
At 30 JUNE 2023	1,845,650,000	10,410,217	982,748,970	1,128,716,912	-	63,989,653	9,354,301	4,040,870,053
DEPRECIATION								
AT 1 JULY 2022	-	4,968,455	58,964,935	168,512,263	-	63,989,653	2,003,146	298,438,452
Charge for the period	-	208,204	19,654,979	56,435,846	-	-	701,573	77,000,602
At 30 JUNE 2023	-	5,176,659	78,619,914	224,948,109	-	63,989,653	2,704,719	375,439,054
NET BOOK VALUE								
At 30 JUNE 2023	1,845,650,000	5,233,558	904,129,056	903,768,803	-	-	6,649,582	3,665,430,999

Year ended 30 June 2022	Freehold land KSh	Land Development KSh	Buildings KSh	Factory Plant and Machinery KSh	Heavy Mobile Machinery KSh	Motor Vehicles KSh	Other Equipment and Fixtures KSh	Total KSh
COST								
AT 1 JULY 2021	1,845,650,000	9,577,147	982,748,970	1,124,299,347	-	63,989,653	9,354,301	4,035,619,418
Additions	-	833,070	-	4,417,565	-	-	-	5,250,635
At 30 JUNE 2022	1,845,650,000	10,410,217	982,748,970	1,128,716,912	-	63,989,653	9,354,301	4,040,870,053
DEPRECIATION								
AT 1 JULY 2021	-	4,760,251	39,309,956	112,076,417	-	63,989,653	1,301,573	221,437,850
Charge for the period	-	208,204	19,654,979	56,435,846	-	-	701,573	77,000,602
At 30 JUNE 2022	-	4,968,455	58,964,935	168,512,263	-	63,989,653	2,003,146	298,438,452
NET BOOK VALUE								
At 30 JUNE 2022	1,845,650,000	5,441,762	923,784,035	960,204,649	-	-	7,351,155	3,742,431,601

The assets of the company have been pledged as security for various loan facilities advanced to the company. The Kenya Sugar Board also has a floating charge over all the assets of the company for various loans granted to the company over the years (note 17).

The cost of land is for 6,038 acres initial held by the Company. 1,375 acres were transferred to various individuals in the 1980s and 1990s and no adjustments have been made in the Company's books to reflect the disposal.

	2023 KSh	2022 KSh
10 INVESTMENT		
Unquoted equity investment at cost	583,180	583,180
Less provision for impairment	(583,180)	(583,180)
	-	-

The unquoted equity investment relates to an investment of 29,159 shares in Kenya Grain Growers Co-operative Union Limited (now Kenya Farmers Association) at KSh 20 per share.

11 GROWING PRODUCE

	2023	2022
Standing cane crop:		
At the beginning of the year	200,667,118	166,363,514
Additions for the year at cost	76,112,757	48,427,671
	276,779,875	214,791,185
Decrease due to harvesting	(22,551,305)	(14,124,067)
	254,228,570	200,667,118
(Loss)/gain in fair value attributed to price change	-	-
(Loss)/gain in fair value attributed to physical change	-	-
Fair value (loss)/gain during the year	-	-
Carrying amount at end of the year	254,228,570	200,667,118
Net (loss)/gain on growing produce assets		
Standing cane crop	-	-

Significant assumptions made in determining the fair values of standing cane crop are:

a) The valuation is based on cane price of KSh 3,700 (2019 - KSh 3,800) per ton.
b) Cane of 6 months and below is assumed to be immature and has no determinable market value. Immature cane is stated at cost. Mature cane has been stated at fair value less point of sale costs.

Nucleus Estate growing cane is not insured against fire. No provision has been made in the financial statements for possible losses in the event of any burnt cane which cannot be salvaged.

	2023 KSh	2022 KSh
12 INVENTORIES		
Plant and machinery spares	218,378,752	146,801,965
Diesel stock	579,020	975,666
Petrol stock	(2,083,787)	(436,253)
Sugar and molasses	9,533,256	41,664,291
Cane in yard	1,609,944	1,609,944
	228,017,185	190,615,613
Less: Provision for obsolete inventories	(10,602,098)	(10,602,098)
	217,415,087	180,013,515

	2023 KSh	2022 KSh
13 TRADE AND OTHER RECEIVABLES		
Trade receivables	75,588,688	67,152,499
Other receivables	483,762,385	605,320,644
Deposits and prepayments	1,839,713	1,839,713
Staff receivables	(16,196,987)	(37,220,714)
	544,993,798	637,092,141
Less: provision for doubtful debts	(154,501,307)	(154,501,307)
	390,492,491	482,590,834

14 DEFFERED FARMERS LOANS AND DEBTS

	2023 KSh	2022 KSh
Total loans and debts receivable	872,344,647	872,344,647
Less provision for doubtful debts	(872,344,647)	(872,344,647)
	-	-

The deferred loans and debts comprise advances and loans to cane growers for cane development and are to be recovered from cane proceeds.

	2023 KSh	2022 KSh
15 SHARE CAPITAL		
Authorised, issued and fully paid: 2,787,096 ordinary shares of KSh 20 each	55,741,920	55,741,920

16 BORROWINGS

	Principal borrowings KSh	Interest accrued KSh	Total borrowings KSh	Total borrowings KSh
Loans issued by the Government of Kenya:				
a) Ministry of Finance-Treasury loans	2,442,598,412	1,519,627,527	3,962,225,939	3,962,225,939
b) Ministry of Agriculture	44,342,000	60,858,774	105,200,774	105,200,774
	2,486,940,412	1,580,486,301	4,067,426,713	4,067,426,713
Government of Kenya guaranteed loans :				
c) World Bank	151,049,893	288,788,514	439,838,407	439,838,407
d) Stork Sugar of Netherlands loans	302,528,309	575,091,337	877,619,646	877,619,646
e) Paris Club Rescheduled arrears	450,607,059	387,623,029	838,230,089	838,230,089
	904,185,261	1,251,502,880	2,155,688,141	2,155,688,141
Total Government of Kenya loans	3,391,125,673	2,831,989,181	6,223,114,854	6,223,114,854
Loans from Kenya Sugar Board				
f) Various	2,584,819,282	857,905,306	3,442,724,588	3,442,724,588
Total borrowings	5,975,944,955	3,689,894,487	9,665,839,443	9,665,839,443
Adjustment to loans to balance with Loan statements				
Due for settlement within 1 year			9,665,839,443	9,665,839,443
Due for settlement after 1 year			-	-

16 BORROWINGS (Continued…)

a) Ministry of Finance-Treasury loans totalling KSh 2,442,598,412 are not secured and were advanced to the Company at various dates as follows:

• Factory expansion loans of KSh 19,100,235 were disbursed in 1973 at 6% interest rate p.a. The loans were to be repaid over a period of 30 semi-annual instalments with the first instalment falling due on 1 July 1975.

• Cane development loan of KSh 5,000,000 was disbursed in 1993 at 12% p.a. interest rate, repayable in 20 equal semi-annual instalments commencing 31 December 1992.

• Farmers loan amounting to KSh 35,800,000 had no specified terms and conditions. However, it was agreed that the loan be adopted at 12% interest rate p.a. and be fully repaid by 31 March 2005.

• National Bank of Kenya loan amounting to KSh 2,382,698,177 relates to various overdrafts facilities advanced to the company over the years to meet working capital requirements paid off by the government in 1999 and 2007. The total amount is overdue.

b) Ministry of Agriculture loans totalling KSh 44,342,000 are not secured and were advanced at various dates and were to be used for cane development and factory rehabilitation as follows:
• Cane development loan of KSh 10,000,000 was advanced in 1977 to be repaid in 20 equal semi-annual instalments at 10.5% interest rate p.a. The first instalment was falling due on June 1983.
• Factory rehabilitation and modernisation loan of KSh 28,742,000 was advanced in 1988, and was to be repaid in 10 equal annual instalments, with the first instalment falling due on June 1991. The loan was at 11% interest
• The other cane development loan of KSh 5,600,000 was advanced in 1991 at 11% interest rate p.a., repayable in 20 equal semi-annual instalments. The first instalment was due in January 1991.

c) The World Bank loan was for sugar rehabilitation under the supervision of the Government of Kenya. The loan was advanced in 1984 at 10.51% and was repayable in 30 equal semi-annual instalments of KSh 5,034,996.43 commencing 15 July 1984 and was to be completed in July 1999. The loan was guaranteed by the Government of Kenya

d) The Stork Sugar of Netherlands loan was for factory renovation and modernisation. The loan was US$ 19,200,000 designated as KSh 302,528,310. It was advanced to the company in 1975 to be repaid at 10.5% interest rate. over a period of eight years. The loan was guaranteed by the Government of Kenya.

e) Paris Club Rescheduled Arrears of US$ 5,839,910 arose out of rescheduling of the various loan arrears in 1993 at the Paris Club. The loan was designated in US$ and has been revalued to KSh 450,607,060. The loan is subject to interest at 7% p.a. and is repayable in 14 equal semi-annual instalments of US$ 417,136 from 15 June 1994 to 15 December 2000. The loan was guaranteed by the Government of Kenya

f) The loans from Kenya Sugar Board (KSB) under the Sugar Development Fund (SDF) related to payments made by the Board in respect of cane development, purchase of agricultural equipment, factory rehabilitation and the payment of farmers' arrears. The loans were disbursed between the periods 1992 and 2017. The loans are secured by floating charges over all company assets and the interest rates range from 3% to 6% per annum

MOVEMENT IN BORROWINGS	2023 KSh	2022 KSh
At beginning of the year	9,689,313,375	9,689,313,375
Accrued interest	-	-
Exchange differences	-	-
Loans advanced	-	-
Loans repaid	-	-
At end of the year	9,689,313,375	9,689,313,375
	9,665,839,443	9,665,839,443
	23,473,932.70	23,473,933

17 TRADE AND OTHER PAYABLES

	2023 KSh	2022 KSh
Trade payables	1,188,690,503	1,374,728,488
Taxes, penalties and fines	16,715,674,187	16,235,047,671
Other payables and accruals	736,081,907	590,351,952
Statutory payables	852,009,447	937,685,455
Gratuity provision	380,444,440	363,029,793
Leave pay provision	35,416,434	35,416,434
	19,908,316,918	19,536,259,793

18 TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. During the year, the following transactions were entered into with related parties:

	2023 KSh	2022 KSh
a) Purchases from related parties		
Kenya Sugar Board		
Interest on loan	-	-

Kenya Sugar Board holds a charge over the assets of Muhoroni Sugar Company Ltd and has placed the company under statutory management.

	2023 KSh	2022 KSh
Miwani Sugar Company (1989)Limited (in Receivership)		
Purchase of milling cane	23,471,276	23,471,276

Miwani Sugar Company (1989)Limited (in Receivership) is related to Muhoroni Sugar Company Limited by way of common ownership and statutory management.

	2023 KSh	2022 KSh
b) Sales to related parties		
Agro Chemical and Food Company Limited		
Molasses	3,103,684	3,103,684

Agro Chemical and Food Company Limited is related to Muhoroni Sugar Company Limited by way of common ownership.

	2023 KSh	2022 KSh
c) Amounts due to related parties		
Miwani Sugar Company (1989)Limited (in Receivership)	212,833,616	197,845,745

Chemelil Sugar Company Limited is related to Muhoroni Sugar Company Limited by way of common ownership.

d) Compensation of key management personnel

The remuneration of the Joint Receiver Managers and other members of key management during the year was as follows:

	2023 KSh	2022 KSh
Joint receiver managers remuneration		
Fees and other emoluments	3,728,800	4,039,610
Other members of key management		
Salaries and other benefits	16,501,429	16,501,429

19 NOTES TO THE CASH FLOW STATEMENT

	2023 KSh	2022 KSh
a) Reconciliation of loss before taxation to cash generated from operations		
Loss before taxation	(467,863,963)	(594,551,386)
Depreciation	77,000,602	77,000,602
Finance costs on long term loans (note 4)	-	-
Loss before working capital changes	(390,863,362)	(517,550,784)
Working capital changes:		
Decrease in inventories	(37,401,572)	54,212,003
(Increase)/decrease in trade and other receivables	92,098,343	18,575,284
Decrease in growing produce	(53,561,452)	(34,303,604)
Increase in deferred farmers loans and debts	-	-
(Decrease)/increase in trade and other payables	375,504,125	468,558,457
Movement in related party balances	14,987,871	15,922,796
Cash generated from operations	763,954	5,414,151
b) Analysis of cash and cash equivalents		
Cash and bank balances	7,273,174	6,509,219

The overdraft is a book balance.

20 CONTINGENT LIABILITIES

The company faces several court cases currently in court, mainly from suppliers, employees, farmers and others.

1. The claims from 102 suppliers totalling to Kshs. 52,779,720.43 currently in court
2. The claims from 16 employees totallint to Ksh s125,742,159 currently in court
3. The claims from 10 farmers totalling to Kshs 572,159 currently in court
4. A land claim by Koguta Clan LR No 3977 and 3978 , currently in court

21 CAPITAL COMMITMENT

The company had no capital commitments as at 30 June 2023.

22 FINANCIAL RISK MANAGEMENT

The company's principal financial instruments comprise cash and cash equivalents, receivables and payables. These instruments arise directly from its operations. The company does not enter into derivative transactions.

The company's activities expose it to a variety of financial risks, including credit risk, liquidity risks, market risks and operational risks. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance. The Receivers/Managers have overall responsibility for the establishment and oversight of the company's risk management framework.

MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The objective of market risk management is to manage and control market risk exposure within acceptable levels, while optimizing on the return on the risk.

22 FINANCIAL RISK MANAGEMENT (Continued…)

(i) Interest rate risk
Interest rate risk is the risk that the future profitability and/or cash flows of financial instruments will fluctuate because of changes in the market interest rates. The company's policy is to manage its interest costs by relying primarily on overdraft facilities with its bankers. All other borrowings for specific projects or investments are negotiated on the basis of a fixed rate of interest. The company is therefore not significantly exposed to interest rate risk.

The interest movement in the financial asset is negligible and any sensitivity analysis on these instruments would not be representative of the inherent risks associated with the instruments.

(ii) Foreign currency exchange risk
Foreign exchange risk arises from future investment transactions and recognized assets and liabilities. The company's policy is to record transactions in foreign currencies at the rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange in effect at the reporting date. All gains or losses on changes in currency exchange rates are accounted for in the statement of profit or loss.

The company operates wholly in Kenya and its assets and liabilities are reported in local currency. The company had no significant foreign currency exposure as at 30 June 2023.

CREDIT RISK

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligation.

Credit risk arises from trade and other receivables, cash and cash equivalents held with banks and amounts due from related parties. The company allows credit facilities to customers with a high credit rating and also places funds with recognised financial institutions with strong credit ratings. In addition most of the customers pay in advance and therefore the company does not consider the credit risk exposure to be significant.

LIQUIDITY RISK

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations from its financial liabilities.

Management have arranged for diversified funding sources, both short term and long term, to meet the company's obligations as and when they fall due.

OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the company's operations.

The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

23 CAPITAL RISK MANAGEMENT

The primary objective of the company's capital management is to ensure that the company complies with capital requirements and maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The capital structure of the company consists of debt, which includes borrowings, cash and cash equivalents and equity which comprises issued capital and retained earnings. The company has continued receiving funding form the debenture holder, Kenya Sugar Board, for its capital requirements.

24 INCORPORATION AND ULTIMATE HOLDING ENTITY

The company is incorporated and domiciled in The Republic of Kenya under the Companies Act. It is a subsidiary of Agricultural Development Corporation, which is wholly owned by the Government of The Republic of Kenya. Agricultural Development Corporation is also incorporated and domiciled in The Republic of Kenya under the Agricultural Development Corporation Act and the State Corporations Act.

25 CURRENCY

These financial statement are prepared in Kenya Shillings(KSh).

26 PRIOR YEAR ADJUSTMENTS

The prior year adjustments relates to accrued interest on loan balances owed to or guaranteed by the Government of Kenya which had been suspended in 2009 following confirmation of the company's debt by Treasury in December 2012. The National Treasury has however issued a confirmation as at 30 June 2020 indicating interest accrued to that date. Interest for the period 2010 to 2019 has been recognised during the year necessitating restatement of prior year financial statements. The effect of the restatement on those financial statements is summarised below.

	Effect on year ended 30 June 2019 KSh
Effect on opening balances for the year ended 30 June 2019	
Increase in interest expense	3,022,998,063
Increase in exchange differences	139,515,846
	3,162,513,909
Increase in borrowings	3,162,513,909
Decrease in equity	(3,162,513,909)
Adjustments for 2019	
Increase in interest expense	335,888,674
Increase in exchange differences	7,289,960
	343,178,633
Total effect on 2019	
Total increase in borrowings	3,505,692,542
Total decrease in equity	(3,505,692,542)

APPENDIX I

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
DETAILED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2023

	Appendix	2023 KSh	2022 KSh
REVENUE			
Sugar sales		1,510,725,656	1,554,685,412
Molasses sales		145,363,489	48,443,093
Bagasse sales		-	1,093
Total sales		1,656,089,145	1,603,129,598
COST OF SALES			
Cane purchases	II	(1,139,899,072)	(1,201,070,380)
Factory costs	II	(452,946,427)	(642,809,478)
Agricultural costs	II	(76,234,869)	(87,985,391)
Inventory movement		-	-
		(1,669,080,368)	(1,931,865,249)
GROSS LOSS		(12,991,223)	(328,735,651)
Other operating income	II	23,757,472	32,991,553
Grant income		-	-
Administrative expenses	III	(478,630,212)	(298,807,287)
Finance costs		-	-
LOSS BEFORE TAXATION		(467,863,963)	(594,551,385)

Reconciliation of results based on actual cost of biological assets and agricultural produce was necessary so as to result at fair valuation of biological assets and agricultural produce:

	2023 KSh	2022 KSh
LOSS BEFORE TAXATION AS ABOVE	(467,863,963)	(594,551,385)
Fair value adjustment	-	-
LOSS BEFORE TAXATION AS PER INCOME STATEMENT	(467,863,963)	(594,551,385)

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
DETAILED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2023

	2023 KSh	2022 KSh
CANE PURCHASES		
Registered out growers cane	975,778,344	1,266,251,874
Nucleus estate cane	164,120,728	79,827,390
	1,139,899,072	1,346,079,263
FACTORY COSTS		
Staff costs	233,911,309	282,726,137
Other factory costs	42,153,149	32,916,186
Depreciation of factory plant and buildings	56,435,846	56,435,846
Stocks impairement	-	-
Plant spares and maintenance	62,889,802	213,462,420
Electricity and water costs	30,092,284	17,217,716
Fuels and lubricants	6,979,038	13,975,215
Packaging materials	20,485,000	26,075,959
	452,946,427	642,809,479
AGRICULTURAL COSTS		
Staff costs	58,477,827	71,462,068
Other agricultural costs	17,548,837	17,095,653
Depreciation of agricultural equipment	208,204	-
	76,234,869	88,557,720
OTHER OPERATING INCOME		
Other miscellaneous income	20,708,888	52,675,183
Land development and preparation	-	19,018,668
Cane transport	(4,973,288)	-
Seed cane sales	-	-
Milling cane	730,073	564,075
Sale of scrap metal	5,159,900	18,940
Interest on outgrowers	2,131,900	3,758,488
Winch recoveries	-	(6,228,444)
Hire of tractors and lorries	-	-
Interest income	-	-
	23,757,472	69,806,910

APPENDIX III

MUHORONI SUGAR COMPANY LIMITED (IN RECEIVERSHIP)
DETAILED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2023

ADMINISTRATIVE EXPENSES	2023 KSh	2022 KSh
Staff costs	125,309,630	151,460,430
Other costs	260,023,731	60,818,605
Joint Receivers Managers fees and expenses	3,728,800	4,039,610
Insurance	2,652,239	13,634,942
Interest and penalties on tax	-	5,197,736
Depreciation	20,356,552	20,356,552
Security	17,324,717	14,988,712
Gratuity provision	39,681,249	16,785,997
Leave pay provision movement	-	5,000
Bank charges	19,651	186,112
Provision for interest and penalties on overdue taxes		
Audit costs	3,500,000	7,083,600
Telephone and faxes	54,000	506,915
Legal and professional fees	5,979,643	3,743,076
	478,630,212	298,807,287

INTEREST AND PENALTIES ON OVERDUE TAXES

Provision for interest and penalties on overdue taxes	-	5,197,736