

REPORT OF THE AUDITOR-GENERAL ON SIMLAW SEEDS COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Simlaw Seeds Company Limited set out on pages 1 to 42, which comprise the statement of financial position as at 30 June 2018, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Simlaw Seeds Company Limited as at 30 June, 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (Accrual Basis) and comply with the companies Act,2015.

Basis for Qualified Opinion

1.0 Property, Plant and Equipment

1.1 Land

The property, plant and equipment net figure of Kshs.147,570,000 also includes land and buildings figure of Kshs.110,191,230 out of which an amount of Kshs.103,000,000 is in respect of the cost of company land reference number 209/4360/33 whose valuation documents were not made available for audit review. Consequently, the validity and accuracy of the land and buildings figure of Kshs.110,191,230 as at 30 June 2018 could not be confirmed.

1.2 Depreciation

Further, the total depreciation charge for the year figure of Kshs.7,702,000 does not include depreciation for the buildings since the company has not depreciated buildings despite it being a depreciable item under property, plant and equipment.

Under the circumstances, the accuracy and completeness of the depreciation expense for the year ended 30 June 2018 could not be confirmed.

1.3 Fixed Assets Register

Available information revealed that the fixed assets register has not been updated to include details such date of acquisition, location of assets, status of the asset and other relevant details. As a result, the asset status for the company assets could not be confirmed.

In view of the foregoing, the accuracy, completeness, valuation, security and custody of the property, plant and equipment balance of Kshs.147,570,000 could not be ascertained as at 30 June 2018.

2.0 Other Receivables

The statement of financial position as at 30 June 2018 reflects trade and other receivables balance of Kshs.229,572,000 which includes other receivables figure of Kshs.43,554,332 as disclosed under note 22 to the financial statement out of which an amount of Kshs.37,887,129 has been explained as unaccounted for inventories which resulted from the differences between physical count and stores records. However, a detailed analysis or report of the variances in the various stores items was not made available for audit review.

In consequence, the validity, accuracy, existence and recoverability of the balance of Kshs.37,887,129 in respect of unaccounted for inventories as at 30 June 2018 could not be confirmed.

3.0 Amounts due from other subsidiaries

Note 20(a) to the financial statements show net amounts due from other subsidiaries of Kshs.65,213,934. However, supporting schedules were not provided for audit verification. Under the circumstance, the validity and accuracy of the reported net balance of Kshs.65,213,934 due from other subsidiaries as at 30 June 2018 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Simlaw Seeds Company Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matter(s) described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1.0 Expenditure Analysis

During the year under, the company had an approved expenditure budget of Kshs.1,211,484,000 against actual expenditure of Kshs.1,355,907,000 resulting to expenditure of Kshs.144,423,000 or 12% over and above the approved budget as detailed below:

Expenditure	Approved budget	Actual	Over/ (Under) expenditure	% Under/(Over) performance
	Kshs'000	Kshs'000	Kshs'000	
Cost of Sales	917,261	1,094,315	(177,054)	(19)
Administrative Expenses	146,299	143,808	2,491	2
Selling and Distribution Expenses	47,779	38,026	9,753	20
Other Operating Expenses	72,664	64,569	8,095	11
Research and Development Costs	12,597	6,241	6,356	50
Finance Costs	14,884	8,948	5,936	40
Total	1,211,484	1,355,907	(144,423)	12

However, management did not provide board approval for the over-expenditure. Under the circumstances, the propriety of the expenditure of Kshs.144,423,000 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter(s) described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Procurement of security services

The statement of profit and loss and other comprehensive income for the year ended 30 June 2018 reflects operating expenses figure of Kshs.62,557,000 out of which Kshs.5,005,000 relates to security expenses as indicated in note 8 to the financial statements. A review of procurement processes revealed that sourcing of provision for security services was done by Kenya Seed Company Limited through a contact agreement entered into on 15 September 2017. However, no reason was provided for not carrying out the function internally.

2.0 Proposed additions and refurbishment of office in Kijabe Street-Nairobi

The statement of financial position as at 30 June 2018 reflects property, plant and equipment of Kshs.147, 570,000 which includes land and buildings of Kshs.110,192,000 out of which Kshs.16,799,830 was in respect of proposed additions and refurbishment of office at Kijabe Street-Nairobi. Available information revealed that the contract was awarded to a firm at a contract sum of Kshs.40,374,650 while another contract for design and produce architectural, structural, mechanical and electrical drawings, prepare bill of quantities and tender documents and supervisory work for the construction to a consultant at a contract sum of Kshs.2,668,000. The project was to be completed by 21 May 2018 after an earlier extension of 8 weeks

However, physical inspection on 21 February 2019 indicated that the project was incomplete but in use. No reason was provided for over 8 months delay from the expected completion date.

3.0 Long Outstanding Trade and Other Receivables

Note 22 to the financial statements disclose trade and other receivables balance of Kshs.229,572,000 which includes an amount of Kshs.38,811,584 as analysed below that has been outstanding for more than 2 years.

Item description	Amount (Kshs.)
Trade Receivables	27,673,143.71
Growers Receivable	1,655,397.67
Staff Receivables	9,483,042.21
Total	38,811,583.59

There was no evidence of any measure instituted by management to ensure that the debts are recovered.

Although management has explained that they have instituted law suits against defaulters, sending monthly statements and blocking accounts for this category of clients, no documentary evidence has been provided to this effect. Consequently, the validity and recoverability of the Kshs.38,811,584 trade receivables figure could not be confirmed.

4.0 Long outstanding amounts due from related parties

Note 20(b) to the financial statements shows long outstanding amounts due from related parties of Kshs.11,931,000 out of which an amount of Kshs.14,299,000 has been outstanding since 1 July 2014. Consequently, the validity and recoverability of the Kshs.14,299,000 amounts due from related parties figure could not be ascertained.

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

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter(s) described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1.0 Lack of Company's Internal Audit Arrangements

Available information revealed that the company does not have its own established internal audit and audit committee but functions are performed by auditors and audit committee of Kenya Seed Company Limited. No reason was provided for not establishing an internal audit function as required by section 162 of the PFMR, 2016.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the companies Act,2015, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. in my opinion, adequate accounting records have been kept by the Simlaw Seeds Company Limited so far as appears from the examination of those records; and,
- iii. The Simlaw Seeds Company Limited financial statements are in agreement with the accounting records and returns.

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 (Accrual Basis) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error 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 Simlaw Seeds Company Limited ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the National Government either intends to liquidate the Simlaw Seeds Company Limited or to cease operations, or have no realistic alternative but to do so.

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Simlaw Seeds Company Limited ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence

obtained up to the date of my audit report. However, future events or conditions may cause the Simlaw Seeds Company Limited to cease to continue as a going concern or to sustain its services.

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

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

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



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

Nairobi

23 May 2019