

REPORT OF THE AUDITOR-GENERAL ON SIMLAW SEEDS COMPANY (U) LTD 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 (U) Ltd set out on pages 1 to 34, which comprise the statement of financial position as at 30 June 2018, and the statement of profit or 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 (U) Ltd 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 Public Finance Management Act and the Kenya companies Act,2015.

Basis for Qualified Opinion

1.0 Accuracy, Completeness and presentation of the financial statements

1.1 Presentation of Financial Statements

The financial statements presented for audit revealed the following:

- (i) The statement of profit or loss and other comprehensive income reflects profit for the year of Ushs.107,325,910 which has been arrived at after deducting finance costs of Ushs.43,160,944 contrary to the requirements of International Public Sector Accounting Standards

In the circumstance, the financial statements are not in line with the International Public Sector Accounting Standards.

1.2 Unsupported Adjustments to financial statements

The adjustments detailed below, have been made to the financial statements originally submitted for audit for the year ended 30 June 2018;

Item description	Balance as per original submitted financial statements	Balance as per amended financial statements
	Ushs.	Ushs.
Trade and other receivables	1,533,028,374	1,687,969,633
Trade and other payables	2,382,297,572	2,520,291,058
Long Term Liabilities	3,375,214,080	3,422,355,745
Administrative expenses	1,164,693,957	1,554,692,666

However, approved journal vouchers were not provided in support of these adjustments.

In view of the foregoing, the completeness, validity and accuracy of the financial statements for the year ended 30 June 2018 could not be ascertained.

2.0 Unsupported Procurements

Note 6 to the financial statements reflects purchases figure of Ushs.8,941,613,578 during the year under review. However, the signed contracts between the Company and suppliers were not made available for audit scrutiny.

Consequently, the validity, fair competition and accuracy of the purchases figure of Ushs.8,941,613,578 could not be confirmed.

3.0 Un supported Amounts due to Related Parties

The statement of financial position as at 30 June 2018 reflects amounts due to related parties balance of Ushs.3,422,355,745 as disclosed in note 19(a) to the financial statements. However, management did not provide for audit review supporting documents for this balance.

In consequence, the accuracy, validity and completeness of the amounts due to related parties balance of Ushs.3,422,355,745 as at 30 June 2018 could not be confirmed.

4.0 Land Valuation

The statement of financial position as at 30 June 2018 reflects property, plant and equipment of Ushs.939,433,474 which includes a parcel of land valued at Ushs.815,231,700 procured during the year under review, as detailed below;

Date	Transaction	Detail	Amount (Ushs.)
15/8/2017	Land purchase	Land	792,550,000
23/8/2017	Legal fees	Land	8,260,000
16/4/2018	Fencing work at Namanve	Fence	11,201,000

Date	Transaction	Detail	Amount (Ushs.)
30/5/2018	Fencing work at Jinja	Fence	3,220,700
	Total		815,231,700.00

However, the pre purchase valuation report has not been made available for audit review. Although management has explained that the land was procured on willing buyer willing seller basis, it is not possible to confirm that value for money was obtained in the procurement of land.

As a result, the value of land included in property ,plant and equipment balance of Ushs.939,433,474 could not be ascertained as being fairly stated.

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

Key Audit Matters

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

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/ Qualified Opinion 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 Rents and Rates

The statement of profit and other comprehensive income for the year ended 30 June 2018 reflects other operating figure of Ushs.405,648,560 which includes rent and rates figure of Ushs.326,767,136 as disclosed under note 19 to the financial statements. Available information revealed that included in the rent and rates figure of Ushs.326,767,135.53 is Ushs.8,745,000 in respect of lease for the company branch office located at Kapchorua

whose lease agreement was not provided for audit review. Consequently, the propriety of the expenditure of Ushs.8,744,999.97 for the year ended 30 June 2018 could be confirmed.

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/Qualified Opinion 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 Internal Control Environment

The company does not have a formally approved ICT Policy. In addition, a review of available records indicated that internal audit function is 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 Public Finance Management Regulations, 2016.

2.0 Lack of approved staff establishment

The statement of profit or loss and other comprehensive income reflects administrative expenses of Ushs.1,554,692,666 which includes Wages and salaries of Ushs.580,036,069 which has not been supported by an approved staff establishment.

3.0 Lack of strategic plan

The company does not have a strategic plan, company policies like Human Resources Management Policy, Procurement Policy, financial management policy and other policies.

4.0 Payment Vouchers and Stock control cards

Although the company maintains stock control cards and uses payment vouchers, the same are not serially numbered.

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 Kenya 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 (U) Ltd, so far as appears from the examination of those records; and,
- iii. The Simlaw Seeds Company (U) Ltd 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 (U) Ltd 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 management either intends to liquidate the Simlaw Seeds Company (U) Ltd 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 (U) Ltd 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 (U) Ltd 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 (U) Ltd 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 (U) Ltd 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 (U) Ltd 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

21 May 2019