

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

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

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

### **Basis for Qualified Opinion**

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

The property, plant and equipment balance of Kshs.4,463,808 as at 30 June 2018 excludes as similarly reported in the past, undetermined value of land without title on which the Company's buildings are located in Ahero, Kisumu County. It has not been possible therefore to confirm legal ownership of the land and whether the carrying amount as stated in the financial statements, reflects the fair value of property, plant and equipment as at 30 June 2018.

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

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

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

#### **3. Unsupported Receivables**

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

#### **4. Share Capital**

The statement of financial position as at 30 June 2018 reflects share capital of Kshs.35,049,935 whereas records available at the registrar of Companies reflect shares amounting to Kshs.32,428,860 thus, resulting in a difference of Kshs.2,621,075. Although the management has explained that the difference is as a result of shares acquired by farmers which are however not reflected in the Registrar's records, no evidence has been presented for the audit to confirm the management's assertion.

In the circumstances, it has not been possible to confirm the accuracy and validity of the additional increase in share capital of Kshs.2,621,075 as at 30 June 2018.

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections, I have determined that there are no other key audit matters to communicate in my report.

## **Other Information**

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

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

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

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

### **Conclusion**

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

### **Basis for Conclusion**

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

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

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

As a result, productivity has remained low in the face of rising competition from other millers.

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

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

### **Conclusion**

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

### **Basis for Conclusion**

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

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

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

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion,

forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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



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

**Nairobi**

**22 March 2019**



