

REPORT OF THE AUDITOR-GENERAL ON WESTERN KENYA RICE MILLS LTD FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Western Kenya Rice Mills Ltd set out on pages 1 to 22, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of cash flows and statement of comparative 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 Western Kenya Rice Mills Ltd as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion, Emphasis of Matter and Other Matter sections of my report, I confirm that public money has been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Property, Plant and Equipment

As previously reported, the property, plant and equipment balance of Kshs.5,020.010 as at 30 June 2017 excludes the 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 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 2017.

2. Current Liabilities - Long Outstanding Tax Remittance

As previously reported, the total current liabilities balance of Kshs.38,965,553 as at 30 June 2017 includes unpaid provision for tax on profits made during earlier years totaling Kshs.10,440,516.51 dating back to the year 1996. However, penalties and interest in respect of the unpaid taxes have not been provided for in the financial statements. This has, in effect, overstated the profits, the retained earnings and tax provision for the year.

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

3. Share Capital

As previously reported, the financial statements reflect share capital of Kshs.35,049,935 whereas records available at the registrar of Companies reflect shares valued at Kshs.32,428,860 thus resulting in an unexplained 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 Kshs.35,049,935 share capital balance as at 30 June 2017.

4. Going Concern

As reported in the previous year, the statement of comprehensive income shows a loss of Kshs.6,690,842 for the year ended 30 June 2016 and Kshs.6, 881,340 for the year under review. Further, current assets and current liabilities amounting to Kshs.20,001,039 and Kshs.38,965,553 respectively thus resulting in a negative working capital balance of Kshs.18,964,514 as at 30 June 2017 an even more precarious position than 30 June 2016 when the balance was Kshs.12,639,375.

Further, the liquidity ratio of the Company is 0.51 which means the current liabilities of the company are more than its current assets and as such the Company would not be able to meet its short term obligations.

In the circumstances, the going concern status of the Company is doubtful and its operations are dependent on support from its creditors and the National Government.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of my report. 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.

Emphasis of Matter

Milling Income- under-absorption

I draw your attention to the Company's income statement which disclosed an amount of Kshs.155,618.00 from milling income against a budget of Kshs.1,225,000.00 and against

prior year performance of Kshs.594,122.00 thus representing a 74% drop in milling income and under absorption of 87% against the budget. The audit revealed that the Company has not yet taken aggressive measures to improve its productivity despite it being already aware that the type of machinery it uses is inefficient. As a result, productivity has remained low in the face of rising competition from other millers.

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, Emphasis of Matter and Other Matter sections of my report, I have determined that there are no Key Audit Matters to communicate in my report

Other Matter

Board Expenses

During the year under review, the Company held only one meeting contrary to section 8 of the State Corporations Act, Cap 446 of the Laws of Kenya which stipulates that a minimum of four (4) Board meetings be held in each financial year. In the absence of board meetings, it has not been clear how the strategic policy and governance issues of the Company were managed.

Responsibilities of Management and those Charged with Governance for the Financial Statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (Accrual Basis) and for such 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.

In preparing the financial statements, management is responsible for assessing the company's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the company 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.

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

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due 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 of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate 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 our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the General Manager.
- Conclude on the appropriateness of the General Manager use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the General Manager 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 General Manager with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with him 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

30 May 2018