

REPORT OF THE AUDITOR-GENERAL ON WESTERN KENYA RICE MILLS LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

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 22, which comprise the statement of financial position as at 30 June, 2019, 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 matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Western Kenya Rice Mills Limited as at 30 June, 2019 and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Kenyan Companies Act, 2015 and the Public Finance Management Act, 2012

Basis for Qualified Opinion

1. Material Uncertainty in Relation to Going Concern

The statement of profit and loss and other comprehensive income reflects a loss of Kshs.8,093,688 for the year ended 30 June, 2019 (2018: losses of Kshs.2,646,388). The statement of financial position similarly reflects a negative retained earnings balance of Kshs.67,579,281 as at 30 June, 2019 (2018: negative balances of Kshs.51,576,126).

The above is an indication of the existence of a material uncertainty which casts 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 receive financial support from the holding company 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 performance have not been disclosed in the notes to the financial statements.

In the circumstances, the continued existence of the Company as a going concern could not be confirmed.

2. Property, Plant and Equipment

As disclosed in Note 2 to the financial statements, the statement of financial position reflects property, plant and equipment amounting to Kshs.3,215,104. As reported in the previous year the balance excludes, undetermined value of land without title on which the Company's buildings are located in Ahero, Kisumu County. The building which hosts the offices has physical cracks on the walls and had been condemned by health officials in 2016 but the company continue to keep it under occupation. It has not been possible therefore to confirm legal ownership of the land.

Under the circumstances it was not possible to confirm the fair value of property, plant and equipment as at 30 June, 2019.

3. Unconfirmed Inventories

As disclosed in Note 3 to the financial statements, the statement of financial position reflects inventories balance of Kshs.3,965,840, an increase of Kshs.3,088,572 from last year's balance of Kshs.877,268. Examination of stock sheets revealed that although the stock items were itemized according to type of stock, the detailed values were not provided.

Under the circumstances, the completeness and accuracy of the inventories balance of Kshs.3,965,840 could not be ascertained.

4. Unconfirmed Share Capital

As disclosed in Note 6 to the financial statements, the statement of financial position reflects share capital balance of Kshs.35,049,935 while records at the Registrar of Companies reflects shares amounting to Kshs.32,728,600 resulting to a difference of Kshs.2,321,335. Although the Management has attributed the difference to shares acquired by farmers which are however not reflected in the Registrar's records, no evidence has been provided to confirm the assertion.

In the circumstances, the accuracy, value and completeness of the share capital balance of Kshs.35,049,935 could not be confirmed.

5. Unsupported Retained Earnings

As disclosed in Note 7 to the financial statements, the statement of financial position reflects a deficit of Kshs.67,579,281 under retained earnings, which includes an amount of Kshs.7,909,467 described as prior year adjustment. No supporting documentation was provided to support the adjustment.

Further, the schedules provided for audit reflect a deficit of Kshs.66,232,378 which differs with the amount disclosed in these financial statements of Kshs.67,579,281 by Kshs.1,346,903. The difference between the two sets of records have not been reconciled or explained.

Consequently, the completeness and accuracy of retained earnings could not be confirmed.

6. Long Outstanding Tax Remittance

As disclosed in Note 8 to the financial statements, the statement of financial position reflects non-current liabilities balance of Kshs.10,440,517 against a tax liability as at 30 June, 2019 which has been outstanding for long. The amount includes unpaid provision for tax on profits made during earlier years dating back to 1996. However, penalties and interest in respect of the unpaid taxes have not been provided for in the financial statements. This has, in effect, understated the tax provision and loss for the year. Further, Management has not explained the reasons for reclassification of the amount from a current liability to non-current liability.

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

7. Variances in Inter Company Transactions

As disclosed in Note 9 to the financial statements, the statement of financial position reflects a balance of Kshs.33,482,549. The amount relates to transactions between the company and its holding company, National Irrigation Board (NIB). However, the National Irrigation Board financial statements reflects an amount of Kshs.81,244,791, resulting to an unexplained variance of Kshs.47,762,242.

Consequently, the accuracy and completeness of the NIB current Account balance of Kshs.33,482,549 could not be ascertained.

8. Failure to Settle Long Outstanding Liabilities

As disclosed in Note 10 to the financial statements, the statement of financial position reflects a balance of Kshs.1,752,387 under trade and other payables which includes trade payables, others payables and audit fee dues.

No reason has been provided for the failure to settle the outstanding balances.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Western Kenya Rice Mills Ltd 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. 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. There were no key audit matters to report in the year under review.

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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources 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

Reduction in Performance and Productivity

As disclosed in Note 11 to the financial statements, the statement of profit and loss and other comprehensive income reflects a turnover of Kshs.7,108,484 representing a drop of Kshs.17,689,566 or about 71% from the previous year's turnover of Kshs.24,798,050. Further, during the year under review, the Company earned Kshs.5,937,100 from sindano rice sales against prior year's performance of Kshs.16,122,620, representing a 63% drop in milling income.

The Company has not taken measures to improve its productivity. This is despite the fact that the mill has sufficient milling capacity, enough drying floor facilities, enough storage and the rice schemes have potential for expansion of paddy which is the raw material for the Mill.

Consequently, the effectiveness in the use of public resources could not 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 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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and overall 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, accounting records have been kept by the Company, so far as appears from the examination of those records; and
- (iii) The Company's financial statements are in agreement with records;

Responsibilities of Management and Board of Directors

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 control as the 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 overall governance.

In preparing the financial statements, the 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 to 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, the 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.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Company's 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 overall 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 overall 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 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 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 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 Company 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 the 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

30 December, 2021