

REPORT OF THE AUDITOR-GENERAL ON WAREHOUSE RECEIPT SYSTEM COUNCIL FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Warehouse Receipt System Council set out on pages 1 to 26, which comprise of the statement of financial position for the year ended 30 June, 2023, and the statement of financial performance, statement of changes in net assets, 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 statements of Warehouse Receipt System Council for the year ended 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Warehouse Receipt System Act, 2019 and the Public Financial Management Act, 2012.

Basis for Qualified Opinion

Long Outstanding Payables

The statement of financial position reflects trade and other payables balance of Kshs.5,716,076 as disclosed in Note 19 to the financial statements. Included in the balance are payables amounting to Kshs.1,495,996 that remained unpaid for more than a year. No explanation has been given by Management for the failure to settle the outstanding payables.

In the circumstances, the accuracy and fair presentation of the current payables balance of Kshs.5,716,076 could not be confirmed.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total expenses budget and actual on comparable basis of Kshs.45,760,000 and Kshs.55,901,435 respectively, resulting to an over-expenditure of Kshs.10,141,435 or 22% of the budget, without approval nor explanation.

The over-expenditure of Kshs.10,141,435 without approval is against the budgetary control requirement that the over/under-expenditure of 10% and above should be explained.

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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

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 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. Irregular Payment of Entertainment and Responsibility Allowances

The statement of financial performance and Note 11 to the financial statement reflect employee costs of Kshs.16,423,233 which includes entertainment allowance and responsibility allowance of Kshs.1,080,000 and Kshs.1,038,000 respectively. The amounts were paid to staff as part of their salary during the period under review. However, the allowances were not included in the employees' contractual terms and the Management did not provide an approval or explanation for the payments of the allowances. This was in contravention Regulation 105(1) of the Public Finance Management (National Regulation) ,2015 which states that, An Accounting Officer or any other officer delegated in writing by him or her may authorize payment vouchers on his or her behalf for expenditure chargeable to his or her vote, provided such expenditure is in respect of and within the provision of the services in a National Treasury warrant, in accordance with law, regulations, tariff, contract or agreement that may be applicable, and does not require special authority in terms of any law, regulation or National Treasury instruction.

In the circumstances, the Council was in contravention of the law.

2. Inactive Central Registry System

Section 12 of the Warehouse Receipt System Act, 2019 requires the Council to establish a registry system. The Council leased a registry system from East African Grain Council. However, the system has not integrated a clearing and settlement system as required by the Act. Further, the Act required the system to be supported by a disaster recovery and business continuity plans which were not provided for audit review.

In the circumstances, the Council is in breach of the law.

3. Lack of Appointment of Inspectors

Section 32 of the Warehouse Receipt System Act, 2019 requires the Council to appoint qualified persons by name or office to position of inspectors to carry out the inspection of the warehouse operators' premises and business for the purposes of the Act and the Regulations. However, the Council has not appointed the inspectors.

In the circumstances, the Council was in breach of the law.

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 Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else 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. Under-Staffing of the Council

The staff establishment of the Council provides for eighty-nine (89) employees. However, review of the council payroll revealed that the council has twenty-four (24) employees and out of these fourteen (14) were on contract and ten (10) are deployed from other Government Agencies. Thus, the council has not substantially filled all the posts.

In the circumstances, the council may fail to achieve its mandate due to understaffing and is in breach of the establishment requirements.

2. Low uptake of Warehouse Receipting System

Field verification to licensed warehouses and Cooperatives in Uasin Gishu, Trans-Nzoia, Kakamega and Bungoma Counties in the month of December, 2023 revealed that there were no commodities deposited in the warehouses by farmers or farmer groups. In addition, an interview with the farmers revealed the following challenges;

- i. Farmers were turned away with maize that did not meet specified grades.
- ii. Middlemen are readily offering lucrative prices for maize therefore farmers have no need for storing their produce.
- iii. The lengthy process of certifying and licensing warehouses has discouraged farmers from depositing grains at their local stores.
- iv. There's high transportation cost to the licensed warehouses.
- v. Farmers have stores at home therefore may not adopt the initiative.
- vi. High cost of maintaining warehouse operations compared to the yields.
- vii. Lack of WRSC staff in the counties hinders engagement.

Further, only two (2) warehouses operators were licensed, and they operate six (6) warehouses in the entire country, for the over three years that the Council has been in operation. This signals slow uptake of the receipt system or lack of aggressive sensitization and implementation of the system.

In the circumstances, effectiveness and sustainability of the Council services is doubtful.

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 effective 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.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls 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 Council ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the services or cease its 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, 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 Council 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 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 controls 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 controls would not necessarily disclose all matters in the internal controls 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 controls 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 controls.

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 applicable 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 council ability to continue 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 council to cease to continue 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 Council 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 controls 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 Nancy Gathungu CBS
AUDITOR-GENERAL

Nairobi

19 February, 2024