REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

MWEA RICE MILLS LIMITED

FOR THE YEAR ENDED 30 JUNE, 2025

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

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HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON MWEA RICE MILLS LIMITED FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

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

A. Report on 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 the 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 the Government achieves value for money and that such funds are applied for the intended purpose; and,

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, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

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 Mwea Rice Mills Limited set out on pages 1 to 48, which comprise of the statement of financial position as at 30 June, 2025, 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 Mwea Rice Mills Limited at 30 June, 2025 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 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in Other Income

The statement of profit or loss and other comprehensive income reflects other income of Kshs.32,288,648 which includes investment income of Kshs.25,855,932 as disclosed in Note 9 to the financial statement. The income relates to rental proceeds earned from two properties owned by the Company and located within Nairobi County. Review of the tenancy and lease agreements indicated that the total rental income expected for the year under review was Kshs.24,827,589. However, an amount of Kshs.25,855,932 was recognized as income in the financial statements resulting in a variance of Kshs.1,028,343 which has not been explained or reconciled.

In the circumstances, the accuracy and completeness of investment income amount of Kshs.25,855,932 could not be confirmed.

2. Unsupported Long Outstanding Staff Receivable

The statement of financial position reflects trade and other receivables balance of Kshs.12,652,705 which includes staff receivables balance of Kshs.1,653,300 as disclosed in Note 19 to the financial statements. Review of the balance revealed that it relates to staff imprests that had remained outstanding for a long period. Further, Management did not provide the imprest warrants and approvals to support the amounts advanced to the members of staff.

In the circumstances, the accuracy and completeness of staff receivables balance of Kshs.1,653,300 could not be confirmed.

3. Irregularities in Trade and other Payables

The statement of financial position reflects trade and other payables balance of Kshs.45,765,546. However, Note 28 to the financial statements discloses trade and other payables balance of Kshs.56,669,884 leading to unexplained and unreconciled variance of Kshs.10,904,338. In addition, trade and other payables balance includes Kshs.37,366,906 payable to the National Irrigation Authority for administration and accountancy fees. Review of the administration and accountancy fee agreement between Mwea Rice Mills Limited and the National Irrigation Authority revealed that Mwea Rice Mills Limited is required to remit an amount equivalent to 3% of its total turnover at the end of each financial year to the National Irrigation Authority. However, the liability has remained outstanding for an extended period and no explanation was provided for the non-clearance of the debt.

In the circumstances, the accuracy, completeness and regularity of trade and other payables balance of Kshs.45,739,581 could not be confirmed. In addition, the Management was in breach of the law.

4. Inaccuracies in the Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects an original and final revenue and expenditure budget of Kshs.128,000,000 and Kshs.90,000,000 respectively. Further, the statement did not reflect the capital budget. However, examination of a Board Paper revealed that the Board had approved a revenue budget of Kshs.130,627,872, an expenditure budget of Kshs.73,261,801 and a capital budget of Kshs.90,025,000. This was confirmed through Board Meeting Minutes which also included an additional capital allocation of Kshs.1,500,000 for the development of a strategic plan increasing the capital budget to Kshs.91,525,000. This resulted to unexplained variances of Kshs.2,627,872, Kshs.16,738,199 and Kshs.91,5252,000 for revenue, expenditure and capital budget respectively.

In the circumstances, the accuracy and completeness of the statement of comparison of budget and actual amounts could not be confirmed.

5. Inaccuracy in the Statement of Cash Flows

The statement of cash flows reflects net generated from operating activities of Kshs.46,487,570 while Note 30 to the financial statements discloses cash generated from operations balance of Kshs.55,019,488 leading to unexplained and unreconciled variance of Kshs.8,531,918.

In the circumstances, the accuracy of the statement of cash flows could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Mwea Rice Mills Limited Management in accordance with ISSAI 130 on the 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 judgement, are of most significance in the audit of the financial statements. Except for the effect of the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Matters

In the prior years' audit reports, several issues were raised under the Report on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Effectiveness of Internal Controls, Risk Management and Governance, respectively. Review of the status during audit of the Factory in 2024/2025 revealed that the following matters remained unresolved.

	Financial Year	Audit Issue
1	2023/2024	Trade and Other Receivables
2	2023/2024	Other Income
3	2022/2023	Unsupported Capital Fund for Mill Rehabilitation
4	2022/2023	Long Outstanding GoK Levy Payable to NIA
5	2023/2024	Long Outstanding Trade and Other Payables
6	2023/2024	Lack of Gender Diversity in the Board
7	2022/2023	Irregular Engagement of Casuals Workers
8	2022/2023	Lack of an Approved Staff Establishment.
9	2023/2024	Lack of Strategic Plan
10	2023/2024	Failure to Tag Company Assets

Other Information

The Management is responsible for the Other Information set out on page iii to xxx which comprise the Key Entity Information, The Board of Directors, Management Team, Chairman's Statement, Report of the Managing Director, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors, Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Company's 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 my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effects of the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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

Irregular Cash Purchases

The statement of profit or loss and other comprehensive income reflects administrative costs amount of Kshs.36,851,433. Examination of payment records revealed cash purchases of goods and services amounting to Kshs.5,521,908. It was not clear why Management did not apply the alternative procurement methods prescribed under Section 91 of the Public Procurement and Asset Disposal Act, 2015, and instead procured the above goods and services through direct cash purchases, despite the costs exceeding the prescribed threshold of Kshs.50,000 per item per annum. This was contrary to Section 107(b) of the Public Procurement and Asset Disposal Act, 2015 which states that, a procurement entity may use low value procurement procedure if the estimated value of the goods, works or non-consultancy services being procured are less than or equal to the maximum value per financial year for that low value procedure as may be prescribed.

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

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply 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 effect of 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 governance were not effective.

Basis for Conclusion

1. Lack of Strategic Plan

Audit review revealed that the Factory lacked an approved strategic plan to support budget proposals during the year under review. The absence of a formal strategic plan raises concerns about the Company's capacity to effectively manage its operations and align its activities with long-term goals and objectives. Further, it reduces accountability due to the absence of clearly defined and measurable performance targets, and undermines compliance with governance and public financial management requirements. In addition, it undermines compliance with governance and public financial management requirements.

In the circumstances, the strategic steps necessary to determine the direction of the Company to undertake its mandate, its objectives and goals could not be ascertained.

2. Lack of Required Governance and Operational Policies

The Factory has not developed or established key governance and operational policies as required under the Companies Act, 2015 and good corporate governance practices. The missing policies include Board charter, code of conduct and ethics, human resource policy, occupational health and safety policy, succession planning policy, procurement policy and environment and sustainability policy.

Management has not prioritized policy formulation and approval, leading to non-compliance, weak governance, increased risks and ineffective accountability.

In the circumstances, the effectiveness of internal controls, risk management and governance in the Factory could not be confirmed.

3. Lack of an Approved Staff Establishment

During the year under audit, it was observed that the Company did not have an approved staff establishment as well as a Human Resource plan/policy. Management therefor failed to plan and comprehensively determine the entity's human resources need.

In the circumstances, lack of an approved staff establishment implies that the Company could not identify its human resources capacity gaps and the commensurate skills and qualifications which are lacking.

4. Lack of Segregation of Duties

Review of the Company's organizational structure and operations revealed multiple unfilled key positions, including Accounts Assistant, Production and Marketing Supervisor, Administration Officer, Marketing Assistant, Store Supervisor, Cashier, and Mechanic, with procurement being managed by a casual employee. Staffing at the milling factory is insufficient to ensure proper segregation of duties, with a single employee handling administration and human resources tasks, while the accounts clerk simultaneously manages cash book postings, cheque writing and cashier duties.

In the circumstances, effectiveness of the internal controls, risk management and governance in the Factory could not be confirmed.

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 controls, 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

Conclusion

As required by the 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. The information given in the Directors' report on page xxvii is consistent with the financial statements; and

iii. The auditable part of the Directors' remuneration report on pages 24 has been properly prepared in accordance with the Companies Act, 2015.

Basis for Conclusion

The Companies Act, 2015 requires that I report on the legal or regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to the Company's compliance with laws and regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of the 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 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Factory'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 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, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements comply 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 Factory's financial reporting process, reviewing the effectiveness of how Management 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

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

18 December, 2025