

REPUBLIC OF KENYA



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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

WAREHOUSE RECEIPT SYSTEM

COUNCIL

FOR THE YEAR ENDED

30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON WAREHOUSE RECEIPT SYSTEM COUNCIL 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.
- 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 Warehouse Receipt System Council set out on page 1 to 33, which comprise of the statement of financial position as at 30 June, 2025 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 position of Warehouse Receipt System Council as at 30 June, 2025 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 do comply with the Warehouse Receipt System Council Act, 2019.

Basis for Qualified Opinion

Presentation and Accuracy of the Financial Statements

The statement of financial position reflects accumulated deficit of Kshs.1,460,652 while the statement of changes in net assets reflects a negative balance of Kshs.1,917,521 resulting in an unexplained variance of Kshs.456,869. Further, the statement of changes in net assets reflects negative retained earnings of Kshs.1,917,521 whereas the recomputed balances reflect a negative amount of Kshs.1,460,632 resulting to an unexplained variance of Kshs.456,889.

In addition, Note 18 to the financial statements on cash generated from operations reflects increase in payables of Kshs.11,004,555 instead of Kshs.8,046,076 resulting in an unexplained variance of Kshs.2,958,479. In addition, the increase should be added back and not deducted.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Warehouse Receipt System Council 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.

Material Uncertainty Related to Going Concern

The statement of financial performance reflects a deficit of Kshs.18,433,286 for the year under review. Further, the Council's current liabilities balance of Kshs.12,565,158 (2024: Kshs.4,519,082) exceeded its current assets of Kshs.580,577 (2024: Kshs.3,721,983) resulting to a negative working capital of Kshs.11,984,581 which means the Council may not be able to meet its short-term obligations.

The financial statements have been, therefore, prepared on a going concern assumption that the Council will continue to obtain financial support from the suppliers and the National Government.

My opinion is not modified in respect of this matter.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final expenditure budget of Kshs.25,040,000 against the actual on comparable basis amount of Kshs.36,082,556 resulting to an over-expenditure of Kshs.11,042,556 or 44% of the budget.

In the circumstances, the over-expenditure may have led to increased trade and other payables and inability of the Council to meet its obligations as and when they fall due.

My opinion is not modified in respect of this matter.

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 matter described in the Basis for Qualified Opinion, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Issues

In the audit report of the previous year, several issues were raised under the Report on the Financial Statements, Report on Lawfulness and Effectiveness in the Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance which were unresolved as at 30 June, 2025.

Other Information

The Management is responsible for the Other Information set out on page iv to xxxv which comprise of Key Entity Information and Management, The Board of Directors, Management Team, Chairperson's Statement, Report of the Chief Executive Officer, 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 Council'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

Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables of Kshs.12,565,158 as disclosed in Note 17 to the financial statements. Included in the balance are payables of Kshs.7,091,497 which have remained outstanding for more than one year. This was contrary to Regulation 150(1) of the Public Procurement and Asset Disposal (PPAD) Regulations, 2020 which states that, subject to the availability of funds and after proper certification of the goods, services or works have been done, a procuring entity shall make prompt payments for all performed contracts including enterprises owned by youth, women or persons with disabilities and shall make payment within sixty days from the date of receipt of the invoice.

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. Failure to Tag Assets

Note 16 to the financial statements reflects property, plant and equipment which includes furniture and fittings, computers and computer accessories and office equipment under

custody of the Council. However, physical verification revealed that all assets were not tagged, hence they could not be identified with the Council.

In the circumstances, the effectiveness of internal controls on asset management could not be confirmed.

2. Failure to Insure Assets

Review of the records provided for audit revealed that furniture and fittings, computers and computer accessories and office equipment were not insured during the year under review. This was contrary to Section 5.7 of the Council's Asset Management Policy dated July 2022 which states that the Council shall ensure that all the assets have been insured including those under its custody.

In the circumstances, the effectiveness of risk management over assets of the Council 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.

Responsibilities of the 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Council'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 Council'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

31 October, 2025