REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

WESTERN KENYA RICE MILLS LIMITED

FOR THE YEAR ENDED 30 JUNE, 2025

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REPORT OF THE AUDITOR-GENERAL ON WESTERN KENYA 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 Western Kenya Rice Mills Ltd set out on pages 1 to 62 which comprise of the statement of financial position as at 30 June, 2025 and the statement of profit/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 Western Kenya Rice Mills Ltd as 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(Accrual Basis) and comply with the Company's Act 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Trade and Other Receivables

Statement of financial position, as disclosed in Note 21 to the financial statements reflects trade and other receivables of Kshs.312,455. This balance is net of provision for doubtful debts on trade receivables of Kshs.2,181,304. Ageing analysis revealed that trade receivables totalling Kshs.2,425,453 have been outstanding for over three (3) years. In addition, the demand letters and documents in support of these trade and other receivables were not provided for audit review.

Further, the financial statements reflects the trade and other receivables of Kshs.312,455. However, review of prior year receivable revealed that debts amounting to Kshs.431,640 were not disclosed. Further, there was no documentary evidence provided to confirm payment of the outstanding debts as at 30 June, 2025 hence understating the receivable balance.

In the circumstances, the accuracy, completeness and recoverability of trade and other receivables of balance Kshs.312,455 could not be confirmed.

2. Long Outstanding Trade and Other Payables

The statement of financial position as disclosed in Note 28 to the financial statement reflects Kshs.4,282,061 in respect to trade and other payables. However, the following anomalies were noted;

2.1 Unsupported Payables

Trade and other payables as at 30 June, 2024 stood at Kshs.8,825,809 as compared with Kshs.4,282,061 as at 30 June, 2025. The variance of Kshs.4,543,748 was not supported with supporting payments records.

2.2. Unremitted Statutory

The balance includes un-remitted statutory deduction as at 30 June, 2024 of Kshs.27,700 and Kshs.69,840 respectively in respect to NHIF and NSSF which had not been remitted for more than 30 (thirty) days contrary to Section 19 (4) of the Employment Act, 2007 that requires such returns to be made in the subsequent month(s) following the month(s) when the deduction was made.

2.3. Long Outstanding Payable

The balance includes others payables of Kshs.701,228 out of which Kshs.513,386 is withholding tax with Kenya Revenue Authority (KRA) on sitting and lunch allowances which has been outstanding for several years contrary to Section 37(1) & (2) of the Income Tax Act (Cap 470), 2012. In addition, the balance includes audit fees of Kshs.3,054,512 which has accrued for several years.

In the circumstances, the accuracy and completeness of trade and other payables could not be confirmed.

3. Irregular Inter-borrowings from National Irrigation Authority

Statement of financial position as disclosed in Note 27 to the financial statements reflects Kshs.53,540,527 in respect to Authority current account. Included in this balance is Kshs.5,699,197 transferred to Western Kenya Rice Mills Limited from National Irrigation Authority for payment of staff salary arrears. The Board had approved an amount of Kshs.5,021,905 and required the Management to indicate and document the source of funds for subsequent approval. However, there was no justification for the excess amount paid. Further, this was funded through an unauthorized borrowing from the dedicated Mwea Irrigation Agricultural Development Centre Seed Farm account which had not received formal Board approval. Additionally, the payment voucher was supported by a staff arrears listing totalling Kshs.5,335,005 which resulted in an overpayment of Kshs.677,292.

In the circumstances, the accuracy, completeness and validity of Kshs.53,540,527 could not be confirmed.

4. Inconsistencies in the Ownership Details of the Company

The statement of financial position, as disclosed in Note 23 to the financial statements reflects ordinary share capital of Kshs.35,049,935. Review of shareholding records revealed that the share certificates provided amounted to 327,286 shares at a value per share of Kshs.100 totalling to Kshs.32,728,600. However, the financial statements show ordinary share capital of Kshs.35,049,935 resulting in overstatement of the ordinary share capital by Kshs.2,321,300. There were no share certificates to confirm additional ownership of shares in the company.

Further, review of the documents provided for audit including internal auditor's reports revealed that Western Kenya Rice Mills Company Limited is jointly owned by National Irrigation Authority (NIA) at 74% shareholding and Ahero, West Kano and Bunyala Schemes owning 11.7%, 5.7% and 6.1% respectively all yielding a total of 23.5% of the other shareholders beside NIA. However, all these percentages were just an estimate of the perceived shareholding with no verifiable documentations to affirm the true position of the company's share capital.

In addition, review of the Western Kenya Rice Mills ownership documents revealed that the Company is a limited company as registered. However, Management did not provide a copy of the CR12 to authenticate the actual owners of the company.

In the circumstances, the accuracy and completeness of ordinary share capital balance could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Western Kenya 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.

Emphasis of Matter

1. Failure to Disclose Material Uncertainty Related to Going Concern

The Statement of Profit/Loss & Other Comprehensive Income discloses that the Company recorded a loss of Kshs.6,038,939 during the year under review. In addition, the Company's current liabilities of Kshs.4,282,061 exceeded its current assets of Kshs.1,550,429 by Kshs.2,731,632. The Company has remained in a negative working capital position over the years. Additionally, the Company has been making losses over the years totalling Kshs.92,139,507 as at 30 June, 2025.

The Company is, therefore, technically insolvent and its continued sustainability of services is dependent upon support from the National Irrigation Authority and its creditors. However, this material uncertainty has not been disclosed in the financial statements.

In the circumstances, the Corporations' ability to continue to sustain its services could not be confirmed.

2. Budgetary Control and Performance

The statement of comparison of budget and actual amount reflects final revenue budget and actual on comparable basis of Kshs.2,600,000 and Kshs.8,111,917 respectively, resulting to under-collection of revenue of Kshs.5,511,917 or 312.7% of the budget. Similarly, the Company spent an amount of Kshs.8,451,659 against actual receipts of Kshs.8,111,917 resulting to over expenditure of Kshs.339,742.

The under collection and the over expenditure may have negatively impacted the activities of the Company.

My opinion is not modified in respect of these matters.

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. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Audit Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved some of the issues or given any explanation for failure to resolve them as at 30 June, 2025.

i. Annual Governance Audit
ii. Lack of Key Qualifications in the Board of Directors
iii. Lack of Gender Diversity in the Board
iv. Inconsistencies in the Ownership Details of the Company
v. Long outstanding Trade and Other Payables
vi. Long Outstanding Receivables
vii. Lack of Strategic Plan
viii. Lack of Tripartite Lease Agreement Between Western Kenya Rice Mills and County Government of Kisumu and Private Investor

Other Information

The Directors are responsible for the Other Information set out on page iii to xxix which comprise of Key Entity Information and Management, The Board of Directors, Management Team, Chairman's Statement, Report of the Chief Executive Officer, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors, Statement of Directors Responsibilities, Statement of Performance Against Predetermined Objectives). 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 effect of the matters 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

1. Tripartite Lease Agreement between Western Kenya Rice Mills and County Government of Kisumu and Private Investor for the Milling Machine Installed at Western Kenya Rice Mills

Review of the Board minutes and interviews with management established that the County Government of Kisumu purchased and installed a new rice mill machine at Western Kenya Rice Mills Limited with a capacity of 2.5 tons per hour which was not operational.

Review of the tripartite tenancy and operational lease agreement between Western Kenya Rice Mills Limited, Kisumu County Government and Uplands Crops Limited revealed the following observations;

i. Uplands Crops Limited was required to pay rent of Kshs.110,000 per month in arrears by the 10th working day of every month to Western Kenya Rice Mills Limited (WKRM) upon issuance of an invoice. No records were provided to confirm receipt or collection of such rent by the Company, nor was any invoice issued to the private miller by the Company from the date of the agreement (23 April 2025).
ii. The private miller was already on site carrying out renovation works on the mill stores and toilet blocks however, no joint assessment report between Western Kenya Rice Mills Limited and Uplands Crops Limited provided for audit review.
iii. Uplands Crops Limited was obligated to carry out any necessary renovations and improvements to the demised premises prior to occupation. However, audit inspection revealed that the mill blocks offices which had been reported as condemned had not been renovated.
iv. No records of such an insurance policy were made available for audit review to confirm that the management of Western Kenya Rice Mills Limited had secured the required comprehensive insurance policy covering the building against all risks of loss and damage as per the lease agreement
v. No records were provided for audit review to confirm that Kisumu County Government had obtained the required insurance covering the mill against the risk of damage and loss throughout the lease term.

In the circumstances, value for the money in the lease agreement could not be confirmed and entering into agreements with unenforceable clauses undermines transparency and exposes the public entities to legal suit.

2. Lack of Disposal Plan

Review of records revealed that it did not have an approved disposal plan of items declared as unserviceable, obsolete and condemned contrary to Section 176(1) of Public Procurement and Asset Disposal Regulations, 2020 which provides that an accounting officer of a procuring entity shall ensure that an annual assets disposal plan is prepared of items declared as unserviceable, surplus or obsolete, obsolescence stores, asset or equipment.

Further, the Company have four (4) items classified in the assets register as obsolete, unserviceable and condemned valued at Kshs.46,647,959. Further, other assets did not have their values indicated. This is contrary to Section 163(1) of the Public Procurement Disposal which states that an accounting officer shall establish a disposal committee as and when prescribed for the purpose of disposal of unserviceable, obsolete, obsolescent or surplus stores, equipment or assets.

In the circumstances, the 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

Lack of Strategic Plan

Mwea rice Mills limited lacks an approved strategic plan to provide a long-range overview of budgetary needs and raises concerns regarding the Company's capacity to effectively manage and align its activities with its long-term objectives.

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

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. Adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and,

iii. The Project's financial statements are in agreement with the accounting records and returns.

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 (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 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 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 Company'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

8 December, 2025.