

# REPORT OF THE AUDITOR-GENERAL ON AMATSI WATER SERVICES COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

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## REPORT ON THE FINANCIAL STATEMENTS

### Adverse Opinion

I have audited the accompanying financial statements of Amatsi Water Services Company Limited set out on pages 1 to 20, which comprise the statement of financial position as at 30 June 2018, and the 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, 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 matters described in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of Amatsi Water Services Company Limited as at 30 June, 2018, 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 Public Finance Management Act, 2012.

### Basis for Adverse Opinion

#### 1. Inaccuracies in the Financial Statements

A review of the financial statements revealed the following anomalies:

- i) Notes 5 and 12, do not show a breakdown of the comparative figures.
- ii) The statement of changes in equity indicates that the revenue reserves balance as at 30 June 2018 was Kshs.2,163,284 which differs with the Kshs.414,058 indicated in the statement of financial position.
- iii) Note 15 to the financial statements indicates that the cash flow from operating activities for the year ended 30 June 2017 was Kshs.3,357,538 which differs with Kshs.2,780,881 indicated in the statement of cash flows for the same year. Further, the statement of cashflows shows purchase of property, plant and equipment as Kshs.136,000 which differs with the Kshs.177,000 indicated in note 16 to the financial statements.
- iv) There are differences between the reported variances of the actuals and budgeted amounts and the recomputed variances in the statement of comparison of budget and actual amounts as shown below:

| Item | Actual | Budgeted | Computed Variance | Variance as per the Budget Statement |
|------|--------|----------|-------------------|--------------------------------------|
|------|--------|----------|-------------------|--------------------------------------|

|                           | <b>Kshs.</b> | <b>Kshs.</b> | <b>Kshs.</b> | <b>Kshs.</b> |
|---------------------------|--------------|--------------|--------------|--------------|
| Printing and Stationery   | 224,973      | 539,710      | 314,737      | 295,197      |
| Fuel                      | 770,500      | 1,200,000    | 429,500      | 454,000      |
| Operation and maintenance | 4,453,236    | 7,210,547    | 2,757,311    | 2,641,133    |
| Travel and substance      | 858,468      | 726,000      | - 132,468    | 454,710      |
| Staff uniforms            | 142,200      | 526,000      | 383,800      | 478,600      |

Consequently, the accuracy of the financial statements could not be confirmed.

## **2. Grants from County Governments**

The statement of profit and loss and other comprehensive income indicates that grants from County Government in the year under review was 17,977,110 (Note 2). However, only Kshs.14,744,011 was supported with schedules, acknowledgment documents and payment receipts leaving a balance of Kshs.3,233,099.

Consequently, the accuracy and validity of the grants from County Government of Kshs.17,977,110 could not be confirmed.

## **3. Trade and Other Receivables**

Note 7 to the financial statements indicates that trade and other receivables as at 30 June 2018 were Kshs.63,174,124. However, an aged analysis to support the amount has not been availed for audit review.

Consequently, the accuracy and validity of trade and other receivables of Kshs.63,174,124 could not be confirmed.

## **4. Trade and Other Payables**

Note 12 to the financial statements indicates that trade and other payables balance as at 30 June 2018 was Kshs.52,892,737. However, the following items have not been supported with statements, invoices, demand notes or other relevant documentation:

|                           | <b>Kshs</b>       |
|---------------------------|-------------------|
| WARMA                     | 8,261,728         |
| LVNWSB                    | 20,000,074        |
| WASREB                    | 2,892,524         |
| Loan from LVNWSB          | 3,000,000         |
| Production electricity    | 5,263,922         |
| Kenya Bureau of Standards | 4,336,378         |
|                           | <b>43,754,626</b> |

Consequently, the accuracy and validity of trade and other payables of Kshs.52,892,737 could not be confirmed.

## **5. Customer Deposits**

Note 13 to the financial statements indicates that customer deposits balance as at 30 June 2018 were Kshs.11,288,855. However, there is no schedule indicating what customers deposit figure relates to. Further, an account operated at the Kenya

Commercial Bank meant to hold the deposits had a balance of Kshs.344,997 as at the end of the year as indicated in note 8 to the financial statements.

Consequently, the accuracy and validity of customer deposits of Kshs.11,288,855 could not be confirmed.

## **6. Uncertainty Related to Going Concern**

The Authority reported a loss of Kshs.10,261,778 in the year ended 30 June 2018. This reduced the revenue reserves from Kshs.10,534,358 as at 30 June 2017 to Kshs.414,058 as at 30 June 2018. The current liabilities of Kshs.63,872,302 also exceeded current assets of Kshs.63,132,511 by Kshs.739,791 as at 30 June 2018. This situation indicates that the company is facing financial challenges. Therefore, the financial statements have been prepared on a going concern basis on the assumption that the company will continue to receive financial support from the County Government of Vihiga and creditors.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Amatsi Water Services Company Limited in accordance with ISSAI 30 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 adverse opinion.

### **Emphasis of Matter**

#### **1. Unaccounted For Water (UFW)**

During the year under review, the company produced 1,760,643 meters (M3) of water out of which only 1,124,150 M3 was billed to customers. The balance of 636,493 M3 or 36% of the total volume representing unaccounted for water is 11% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines.

#### **2. Shareholding**

The company was incorporated in 2005 under the Kenya Companies Act. The shareholders are as follows:

| Name                        | Shares | % shareholding |
|-----------------------------|--------|----------------|
| County Council of Vihiga    | 1,667  | 33.34          |
| Municipal Council of Vihiga | 1,667  | 33.33          |
| Town Council of Luanda      | 1,666  | 33.33          |
|                             | 5,000  | 100            |

The shares have not yet been transferred to the County Government of Vihiga as required by the law. Consequently, the management is in breach of the law.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, are of most significance in the audit of the financial statements of the current year. These matters

were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

## REPORT ON COMPLIANCE, 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 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. Purchase of Chemicals**

Note 1 to the financial statements under cost of sales indicates that Kshs.3,409,652 was used in the purchase of chemicals. However, tender advertisement, quotations, evaluation, award, notification of award, acceptance letter, inspection and acceptance committee reports were not made available for audit review to confirm that the purchases were done as per the law contrary to the provisions of the Public Procurement and Asset Disposal Act of 2015. Therefore, the propriety of the expenditure could not be confirmed.

#### **2. Audit Fees**

Note 12 to the financial statements indicates that audit fees amounting to Kshs.2,922,000 as at 30 June 2018 has remained outstanding for six (6) years. This is contrary to section 41 (1) of the Public Audit Act, 2015 which requires a state corporation whose accounts are examined and audited to pay for the costs of the services.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

### **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 overall governance were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 Those Charged with Governance**

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 control 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 ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the or to cease operations, or have no realistic alternative but to do so.

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 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 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 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 ability to continue as a going concern or 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 Authority to cease to continue as a going concern or 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 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 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 Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**10 July 2019**