

REPORT OF THE AUDITOR-GENERAL ON BOMET WATER COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Bomet Water Company Limited set out on pages 20 to 40, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer of Opinion

1. Maintenance and Repairs of Distribution Lines

The statement of comprehensive income reflects a balance of Kshs.89,477,548 in respect of operations and maintenance expenses. Out of this amount, an expenditure of Kshs.6,836,893 was incurred on maintenance and repairs of distribution lines against a budget of Kshs.6,000,000, implying an over-expenditure of Kshs.836,893. However, it was noted that the repairs done on distribution lines were not supported by pre-repair and post repair inspection reports to ensure that the services were actually needed, done and certified. Further, the Company engaged casual workers to carry out the repair works. However, the expenditure on these workers was not supported by muster rolls that have details of their identification numbers (ID), job descriptions, the locations where work was carried out and signed off as prove of work done. Under such circumstances, the expenditure of Kshs.6,836,893 on maintenance and repairs of distribution lines could not be confirmed to be a proper charge on public funds.

2. Expenditure on Casual Wages

Note 4 to the financial statements reflects staff cost of Kshs.53,883,615 which include Kshs.5,324,559 spent on casual employees. However, it was noted that there was no approval from the Board to allow the engagement of the casuals. In addition, no evidence was provided to give justification to hire the casuals, the number of casuals

hired and the duration of their engagement. Therefore, it was not possible to confirm that the funds spent on the casual employees was a fair charge on public funds.

3. Unconfirmed Expenditure on Water Chemicals

Note 5 to the financial statements reflects operation, maintenance and distribution costs of Kshs.89,477,548 which includes an expenditure of Kshs.4,807,797 in respect of water chemicals, whose budget was Kshs.6,000,000. However, it was noted that the chemicals procured were not taken on charge in the stores records. Therefore, the regularity of the expenditure of Kshs.4,807,797 on procurement of water chemicals could not be confirmed.

4. Vehicles Running Expenses

Note 5 to the financial statements reflects an expenditure of Kshs.4,415,924 which was incurred in respect of vehicles running expenses, motor cycles and tyres against a budget of Kshs.2,200,000. A review of the expenditure documents revealed that no inspections were carried out before and after repairs, to justify the services provided and the requisite payment. Further, the repairs carried out were not recorded in repair logbooks (GP 55), hence it was not possible to confirm the regularity of the expenditure.

5. Staff Welfare Expense

Note 4 to the financial statements reflects a figure of Kshs.3,655,835 which the company spent on staff welfare in the financial period ending 30 June 2017. Examination of the ledger presented for audit verification revealed that the payments were made to individuals. However, no payment voucher was presented for audit verification in support of the monies spent on staff welfare. Under such circumstances, the regularity of the monies spent on staff welfare could not be confirmed.

6. Property, Plant and Equipment

The statement of financial position as at 30 June 2017 reflects an amount of Kshs.21,573,766 in respect of property, plant and equipment. This was represented by an assets movement schedule at note 7 to the financial statements. However, the following weaknesses were noted:

- i. According to paragraph 2.2 on page 3, of the Service Provider Agreement (SPA) signed on 1 September 2014 between Lake Victoria South Water Services Board (LVSWSB) and Bomet Water Company, various assets which include hydraulic structures, plant, motor vehicles and furniture and fittings were handed over to Bomet Water Company. However, and as previously reported, these assets were not incorporated in the financial statements for the year ending 30 June 2017.
- ii. The accumulated depreciation of Kshs.4,533,329 for the past two financial years, 2014/2015 and 2015/2016 has not been taken into account in computing the net book value of the property, plant and equipment as at 30 June 2017.
- iii. Further, the assets movement schedule indicates land with a balance of Kshs.805,940. However, the valuation report for one of the two parcels,

Reference No. Kericho/Kipsonoi/1604 measuring 0.14 Ha was not provided for verification.

In the circumstance, the property, plant and equipment balance of Kshs.23,094,807 could not be confirmed as fairly stated.

7. Trade and other Receivables

The statement of financial position reflects trade and other receivables' balance of Kshs.102,364,160, which includes Kshs.93,477,009 in trade receivables. Out of the trade receivables balance, Kshs.70,485,146 (or 78%) is in respect of customers whose debts have remained uncollected for a period of over 90 days. Apparently the management has not determined the allowable credit period in accordance with Section 5.4 of the Company's financial manual. Therefore, the collectability of the long outstanding debts is in doubt.

8. Trade and Other Payables

Customers Deposits

The statement of financial position reflects trade and other payables balance of Kshs.18,353,580 which includes customers' deposits of Kshs.992,658. As previously reported, the Water Company inherited 8,891 meter connections at its inception on 1 September, 2014. Each customer paid a deposit of Kshs.1,000, which translates to a liability of Kshs.8,891,000. Further, the water deposit ledger reflects 3,910 additional connections, each having a customer deposit of Kshs.1,500, which translates to Kshs.5,865,000. This gives a total customers deposit liability of Kshs.14,756,000. According to clause 35 of the regulations developed by Water Services Regulations Board (WASREB), the liability should be recognized as part of the contract between the consumer and the water service provider. However, the financial statements disclosed only Kshs.992,658, which implies that the customers' deposits were understated by Kshs.13,763,342. Therefore, the balance of Kshs.18,353,580 in respect of trade and other payables is not fairly stated.

9. Long-term Liability

The statement of financial position reflects a long term liability of Kshs.443,372 which is owed to Kamureito Water Project. The loan balance reduced by Kshs.1,235,731 from Kshs.1,679,103 reported in the previous year. Analysis at note 14(c) to the financial statements shows that the Company made repayments for both the principal and accrued interest. However, and as previously reported, the management did not provide documentary evidence to explain the nature and terms of the loan owed to Kamureito Water Project. Therefore, the legality of the liability could not be confirmed.

10. Capital Reserves

The statement of financial position reflects capital reserves of Kshs.39,354,042 which according to note 16, refer to the debtors at the time the company was operationalized on 1 September, 2014. However, the list of those debtors and the minutes of the Board meeting that sanctioned the debt balance has not been presented for audit verification.

Further, the statement of changes in equity in the financial statement did not include an analysis of the changes in the capital reserves as required by International Financial Reporting Standard No.1 on preparation and presentation of financial statements. In the absence of relevant documentation, the accuracy of the capital reserves balance of Kshs.39,354,042 could not be confirmed

11. Share Capital

The statement of financial position reflects a balance of Kshs.100,000 in respect of ordinary share capital. Clause 5 of the Company's memorandum of association indicates that the capital of the company is Kshs.100,000, divided into 100,000 shares of Kshs.1 each. Further, the memorandum lists only two officials of Bomet county government, namely, the chief officer, Water and Irrigation and the County Executive Committee Member for finance as shareholders, each of whom owns one share. This implies that the balance of Kshs.100,000 in respect of ordinary share capital and ownership of the Company could not be confirmed.

12. Unaccounted for Water

During the year under review, the Company produced 4,176,879 m³ of water. However, out this volume, only 2,022,365 m³ was billed to customers, resulting in total revenue amounting to Kshs.78,897,468. The balance of 2,154,514 m³ or approximately 51.6% was reported as unaccounted for water (UFW). Given that the WASREB guidelines allow for only 25% loss of the production, this implies that there was an abnormal loss of 1,110,290 m³ which is equivalent to Kshs.43,315,153 in water sales. The significant level of UFW may negatively impact on the company's profitability and long-term sustainability of its operations.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standard and for such 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue 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 or 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of the **Company's** financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of Bomet Water 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.



FCPA Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

10 July 2018