

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Bomet Water Company Limited set out on pages 20 to 39, which comprise the statement of financial position as at 30 June 2018, and the statement of 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 effects 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 Bomet Water 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 Financial Reporting Standards and comply with the Kenyan Companies Act, 2015.

### **Basis for Qualified Opinion**

#### **1. Trade and Other Payables - Customer Deposits**

The statement of financial position as at 30 June 2018 reflects trade and other payables balance of Kshs.47,354,771. As disclosed in Note 12 to the financial statements, the balance includes customers' deposits of Kshs.2,137,989 which differs with the bank balance of Kshs.16,076,000 for the account. The resulting difference of Kshs.13,938,011 has not been explained or reconciled. Consequently, the completeness and accuracy of the customers' deposits balance of Kshs.2,137,989 can not be confirmed.

#### **2. Trade Receivables**

The statement of financial position reflects trade and other receivables balance of Kshs.126,973,166 which includes trade receivables of Kshs.126,313,747. Out of the trade receivables balance, an amount of Kshs.101,083,663 or 80% relates to customers whose debts had remained uncollected for a period of over 90 days as of 30 June 2018 and thus raising doubts on the collectability of the same.

#### **3. Property, Plant & Equipment**

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.22,300,456 in respect of property, plant and equipment and as disclosed in Note 7 to the financial statements. However, the following anomalies have been noted:

- i. According to the Service Provider Agreement (SPA) signed on 1 September 2014 between Lake Victoria South Water Board (LVSWSB) and Bomet Water Company Limited, various assets which included hydraulic structures, plant, motor vehicles and furniture and fittings were handed over to Bomet Water Company. These assets have for unexplained not been included to date as part of the Company's property, plant and equipment in the financial statements.
- ii. As disclosed in Note 7 to the financial statements, the property, plant and equipment balance includes land with a net book value of Kshs.927,940 as at 30 June 2018. Valuation report of the land has not, however, been provided for audit review.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.22,300,456 can not be ascertained.

#### **4. Share Capital**

The statement of financial position reflects a balance of Kshs.100,000 in respect of ordinary share capital. 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 each. In the circumstances, the full ownership of the Company's cannot not be ascertained.

#### **5. Audit Fees**

The Company has not been paying or providing for audit fees for the audit services rendered by the Office of the Auditor - General in the last three consecutive financial years since incorporation. The failure to disclose the audit fee payable in the financial statements has the effect of understating the expenditure for the year under review and conversely the liabilities as at 30 June 2018. Consequently, the operating expenses and trade and other payables are not fairly stated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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. 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 judgment, are of most significance in the audit of the financial statements. Except for the matters described

in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections, I have determined that there are no Key Audit Matters to communicate in my report.

### **Other Information**

The directors are responsible for the other information. The other information comprises the report of directors as required by the Companies Act, 2015, and the statement of the directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the 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 the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## **REPORT ON 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 Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections 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. Budget Performance Analysis**

According to the statement of comparison of budget and actual amounts for the year ended 30 June 2018 the Company had budgeted for an income of Kshs.249,291,985 but the actual receipts were Kshs.200,925,822 leading to under collection of Kshs.48,366,163 or 19%. The under-collection has been attributed mainly to under-funding of the Company by the Bomet County Government to the tune of Kshs.48,300,000. No satisfactory has been provided for failure to release the funds to the Company as budgeted for and approved.

The overall mixed performance between expenditure items whereby some items were overspent and others underspent indicates a weakness in the budget preparation system with most of the operating expenditure items being overestimated thereby tying up funds for capital expenditure.

## **2. WSTF Chebunyo - Siongooi Project**

The Company was given a grant of Kshs.17,380,856 by Water Sector Trust Fund (WSTF) in the year 2015/2016 for construction of a water supply extension to connect the Chepalungu area from Moi Girls - Siongorai water distribution point. A cumulative total of Kshs.17,573,015 had been spent on this project as of 30 June 2017. However, the project failed during test runs on completion due to low water volumes at the take-off point and has been abandoned. In the circumstances, value for money has not been achieved on this project.

## **3. Unremitted Statutory Deductions**

Included in trade and other payables balance of Kshs.47,354,771 shown in the financial statements is an amount of Kshs.10,186,448 relating to statutory deductions that the Company had failed to remit to the relevant bodies as of 30 June 2018. These deductions include Pay As You Earn (PAYE) - Kshs.2,605,134, Lap Trust - Kshs.7,015,230, NSSF - Kshs.242,000 and Laptrust Gratuity - Kshs.324,084. The Company therefore risks penalties and litigations due to failure to meet contractual and statutory requirements when they fall due. No satisfactory explanation has been provided for non-remittance of these obligations.

## **4. Annual Returns and Annual General Meetings(AGMs)**

The Company has never held annual general meetings and submitted the annual returns since its incorporation on 18 June 2013, contrary to the requirements of Section 705 of Companies Act, 2015. In the circumstances, it has not been possible to confirm the legality of the Company's continued operations.

## **5. Ethnic Composition**

Out of the Company's total workforce of 145 employees, 143 staff members were from the same ethnic community, translating to 99% as of 30 June 2018. The Company has therefore not achieved a reasonable compliance level regarding the requirements of Section 7 of the National Cohesion and Integration Act under which public organizations should seek to represent diversity of the people of Kenya in the employment of staff.

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 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 matters described in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness of Internal Controls, Risk Management and Governance sections 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. Fraud Risk Management Policy

Bomet Water Company Limited does not have a fraud risk management policy to guide the management and the Board in dealing with risks relating to fraud. The absence of the policy exposes the Company to the risks of possible misappropriation of assets and financial losses.

#### 2. Environmental Assessment Audit Report

An environmental audit assessment on the operations of the Company undertaken by a consultant in the month of January 2018 at nine water treatment plants owned by the Company revealed several inadequacies and instances of non-compliance with important regulations in the water provision industry including:

- i. Poor solid waste management activities - lack of waste segregation and recycling practices.
- ii. Lack of a formal policy on environment, health and safety management.
- iii. Lack of emergency response plan.
- iv. Lack of fire extinguishers in five plants.

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 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.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015 I report based on the 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 my audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;

- (iii) The Company's statement of financial position and statement of comprehensive income are in agreement with books of account; and
- (iv) In my opinion the information given in the report of the directors on page **18**, is consistent with the financial statements.

### **Responsibilities of Directors and Those Charged with Governance**

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for maintaining effective internal control as the directors 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, the directors are responsible for assessing the ability of Bomet Water Company Limited to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the directors either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are 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, directors are 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 Company's 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 directors.
- Conclude on the appropriateness of the directors 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 of Bomet Water Company Limited to continue as a going concern. 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 Company to cease as a going concern.

- 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 Bomet Water Company Limited to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with directors 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 the directors 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**

**4 June 2019**