

REPORT OF THE AUDITOR-GENERAL ON ELDAMA RAVINE WATER AND SEWERAGE 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 Eldama Ravine Water and Sewerage Company Limited set out on pages 11 to 21, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, 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

1.0 Accounts Receivables

The statement of financial position reflects accounts receivables' balance of Kshs.33,100,746 as at 30 June 2017. This balance includes consumer debts (arrears) of Kshs.30,879,632 whose analysis was not provided for audit review. In addition, no provision for bad debts has been made against these debts. Additionally, included in the receivables balance are staff debtors of Kshs.1,704,500. As previously reported, these balances are advances made during the previous years for which no recoveries have been made. During the year an additional advance of Kshs.600,000 was made whose details were not presented for audit review.

Further, Value Added Tax (VAT) Claimable of Kshs.416,614 has remained outstanding since June 2014. It appears no initiative has been taken to request the relevant agency to settle the claim.

In view of the issues raised it has not been possible to confirm the collectability of accounts receivables' balance of Kshs.33,100,746 reflected in the financial statements as at 30 June 2017.

2.0 Accounts Payables

2.1 Net Salaries

The statement of financial position as at 30 June 2017 reflects accounts payables' balance of Kshs.65,102,638 which includes an amount of Kshs.9,871,121 in respect of unpaid net salaries which have been outstanding from July 2015. The outstanding net salaries increased by Kshs.4,434,286. Prolonged delay in settling employee's dues may result in industrial unrest thereby, paralyzing service delivery to the public.

2.2 Pay as You Earn (PAYE)

The accounts payables balance also includes an amount of Kshs.4,382,429 being Pay As You Earn deductions that have not been remitted to the Kenya Revenue Authority. This is contrary to Part IV of the Employee Guide to PAYE issued by the Authority which requires that an employer remits employees PAYE tax not later than the ninth (9) day of the month following the payroll month. Failure to remit statutory deductions may result to nugatory expenditure on penalties and interest, thereby hurting the cash flow of the Company.

2.3 Statutory Creditors

The accounts payables also include amounts due to Ukulima Co-operative Society Kshs.759,523, Ardhi Co-operative Society Kshs.636,404, Nawaco Self Help Group Kshs.9,000, NWCP Scheme Kshs.9,957,907, Postal Corporation of Kenya Kshs.7,120, Defunct Town Council of Eldama Ravine Kshs.542,936, NHIF Kshs.24,650, NSSF Kshs.531,600, Laptrust Kshs.868,344 and Gratuity Kshs.583,853. These statutory dues include some old balances which relate to the year 2012 and prior years. No reason has been provided for non-remittance of these statutory dues which may attract penalties and other charges.

2.4 Audit Fees

A sum of Kshs.1,724,000 in respect of audit fees payable to Auditor-General has also been outstanding for long. Non-payment of audit fees contravenes Section 19 (1) and (2) of the Public Audit Act, 2015 which requires every state corporation to meet the cost of the audit.

2.5 Customer Deposits

The customer deposits' balance of Kshs.1,332,000 has not been placed in a separate bank account as a liability that will crystalize in the future. Consequently, the Company liability on the deposit is not adequately supported by deferred cash flow to settle the deposits accounts as they fall due.

2.6 Lease Fee 17 % and Rift Valley Water Services Board

The Company owes Rift Valley Water Services Board lease fee arrears amounting to Kshs.21,189,264 having increased by Kshs.2,108,516 from Kshs.19,080,748 reported as at 30 June 2016. The fees have remained outstanding for long but no reason has been provided for not having been paid. Failure to honor obligations as and when they fall due may lead to termination of services by the service provider.

2.7 Arrears of WARMA Levy

Levy payable to Water Resources Management Authority (WARMA) of Kshs.5,417,992 increased by Kshs.266,000 from the reported figure of Kshs.5,151,992 as at 30 June 2016. The amount has remained outstanding for long and no reason has been provided for the non-payment.

2.8 Arrears of Water Services Regulatory Board 1% Levy

The one (1%) percent Water Services Regulatory Board Levy of Kshs.899,327 increased by Kshs.24,033 from the reported figure of Kshs.875,294 as at 30 June 2016. The amount has remained outstanding for long and no reason has been provided to confirm the non-payment.

Failure to settle the regulators dues may deny the water company the services due from the above agency.

3.0 Share Capital

The statement of financial position as at 30 June 2017 reflects share capital of Kshs.100,000 which has not been supported by share certificates or any relevant documentary evidence. In the circumstance, the share capital balance of Kshs.100,000 as at 30 June 2017 could not be confirmed.

4.0 Going Concern

The Company made a loss of Kshs.3,888,954 compared to a loss of Kshs.6,040,630 in the previous year bringing the accumulated losses as at 30 June 2017 to Kshs.33,209,584. In addition, the current liabilities of Kshs.65,344,638 as at 30 June 2017 exceeded current assets of Kshs.34,154,372 resulting in a negative working capital of Kshs.31,190,283. Further, the Company has been unable to settle outstanding liabilities including long term grants of Kshs.13,209,459 from Rift Valley Water Services Board. Consequently, the company is technically insolvent and may not be able to meet its current obligations as and when they fall due and its continued operations as a going concern is dependent on the support of the County Government.

5.0 Unaccounted for Water

The chairman's report and records provided revealed that the unaccounted for water stood at seventy-two (72%) percent as the company had produced 381,336 and lost 269,109 cubic meters of water as tabulated below:

Month	Produced Cubic Meters	Lost Cubic Meters
July 2016	31,875	26,178
August 2016	26,767	24,860
September 2016	32,468	25,981
October 2016	31,852	24,932
November 2016	32,696	21,796
December 2016	29,236	21,321
January 2017	34,498	21,088
February 2017	39,492	21,663
March 2017	35,278	20,208

April 2017	28,398	20,294
May 2017	32,180	20,239
June 2017	26,596	20,549
Total	381,336	269,109

Records of water billed have not been produced for audit review and therefore the sustainability of the Company with a loss of water of seventy-one (71%) percent is in doubt.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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 matter 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 Eldama Ravine Water and Sewerage 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