

REPORT OF THE AUDITOR-GENERAL ON ELDAMA RAVINE WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

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 30 which comprise the statement of financial position as at 30 June, 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 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.

Basis for Disclaimer of Opinion

1.0 Lack of Trial Balance

The company did not prepare and present for audit a trial balance in support of the financial statements. In the absence of a trial balance, it was not possible to ascertain the accuracy of the financial statements for the year ended 30 June 2018.

In the circumstances, it has not been possible to confirm the accuracy and completeness of the financial statements presented for audit.

2.0 Presentation of the Financial Statements

Examination of the financial statements for the year ended 30 June 2018 disclosed the statements prepared and presented for audit by the Company were not prepared as per the prescribed template for Commercial Government Owned Entities (Revised Template 30 June 2018) by the Public Sector Accounting Standards Board.

No explanation has been provided for failure to use the prescribed template

3.0 Going Concern

During the year under review, the Company made a loss of Kshs.2,586,106 compared to a loss of Ksh.3,888,954 in the previous year bringing the accumulated losses as at 30 June 2018 to Kshs.35,795,235.

In addition, the current liabilities of Kshs.73,062,956 as at 30 June 2018 exceeded current assets of Kshs.37,385,650 resulting in a negative working capital of Kshs.35,677,428. 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 and creditors.

No efforts appear to have been taken by the management to turn round the Company.

4. Outstanding Account Receivables

The statement of financial position reflects accounts receivables' balance of Kshs.34,430,211 as at 30 June 2018. This balance includes consumer debts (arrears) of Kshs.32,118,097 whose collectability is uncertain and further it was observed that no provision for bad debts had been made against these debts or a policy put in place to guide on debts management. Additionally, included in the receivables balance are staff debtors of Kshs.1,795,500. As previously reported, these balances are advances made to staff during the previous years for which no recoveries have been made. During the year under review, an additional advance of Kshs.691,000 was made whose details were not presented for audit verification.

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 above, it has not been possible to confirm the collectability of accounts receivables' balance of Kshs.34,430,211 reflected in the financial statements as at 30 June 2018.

5. Inaccurate Statement of Comparison Budget and Actual Amounts for the Period ended 30 June 2018

Examination of the statement of comparison budget and actual amounts for the period ended 30 June 2018 disclosed actual on comparable basis figures differed with the statement of profit and loss and other comprehensive income figures. It was noted that the statement of profit and loss and other comprehensive income reflected a deficit of Kshs.2,586,106 while the statement of comparison budget and actual amounts reflected a deficit of Kshs.829,454. In the circumstances, the accuracy and completeness of the statement of comparison budget and actual amounts for the year ended 30 June 2018 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for conclusion

1.0 Lack of Share Capital Certificate

The statement of financial position as at 30 June 2018 reflects share capital of Kshs.100,000 which has not been supported by share certificates or any documentary evidence of ownership. Further, the shareholding still belongs to the defunct Eldama Ravine Town Council and it's not clear why the shares have not been transferred to the Company.

In the circumstances, the share capital balance of Kshs.100,000 as at 30 June 2018 could not be confirmed.

2.0 Grant from RVWSB (Inherited Debts)

The statement of financial position reflects a balance of Kshs.13,209,459 in respect of grant from Rift Valley Water Services Board. This amount has remained outstanding since inception of the Company in 2007 and is comprised of unpaid water bills of Kshs.11,592,483 and salaries paid on behalf of the Company by the board of Kshs.1,6,16,976.

No explanation has been provided as to why the debts cannot be written off as they seem to be impossible to collect.

3.0 Un cleared Accounts Payables

Note 16 to the financial statements reflects account payables of Kshs.73,062,834 in respect of various claimable pending bills which have not been cleared for a long period of time with some dating back to year 2012 and prior years. The un paid bills included Lease fee 17%- RVWSB of Kshs.22,318,410, salary arrears of Kshs.18,464,952, NWCP Scheme deductions of Kshs.11,145,388, PAYE deductions of Kshs.5,392,351, arrears of WARMA levy of Kshs.5,663,992, Ukulima Co-operative Society Kshs.757,223, Ardhi Co-operative Society Kshs.637,054, Nawasco Self Help Group Kshs.8,700. Kenya Power and Lighting Company Limited Kshs.188,212, Defunct Town Council of Eldama Ravine Kshs.542,936, NHIF Kshs.22,250, NSSF Kshs.623,200, Laptrust Kshs.1,136,316, KUCFAW Scheme Kshs.44,463 and other creditors of Kshs.3,504,772

No efforts appear to have been made by the company to clear the outstanding payables

4.0 Personnel Costs

4.1 Irregular Payment of Acting Allowance

An examination of the payrolls and accompanying financial records revealed that the company paid Kshs.600,000 as acting allowance to the acting Managing Director beyond the stipulated six months' period as provided in the Human resources manual. It was further observed that the office of the Managing Director has been vacant for over two years and no efforts seem to have been made to fill the post.

No satisfactory explanation has been given for the irregularity.

5.0 Irregular Payment of Salary Advance

An examination of the payrolls revealed that twenty eight (28) officers were paid salary advance totaling Kshs.1,795,500 without clearing the outstanding balances. It was further noted that the recovery process of salary advance was extended beyond the allowable 12 months against Human Resource manual. It was also not clear why the officers were being paid salary advance instead of being paid their outstanding salaries.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7 (1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Conclusion of Internal Controls, Risk Management and Governance section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for conclusion

1.0 Lack of Board of Directors

The Company did not have a board of directors in place during the period under review as required by Section 128 (2) of the Companies Act, 2015 which states that a public company should have at least two directors.it was observed that the company did not constitute or renew contracts of its board of directors since their tenure elapsed in year 2013. No explanation has been provided for failure to have a board of directors in place.

2.0 Absence of an Internal Audit Function and Audit Committee

During the period under review, it was observed that the Company did not have an internal audit function and an audit committee in place. This is contrary to the law that requires a county government entity to have a functioning internal audit department and an audit committee. No explanation has been provided for failure to have an internal audit function and audit committee in place.

3.0 Lack of Risk Management Policy

The Company did not have a risk management strategy in place and therefore, there were no approved processes and guidelines on how to mitigate operational, legal and financial risks. This is contrary to section 158 (1) (a) and (b) of the Public Finance Management Regulations 2015 (County Government) which requires the accounting officer to develop risk management strategies, which include fraud prevention mechanism and internal control that builds robust business operations. No explanation has been given for failure to have a risk management policy in place.

4.0 Lack of IT Control

During the year under review, it was noted that the Company did not have an IT section to steer the operations of the Company. Further, it was noted that ICT policy and IT committee were also not in place.

No explanation was given for failure to have an ICT policy and IT committee in place.

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 Financial Reporting Standards 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 continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Eldama Ravine Water and Sewerage Company Limited 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

My responsibility is to conduct an audit of the 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.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

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

16 April 2019