

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Eldoret Water and Sanitation Company Limited set out on pages 18 to 39, which comprise the statement of financial position as at 30 June 2017, 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 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 effect 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 Eldoret Water and Sanitation Company Limited as at 30 June 2017, 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 Water Act, 2002 and the Kenya Companies Act, 2015 (CAP 486).

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Other Matter and Basis for Qualified Opinion sections of my report, based on the procedures performed, I confirm that, nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 Insurance

Included in the administrative and operating expenses figure of Kshs.379,089,360 as disclosed in note 3 to the financial statements is insurance expenditure amounting to Kshs.19,410,228 in respect of motor vehicle insurance. However, signed insurance agreements/contracts and pre- insurance valuation reports were not availed for audit verification. Under the circumstance, the validity and accuracy of insurance expenditure of Kshs.19,410,228 could not be confirmed.

2.0 Professional Fees - Technical Audit of Chebara Expansion Project

The administrative and operating expenses of Kshs.379,089,360 as disclosed in note 3 to the financial statements also include professional fees of Kshs.8,156,324 out of which expenditure of Kshs.3,132,543 was incurred on a technical audit of Chebara Expansion Project. However, procurement records such as letter of award and contract agreement were not availed for audit review. Under the circumstance, the validity and regularity of the expenditure of Kshs.3,132,543 for the technical audit of Chebara Expansion Project could not be confirmed.

3.0 Corporate Social Responsibility (CSR) Activities

The administrative and operating expenses of Kshs.379,089,360 further includes corporate social responsibility activities figure of Kshs.4,539,489 out of which an expenditure of Kshs.3,589,784 was in respect of procurement of 5,000 pipes donated to the County Government of Uasin Gishu. A review of records made available for audit review revealed that the request for 5,000 pipes was made on 1 March 2017 by the Ministry of Environment, Water, Energy and Natural Resources vide letter referenced UGC/EEW&NR/ADM/CO/1/03/17/02. However, it was observed that a Local Purchase Order No. 112335 was issued on 13 March 2017 while the board approval was granted on 27 March 2017 long after the order had been awarded. Management has not explained this anomaly.

Under the circumstance, the propriety of Corporate Social Responsibility (CSR) activities expenditure of Kshs.3,589,784 could not be confirmed.

4.0 Legal Costs

Included in the administrative and operating expenses of Kshs.379,089,360 as disclosed in note 3 to the financial statements is legal costs expenditure of Kshs.5,539,864 out of which legal services of Kshs.3,060,000 were procured by use of direct procurement method contrary to Section 103 (2) of Public Procurement and Asset Disposal Act, 2015.

Under the circumstance, the management is in breach of the law and regularity of legal costs of Kshs.3,060,000 could not be confirmed.

5.0 Trade and Other Receivables

5.1 Trade Receivables

Note 9 to the financial statements reflects trade receivables' figure of Kshs.655,772,937 which is at variance with supporting schedules figure of Kshs.671,593,404 resulting in a variance of Kshs.15,820,467 which has not been reconciled. Further, the debtors aging analysis was not availed for audit verification. Under the circumstance, the validity, accuracy and completeness of trade receivables figure of Kshs.655,772,937 could not be confirmed.

5.2 Provision for Doubtful Debts

Note 9 to the financial statements reflects provision for doubtful debts figure of Kshs.40,000,000. However, management has not disclosed the basis for computing provisions for doubtful debts. Under the circumstance, the validity of provision for doubtful debts of Kshs.40,000,000 for the year ended 30 June 2017 could not be confirmed.

6.0 Short Term and Long Term Loans

As reported in the previous year, note 16 to the financial statements reflects a figure of Kshs.1,834,621,077 which relates to short term and long term loans inherited from the defunct Eldoret Municipal Council which is not being serviced and continues to attract interest and penalties. Further, the interest accruing from the loan during the year under review has not been disclosed in the financial statements. The management has not

explained why the loan is not being serviced. Under the circumstance, the loan will continue to attract penalties and interest therefore increasing the financial obligations to the company.

7.0 Trade and Other Payables

Included in the trade and other payables figure of Kshs.340,759,684 reflected in the statement of financial position as at 30 June 2017 and as disclosed in note 17 to the financial statements is trade payables figure of Kshs.10,708,934 out of which an amount of Kshs.1,205,189 has been outstanding for over ninety (90) days. No explanation has been provided for failure to pay the long outstanding debts. Under the circumstance, the company is at risk of paying interest on the outstanding debts and therefore the validity and existence of trade payables of Kshs.1,205,189 as at 30 June 2017 could not be confirmed.

8.0 Customer Deposit

The statement of financial position as at 30 June 2017 reflects customers' deposits figure of Kshs.76,391,821 which is at variance with supporting schedules figure of Kshs.42,439,156 resulting in an unexplained and unreconciled difference of Kshs.33,952,665. Further, the customers deposit bank account reflects a bank balance of Kshs.1,293,770 as at 30 June 2017 which is at variance with customers' deposits figure of Kshs.76,391,821 resulting in a variance of Kshs.75,098,061.

Under the circumstances, the accuracy and completeness of customers deposits figure of Kshs.76,391,821 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Eldoret Water and Sanitation 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 Other Matter sections of my report, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1.0 Non-Revenue Water

Included in sales figure of Kshs.704,482,841 reflected in the statement of comprehensive income is sales of water figure of Kshs.479,708,907. However, a review of records made available indicate that the company produced 12,925,519 cubic metres of water out of which only 7,565,923 cubic metres of water was billed to consumers at

Kshs.479,708,907. The balance of 5,359,596 cubic metres of water representing 41% of the total volume of water produced was not billed. This represented non-revenue water which is 16% over and above the Water Services Regulatory Board (WASREB) guidelines allowable loss of 25%. No verifiable explanation was provided for this percentage of non-revenue water. Under the circumstance, the company may have lost revenue amounting to approximately Kshs.339,819,205.

2.0 Failure to Observe One-Third Rule for Staff Establishment

Examination and analysis of personnel records of the company availed for audit review revealed that the company has nine (9) members of the board out of which eight (8) or 89% of the members are from the dominant ethnic community. In addition, the management team of the company comprises of four (4) members who also belong to the dominant ethnic community. This is contrary to section 7(2) of the National Cohesion and Integration Act, 2008. Under the circumstances, management is in breach of the law.

3.0 Staff Salary Deduction Below One Third Rule

A review of the payroll for the year under audit revealed that some staff members earned less than a third (1/3) of their basic salary after deduction in the months of July 2016, August 2016, September 2016, October 2016, November 2016, January 2017, February 2017, March 2017, April 2017, May 2017 and June 2017 in contravention of Section 19 (3) of the Employment Act, 2007 which stipulates that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions made by an employer from the wages of his employee at any one time shall not exceed two thirds of such wages. The management is therefore in breach of the law.

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 as a going concern/ sustain services, disclosing, as applicable, matters related to going concern/ sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Company's 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

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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Company's 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 Company's 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 Company's to cease as a going concern or to continue 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's 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenya Companies Act, I report based on my 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 the audit;
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.



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

Nairobi

11 July 2018