

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

---

## **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 22 to 45, which comprise the statement of profit or loss and other comprehensive income, statement of financial position as at 30 June 2018, and the 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, 2018, and of its financial performance and its cash flows for the year then ended, in accordance with the Water Act, 2002 and the International Financial Reporting Standards and comply with the companies Act, 2015 (CAP 486).

### **Basis for Qualified Opinion**

#### **1.0 Customers' Deposits**

The statement of financial position as at 30 June 2018 reflects customers' deposits figure of Kshs.79,553,934 which is at variance with the customers deposit bank account figure of Kshs.7,460,675 as disclosed under note 9 to the financial statements resulting in an unexplained difference of Kshs.72,093,248.

Consequently, the existence, accuracy and completeness of the customer deposits figure of Kshs.79,553,934 as at 30 June 2018 could not be confirmed.

#### **2.0 Understatement of Water Regulatory Administrative Fees**

The statement of profit or loss and other comprehensive income for the year ended 30 June 2018 reflects administrative and operating expenses of Kshs.490,979,693 which includes fees of Kshs.24,000,000 payable to Lake Victoria North Water Services Board as disclosed in note 3 to the financial statements. However, available information revealed that the Water Services Regulatory Board through their letter ref. WASREB/TARIFF/003.Vol.XIII (66) dated 6 July 2015 approved a tariff of Kshs.33,800,000 as payable by the company to the board. The LVNWSB Fees is therefore understated by Kshs.9,800,000.

Consequently, the accuracy, validity and completeness of the administrative and operating expenses of Kshs.490,979,693 for the year ended 30 June 2018, could not be confirmed.

### **3.0 VAT Refunds**

Note 8 to the financial statements reflects trade and other receivables of Kshs.709,373,661 which includes VAT refunds of Kshs.93,338,335. However, no analysis was provided detailing the date, description of goods or services, invoice amount and VAT amounts. Consequently, the accuracy, validity and completeness of the trade and other receivables balance of Kshs.709,373,661 as at 30 June 2018 could not be confirmed.

### **4.0 Provision for Bad and Doubtful Debts**

Note 8 to the financial statements reflects trade and other receivables of Kshs.709,373,661 which is net of provision for bad and doubtful debts of Kshs.50,000,000. Although, the recoverability of trade receivables is in doubt, management did not provide the basis for measurement of present values of future cash flows of the receivables. As a consequence, the adequacy of the provision for bad and doubtful debts of Kshs.50,000,000 could not be established.

### **5.0 Other Advances**

Note 8 to the financial statements reflects trade and other receivables of Kshs.709,373,661 which includes other advances of Kshs.3,282,441 made to suppliers of goods and services out of which an amount, Kshs.1,472,000 paid to Prochem Industries Ltd for undisclosed supplies. Available information revealed that the company ceased to exist. Therefore, the recoverability of the amount is remote.

Consequently, the accuracy and validity of the trade and other receivables of Kshs.709,373,661 as at 30 June 2018 could not be confirmed.

### **6.0 Inventories**

The statement of financial position as at 30 June 2018 reflects inventories of Kshs.15,444,103. However, the inventory was valued at weighted average cost and not the lower of cost or net realizable value as prescribed by International Accounting Standards (IAS) 2. Further, a physical verification and examination of stocks and records showed that there were stocks that had become obsolete and were in the company's store hence attracting holding costs, fund wastages and shows improper planning on the part of management.

Consequently, the accuracy and completeness of inventories of Kshs.15,444,103 as at 30 June 2018 could not be confirmed.

## **7.0 Non- disclosure of Biological Assets**

The statement of financial position as at 30 June 2018 reflects biological assets nil balance. However, note 3 to the financial statements disclose administrative and operating expenses of Kshs.490,979,693 which includes conservation of water resources expenditure of Kshs.4,771,488.00 incurred on the 350 acre Eldoret sanitation land located at Kipkenyo.

Inspection of the conservation activities conducted in January 2019 revealed that trees were planted on the site and are at various stages of maturity. However, the same have not been recognized as biological assets in the financial statements as required by IAS 41. Although the management has explained that the company had initiated the process by appointing a committee which conducted tree counting and verification and gave a report in June 2018 and a process of bringing on board a valuer to undertake a biological assets valuation in the financial year 2017/2018, the value of the trees in the 350 acres farm has not been included in the biological assets figure.

Consequently, the accuracy, and completeness of the biological assets nil balance as at 30 June 2018 could not be confirmed.

## **8.0 Unsupported Payment of Bonuses**

Note 3 to the financial statements disclose administrative and operating expenses of Kshs.490,979,693 which includes staff costs of Kshs.166,785,901. A review of payroll records indicated that an amount of Kshs.5,582,827 was paid to staff as bonuses for positive performance posted in the previous year after a request was made by the staff through their union which was subsequently approved by the board under minute EW/SC/46/2017 of 21 December 2017. However, there was no policy and procedures developed by management to guide in the payment of bonuses. Although management availed a draft policy, the same has not been approved by the board.

In consequence, the payment of bonuses of Kshs.5,582,827 was irregular.

## **9.0 Long Outstanding Loan-Kshs.1,834,621,077**

As reported in the previous year, note 15 to the financial statements reflects a figure of Kshs.1,834,621,077 which relates to a long term loan given by Kreditanstalt fuer Wiederaufbau (KfW) to the Republic of Kenya to finance the Eldoret Water Supply Phase II project 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. Under the circumstances, the management is in breach of the loan agreement.

## **10.0 Misstatement of Trade and Other Payables**

The statement of financial position as at 30 June 2018 reflects Trade and other payables balance of Kshs.371,141,322 which includes Kshs,186,087,504 due to Uasin Gishu County Government on account of lease charges for assets pursuant to an addendum to the lease agreement signed between ELDOWAS and the Municipal Council of Eldoret on 27 May 2002 and the amount has been outstanding since 30 June 2015. WASREB prescribed the annual lease charges at Kshs.42,770,000 per annum for the financial years 2015/2016, 2016/2017 and 2017/2018.

Records made available show that the company, in an extra ordinary general meeting held on 22 January 2016, resolved to stop further payment of lease charges to the County Government of Uasin Gishu. Consequently, the company is in breach of the lease agreement.

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. I have determined that there are no other key audit matters to communicate in my report.

### **Other Matter**

#### **11.0 Non-Revenue Water**

Included in the sales figure of Kshs.652,493,328 reflected in the statement of profit or loss and other comprehensive income is sales of water figure of Kshs.437,180,159. However, a review of records made available indicate that the company produced 13,554,813 cubic metres of water out of which only 7,869,351 cubic metres of water was billed to consumers at Kshs.438,414,971. The balance of 5,685,462 cubic metres of water representing 42% of the total volume of water produced was not billed. This represented non-revenue water which is 17% over and above the Water Services Regulatory Board (WASREB) guidelines allowable loss of 25%.

Under the circumstances, the Company may have lost revenue amounting to approximately Kshs.316,746,789.

#### **12.0 Contracted staff**

Note 3 to the financial statements disclose administrative and operating expenses of Kshs.490,979,693 which includes staff costs of Kshs.166,785,901. A review of payroll records indicated that an amount of Kshs.23,069,129 was paid to 127 contracted staff. However, the approved staff establishment to confirm vacancies in the posts filled by the contracted staff and whether the vacancies derive from the strategic plan was not availed for review contrary to Section 4.1(8) of the Water Services Regulatory Board (WASREB) corporate governance guidelines which requires the board to develop an approved organizational structure and adhere to the staff efficiency ratio guideline.

Further, the company recruited 32 contracted staff during the year under review. However, no evidence was provided to show that the recruitment was done competitively as required by the Constitution. Although management has explained that Human Resource audit was on going to establish the optimum staff levels, the company is in breach of law.

### 13.0 Acting Allowances

A review of payroll records indicated that 14 staff were paid acting allowances for more than six months contrary to section C.14 (1) of Human Resource Policies and Procedures Manual for the Public Service May, 2016 which requires that acting allowance will not be payable to an officer for more than six (6) months. Although management explained that they are awaiting results of a human resource audit to advice on the proper staffing levels, the said staff continue to act irregularly and are being paid acting allowances. The company is in breach of the law.

### 14.0 Project Status

From a sample of projects verified, the audit revealed following the observations:

Serial No.	Project	Actual Cost	Observation
		<b>Kshs</b>	
1	EIA Report and Drilling of Huruma Boreholes	1,838,603.45	Well at Mwenderi and Huruma ECDs was unsuccessful as they did not yield any water. Therefore, there was no value for money in the expenditure.
2	Construction of Sewer lines in Langas Area 1.870 KM Sewer Lines	5,574,458.00	Complete and in use. However, the project is not labelled and therefore other agencies may lay claim on the project
3	Construction of Sewer lines in Kipkaren Area 234 M Sewer Lines	739,200.00	Complete and in use. However, the project is not labelled and therefore other agencies may lay claim on the project
4	Construction of a Flyover Sewerline	1,139,150.00	Complete and in use. However, the project is not labelled and therefore

Serial No.	Project	Actual Cost	Observation
		<b>Kshs</b>	
	in Annex Area Crossing River Sosiani		other agencies may lay claim on the project
5	Annex/ Sukunanga Water line Extension Project	595,363.60	Complete and in use. However, the project is not labelled and therefore other agencies may lay claim on the project
6	Annex/ Sukunanga Water line Extension Project	111,527.60	Complete and in use. However, the project is not labelled and therefore other agencies may lay claim on the project
7	Kampi Nairobi Water line Extension Project	1,645,250.00	Complete and in use. However, the project is not labelled and therefore other agencies may lay claim on the project. Further, locals were found connecting themselves to the water line without supervision of the Company staff and therefore the connections may be illegal
8	Choma Zone Water line Extension Project	515,272.00	Complete and in use. However, the project is not labelled and therefore other agencies may lay claim on the project. Manhole on the extension not covered and leaking.
9	Laboratory construction at ACK St. Barnabas Secondary (CSR activity)	1,000,000.00	Complete and in use but not labelled.
10	Conservation of water resources- Tree planting at Kipkenyo Sewer Treatment plant	4,771,488.00	The trees have been planted. Some have matured. No reason was provided for not treating the same as biological assets.
	<b>Total</b>	<b>17,930,312.65</b>	

## 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 Conclusion on Lawfulness and Effectiveness in use of Public Resources section 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**

### **1.0 Long Outstanding Loan-Kshs.1,834,621,077**

As reported in the previous year, note 15 to the financial statements reflects a figure of Kshs.1,834,621,077 which relates to a long term loan given by Kreditanstalt Fuer Wiederaufbau (KfW) to the Republic of Kenya to finance the Eldoret Water Supply Phase II project 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. Under the circumstances, the management is in breach of the loan agreement.

### **2.0 Misstatement of Trade and Other Payables**

The statement of financial position as at 30 June 2018 reflects Trade and other payables balance of Kshs.371,141,322 which includes Kshs,186,087,504 due to Uasin Gishu County Government on account of lease charges for assets pursuant to an addendum to the lease agreement signed between ELDOWAS and the Municipal Council of Eldoret on 27 May 2002 and the amount has been outstanding since 30 June 2015. WASREB prescribed the annual lease charges at Kshs.42,770,000 per annum for the financial years 2015/2016, 2016/2017 and 2017/2018.

Records made available show that the company, in an extra ordinary general meeting held on 22 January 2016, resolved to stop further payment of lease charges to the County Government of Uasin Gishu. Consequently, the company is in breach of the lease agreement.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS**

## **Conclusion**

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

## **Basis for Conclusion**

### **1.0 Inventory valuation**

Audit has revealed a weak system of internal control over valuation of inventories as the same officer who maintains stock cards also prepared the stock sheets for inventory valuation. The stock take sheet, on the Bin Card and Physical stock verification column, were filled and initialized by the same officer

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 effective 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 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 Eldoret Water and Sanitation Company Limited, so far as appears from the examination of those records; and,
- iii. Eldoret Water and Sanitation Company Limited financial statements are in agreement with the accounting records and returns.

## **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 (Accrual Basis) 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 Eldoret Water and Sanitation Company Limited ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern



basis of accounting unless the management either intends to liquidate the Eldoret Water and Sanitation 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 Eldoret Water and Sanitation Company Limited 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 Eldoret Water and Sanitation Company Limited 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 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 Eldoret Water and Sanitation Company Limited 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 Eldoret Water and Sanitation Company Limited to cease to continue as a going concern or 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 Eldoret Water and Sanitation Company Limited 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.



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

**Nairobi**

**03 April 2019**