

REPORT OF THE AUDITOR-GENERAL ON GARISSA 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 Garissa and Sewerage Company Limited set out on pages 14 to 29, 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 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. Financial Statements

1.1 Late Submission of Financial Statements

During the year under review, the Company did not submit financial statements to the Auditor-General within statutory deadline of 30 September. The financial statements were submitted to the Auditor-General on 13 May 2019, more than seven (7) months after the statutory deadline. Contrary to Section 47(1) of the Public Audit Act, 2015 and Section 164 (4) of Public Finance Management Act, 2012 stipulates that within three months after the end of each financial year, the accounting officer for an entity shall submit the entity's financial statements to the Auditor-General.

The management of the Company was therefore in breach of the law.

1.2 Unconfirmed Opening Balances for the Financial Year 2017/2018

The management did not submit for audit the financial statements of the Company for the financial year ended 30 June 2017 contrary to Section 47(1) of the Public Audit Act, 2015, which states that all financial statements required under all legislations shall be submitted to the Auditor-General within three months after the end of the respective financial year. Further, the water company contravened Section 635(1) of the Companies Act, 2015 which requires the directors of every company to prepare financial statements for the company for each financial year of the company. Consequently, the opening balances for the financial year 2017/2018 of the Company could not be confirmed.

1.3 Omissions on Financial Statements

The financial statements submitted for audit by the Company did not conform to International Financial Reporting Standards format requirement since they lacked the following information: -

- i. Statement of comparison of budget and actual amounts was not included in the financial statements.
- ii. The page numbering was not properly done
- iii. Some of the attached management reports were not signed by respective officers
- iv. Progress report on follow-up of previous audit issues has not been included in the financial statements.

The exclusion of the information contravene Section 47(2) of the Public Audit Act, 2015 which states that the financial statements shall be in the form and content as prescribed by the Public Sector Accounting Standards Board.

No proper explanation was given as to why the International Financial Reporting Standards (IFRS) format on presentation of financial statements was not adhered to.

2. Unaccounted for Chemicals

Included in operating expenditure balance of Kshs.151,455,616 reflected under note 8 to the financial statements is an amount of Kshs.19,445,298 in respect of chemical purchased during the year under review. However, the ledgers supporting the balance reflected an amount of Kshs.20,923,489 resulting to unexplained difference of Kshs.1,478,191. In addition, a review of procurement and other documents revealed the following anomalies;

- i. Some of the chemicals were directly procured without competitive bidding.
- ii. In some instances, cash payments were made to supplies.
- iii. Delivery notes were not attached to the payment vouchers or made available for audit scrutiny.
- iv. The chemicals procured were not taken on charge in the stores ledgers and there were no issue notes availed to confirm the point of use.
- v. There were no inspection and acceptance minutes availed to confirm the chemicals supplied are of the right quality and quantity.

In the circumstances, the probity of the expenditure of Kshs.19,445,298 could not be confirmed.

3. Irregular Procurement of Water Pans

Included in the project costs of Kshs.40,547,015 under Note 19 to the financial statements is Kshs.13,059,056 in respect of construction of two water pans. Examination of contract records availed for audit review revealed the following;

- (i) The Company awarded the contracts for the construction of Gababa and Lababombi water pans at a contract sum of Kshs.10,015,778 each. However, the Company used restricted tendering method of procurement to procure the contracts. No plausible reason was given for the choice of the procurement as required by Section 102 of the Public Procurement and Asset Disposal Act, 2015.
- (ii) The Company paid an amount of Kshs.4,745,250 and 8,313,806 respectively for the two pans as at 30 June 2018. However, there were no progress reports for the water pans and the contract agreement had no specific completion date. It was therefore not possible to ascertain whether the projects were within the contract period.

In the circumstance it has not been possible to confirm whether the Company got value for money for the payment of Kshs.13,059,056 made to the contractors.

4. Trade and Other Payables

4.1 Unsupported Trade and Other Payables

The statement of financial position under Note 14 to the financial statements reflects trade and other payables balance of Kshs.99,686,144 as at 30 June 2018 compared to Kshs.71,137,488 reported on 30 June 2017 resulting to an increase of Kshs.28,548,656. No explanation was given for the cause of the increase in trade and other payables. In addition, the Company did not avail creditors ledgers or schedules showing details of the trade and other payables.

Consequently, the validity and completeness of the trade and other payables balance of Kshs.99,686,144 as at 30 June 2018 could not be confirmed.

4.2 Bank Overdraft

Included in the statement of financial position under note 15 to the financial statements reflects a bank overdraft balance of Kshs.10,912,009. However, there were no bank statements, certificate of bank balances, ledgers or schedules showing details of the overdraft availed to support the overdraft. The Company also did not produce evidence to show that the overdraft was approved by the Company's Board of Directors. The overdraft balance was also not supported by letters requesting the overdraft facilities and signed agreement between the Company and the lenders.

Consequently, the accuracy, validity and the completeness of the reported overdraft balance of Kshs.10,912,009 could not be confirmed.

5. Outstanding Imprests

A review of the cash book for account No.2976982903 for the First Community Bank and imprest records maintained revealed that the company had outstanding imprests amounting to Kshs.2,864,975 as at 30 June 2018. This is contrary to section 93(5) of the Public Finance Management (County Government) Regulations, 2015 which requires a holder of temporary imprest to account for it within 7 days after returning to duty station. It was also noted that multiple imprests were issued to some officers prior to surrendering previous ones contrary to Section 93(4)(b) of the same regulations which require the accounting officer to ensure that the applicant has no outstanding imprests before being issued with another one.

No proper explanation was provided why the imprest had not been surrendered within the statutory deadline.

6. Unaccounted For Revenue

A review of sampled revenue documents covering the period between 1 July 2017 and 30 November 2017 revealed that the water company collected revenue amounting to Kshs.40,569,342 out of which Kshs.34,566,820 was banked resulting to under banking of Kshs.6,002,522 as detailed below:-

Month	Cash Collected Kshs.	Cash Deposited Kshs.	Difference Kshs.
July	10,511,338	9,542,406	968,932
August	5,053,319	4,750,230	303,089
September	10,549,193	7,593,580	2,955,613
October	7,979,341	6,982,157	997,184
November	6,476,151	5,698,447	777,704
Total	40,569,342	34,566,820	6,002,522

The expenditure on revenue at source contravenes section 63(4) of the Public Finance Management (County Government) Regulations, 2015 which states that all public moneys collected by a receiver of revenue or collector of revenue, shall be paid into the designated bank accounts of the entity and shall not be used by any public officer in any manner between the time of receipts and payment into the bank except as provided by law.

No explanation was given why the Company contravened the revenue collection laws.

7. Unaccounted for Maintenance Expenses

Included in operating expenses balance of Kshs.151,455,616 reflected under note 8 to the financial statements is maintenance of plants and equipment amounting to Kshs.33,063,195. Examination of expenditure records amounting to Kshs.1,480,884 revealed the following anomalies:

7.1 Repair of Vehicle Registration No. KBT 996N

Report of the Auditor-General on the Financial Statements of Garissa Water and Sewerage Company Limited for the year ended 30 June 2018

The management of the Company contracted Augab Services to supply spare parts for a vehicle registration No.KBT 996N at a total cost of Kshs.117,650. A review of the expenditure records availed for audit revealed that the vehicle was not inspected before the repairs were carried out. It was therefore not clear how the cost of the repairs were arrived at. The vehicle was also not inspected after the repairs to establish its conditions. Further, the repairs carried out were not recorded in the logbooks (GP55), hence it was not possible to confirm the regularity of the expenditure. In the circumstances, the probity of the expenditure amounting to Kshs.117,650 could not be confirmed.

7.2 Supply of Submersible Pump 18.7 kw and Spare Parts

During the year ended 30 June 2018, the company procured 18.7kw submersible pump and spare parts from one of the local suppliers at a total cost of Kshs.1,163,234. It was however noted that the payment was not supported with minutes of the tender opening committee, requisition from user department and certificate or minutes of the inspection and acceptance committee. Further, the pumps were not taken on charge in the store ledgers and there were no issue notes to confirm the point of use. In the circumstances, the probity of the expenditure amounting to Kshs.1,163,234 could not be confirmed.

7.3 Supply of Assorted ICT Items

During the year under review, the water company procured assorted ICT items from Hechona media through request for quotations at a cost of Kshs.200,000. A review of the procurement records availed for audit review revealed that the items were not received vide counter receipt vouchers. The same were not taken on charge in the stores records and not issued out vide requisition and issue vouchers. Further, there was no LPO raised for the goods as required by Section 106 (5) (a) of the Public Procurement and Assets Disposal Act, 2015. In the circumstances, the probity of the expenditure of could not be confirmed.

8. Irregular Procurement of Motor Cycles

A review of expenditure documents revealed that the Company entered into a contract with Takbeer Hardware Ltd for the supply of four (4) Boxer-Motor cycles at a cost of Kshs.440,000. However, scrutiny of the procurement and stores records revealed the following anomalies:

- i. The motor cycles were directly procured from the supplier without competitive bidding.
- ii. The motor cycles were not recorded in the asset register.
- iii. Logbooks for the motor cycles were not availed for audit review as a proof of ownership.

- iv. There was no proof that motor cycles were inspected upon delivery by inspection and acceptance committee since the minutes of the committee were not made available.

In the circumstances, the probity of the expenditure of Kshs.440,000 could not be confirmed.

9. Unsupported Board Allowances

The statement of comprehensive income under note 6 to the financial statements reflects an expenditure of Kshs.1,631,000 incurred on directors emoluments out of which Kshs.671,000 was incurred on board members' allowances. However, a review of expenditure documents revealed that board expenses amounting to Kshs.439,000 lacked the following;

- (i) Some of the minutes supporting the payments were not signed by the chairman and secretary to the Board.
- (ii) The payment schedules and attendance registers were not signed by some board members and also did not indicate the period when the board meetings took place.

In the circumstances, the probity of the expenditure of Kshs.439,000 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

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 Disclaimer of Opinion 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. Non-Remittance of Statutory Deductions

A review of the payroll and expenditure records availed for audit revealed that the Company deducted Pay As You Earn (PAYE) and other statutory deductions amounting to Kshs.8,961,239 from its employees as detailed below:

Statutory Deductions	Amount Kshs.
PAYE	4,795,833
NSSF	266,000
NHIF	19,300
Pension Contribution	3,880,106
Total	8,961,239

It was however noted that the Company did not remit the PAYE and other statutory deductions to the relevant bodies. No reason was given for the non-compliance with the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

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. Weak Information Technology (IT) Internal Controls and Other Controls

A walkthrough tests on Information Technology (IT) and other controls revealed the following weaknesses:

- i. The Company does not have strong Information Communication Technology (ICT) controls and a properly functionally IT department despite operating Information Technology (IT) enabled environment like billing software.
- ii. There were no approved policies on Information Technology security including disaster recovery plan and IT continuity plan, consequently the critical data/information may not be recovered in case a disaster occurs.
- iii. The Company does not have IT strategic or steering committees which could result in none implementation of IT governance, as part of enterprise governance.
- iv. There were no fire suppression systems therefore information may be lost in case of a fire outbreak.

- v. The Company lacks security policy, and thus no clear direction on how to maintain information security and how to safeguard its assets.
- vi. The Company operates without a procedure manual detailing authority and responsibilities as well as reporting relationships and authorization hierarchies.
- vii. The management has not instituted policies and procedures to guide key financial processes and controls for the management of: revenue, expenditure, personnel expenditure, inventory and liabilities.

No proper explanation was provided why the Company did not have a proper Information Technology (IT) environment.

2. Lack of Internal Audit Department and Audit Committee

Section 155 of the Public Finance Management Act, 2012 requires that a County Government entity to establish both internal audit unit and audit committee. Contrary to this requirement, the Company had no functional internal audit department. The Company had also not established audit committee to monitor the entity's governance process, accountability process and control systems, and offer objective advice on issues concerning risk, control, regulatory requirements and governance of the Company.

In the circumstances, the Company was in breach of Section 155 of the Public Finance Management Act, 2012.

3. Lack of Risk Management Policy and Fraud Prevention Mechanisms

Section 158 of the Public Finance Management (County Government) Regulations, 2015 states that each county government entity shall develop risk management strategies, which include fraud prevention mechanism. Contrary to this regulation, the management has not put in place a risk management policy and fraud prevention mechanisms in place to assist in enhancing its internal controls.

In the circumstances, the Company was in breach of the Law.

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 Company's 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 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.

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 Garissa 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

21 August 2019