

REPORT OF THE AUDITOR-GENERAL ON GITHUNGURI 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 Githunguri Water and Sanitation Company Limited set out on pages 13 to 36, 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 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 effects 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 Githunguri 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 International Financial Reporting Standards and comply the Kenyan Companies Act, 2015.

Basis for Qualified Opinion

1. Property, Plant and Equipment

The statement of financial position as at 30 June 2018 reflects property, plant and equipment balance of Kshs.15,718,971 and as further disclosed in Note 7 to the financial statements. However, the audit revealed that the Company had as that date other assets with undetermined value including land, motor vehicles, motor cycles, boreholes, water pipelines, sewer system and water treatment plants that are used in revenue generation and which were not disclosed or included the financial statements. Consequently, the property, plant and equipment balance of Kshs.15,718,971 reflected in the financial statements as at 30 June 2018 is not fairly stated.

2. Prepayments and Deposits

Disclosed in Note 14 to the financial statement under prepayments and deposits balance of Kshs.130,480 are amounts of Kshs.11,500 and Kshs.23,000 in respect of office and telephone deposits, respectively which were not supported by any documentation. As a result, the validity, completeness and accuracy of these amounts could not be ascertained.

3. Long Outstanding Debtors

Disclosed in Note 9 to the financial statements are gross trade debtors and other receivables balance of Kshs.45,612,284 and a provision for bad debts of Kshs.19,475,535 as at 30 June 2018. However, the Company did not provide for audit review age analysis for the same. As

a result, the validity, adequacy and accuracy of the provision for bad debts made could not be ascertained.

In the circumstances, the accuracy of trade debtors and other receivables net balance Kshs.26,136,749 as at 30 June 2018 shown in the statement of financial position could not be confirmed.

4. Loan Obtained from Customers' Deposits

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.6,338,298 against customers' deposits. However, bank account for customers' deposits reflects a balance of Kshs 5,567,386 as at that date and thus, resulting in a difference of Kshs.770,912. Although the Company explained that the difference of Kshs.770,912 relates to the balance accruing out of Kshs.1,170,912 borrowed from the customers' deposits during the financial year 2013/2014, the audit revealed that an amount of Kshs.672,912 out of the sum borrowed was not approved by the board of directors.

In addition, an amount of Kshs.300,000 out of the sum borrowed was paid in 2016/2017 leaving un-serviced balance of Kshs. 770,912 as at 30 June 2018.

5. Lease Fee Owed to Athi Water Services Board (AWSB)

Disclosed in Note 11 to the financial statements under trade and other payables is an amount of Kshs.13,696,290 which was owed to Athi Water Services Board (AWSB) by the Company as at 30 June 2018 in respect of lease fee. However, the lease agreement was not provided for audit review and therefore, the basis upon which the lease fee was determined could not be confirmed.

6. Unvouched Expenditure

Administrative and other expenses totalling Kshs.25,102,523 shown in the statement of comprehensive for the year ended 30 June 2018 includes expenditure of Kshs.882,443 incurred on staff airtime, meal allowances, repair of equipment, per-diems, local and foreign travel for which supporting documents and records were not made available for audit review. The validity, completeness and accuracy of the expenditure of Kshs.882,443 could not, therefore, be ascertained.

7. Unsupported Fuel Expenses

Disclosed in Note 5 to the financial statements under operational expenses is amount of Kshs.1,372,954 against fuel expenses. However, examination of fuel receipts and work tickets revealed that fuel expenses amounting to Kshs.201,900 were not supported by any documentary evidence. In addition, a private vehicle registration number KBM 772R and ten motorcycles owned by staff irregularly drew fuel valued at Kshs. 179,185.

In the circumstances, the validity, completeness and accuracy of fuel expenses totalling Kshs.381,085 could not be confirmed.

8. Board Expenses

During the financial year 2017/18, the Company held eleven board meetings. However, minutes of seven board meetings were not provided for audit review. In the circumstances, the validity, completeness and accuracy of board expenses including directors' allowances - Kshs.594,000, board expenses - Kshs.42,530 and PAYE directors – Kshs.244,345 disclosed under Note 4 to the financial statements could not be confirmed.

9. Failure to Disclose Material Uncertainty in Relation to Going Concern

The statement of comprehensive income indicates that the Company incurred an operating loss of Kshs.15,627,266 for the year ended 30 June 2018 (2017: a loss of Kshs.8,303,746). The operating loss depleted further the revenue reserves from negative Kshs.57,435,003 as at 30 June 2017 to negative Kshs.73,062,269 as at 30 June 2018. The Company's current liabilities balance of Kshs.102,351,092 exceeded its current assets balance of Kshs.36,355,865 resulting in a negative working capital of Kshs.65,995,227 as at 30 June 2018.

The precarious financial situation described above is an indication of the existence of a material uncertainty which may cast a significant doubt on the Company's ability to continue as a going concern and to meet its obligations as and when they fall due. The financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive financial support from the Kiambu County Government and its creditors. However, this material uncertainty in relation to going concern and any mitigating measures put in place by the Company's directors to reverse the undesirable precarious financial position have not been disclosed in the notes to the financial statements.

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 Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections, I have determined that there are no Key Audit Matters to communicate in my report.

Other Information

The directors are responsible for the other information. The other information comprises the report of directors as required by the Companies Act, 2015, and the statement of the directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears

to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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 Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections 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. Budget Performance - Under Collection of Revenue

During the financial year ended 30 June 2018, the Company had an approved revenue budget of Kshs. 50,929,548 in respect of water sales and new connection fee. The statement of comparison of budget and actual amounts for the year then ended reflects actual receipts of Kshs. 44,857,018. There was, therefore, a revenue shortfall of Kshs 6,072,530 or about 12% against the budgeted amount, which is an indication of failure to use public resources effectively to meet the targets.

2. Budget Performance - Under Absorption of Capital Expenditure Budget

Examination of the budget document revealed that the Company had proposed projects to the county and national governments for funding consideration totalling Kshs. 1,037,000,000 that were neither funded nor implemented. This negatively impacted on the development of water infrastructure and hence, poor delivery of water and sanitation services by the Company.

Further, even though this amount was captured in the Company's budget for the year under review, documents requesting for funding from the county and national governments for consideration were not presented for audit review.

3. Non-Revenue Water

During the year under review the Company produced 1,136,751 m³ of water. However, out of this volume only 489,834 m³ of water was billed to customers. The balance of 646,917 m³ or 56.9% of the total volume produced represents Non-Revenue Water (Unaccounted for Water). The NRW (UFW) which is 31.9% over and above the allowable loss of 25% in accordance with Water Services Regulatory Board guidelines. The Non-Revenue Water of 56.9% may have resulted in loss of sales estimated at Kshs. 56,735,972.

4. Gaps in Water Testing

Examination of Water testing records revealed that water samples were collected and taken to Ruiru - Juja Water and Sewerage Company Ltd during the month of March and April 2018 for analysis. The results revealed that the water was contaminated, and the recommendation was to treat the water. However, there was no evidence of water having been treated in the subsequent days to confirm the cleanliness. The Company may, therefore, be failing in guaranteeing safe and clean water to the consumers as required under Article 43(1) d of the Constitution of Kenya, 2010.

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 EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

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 Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Accounting for Per-diems

The Company paid per-diems amounting to Kshs 632,707 to the staff during the year under review. However, the audit revealed the following control weaknesses and anomalies:

- (i) The per-diems were processed without imprest warrants;
- (ii) The Company did not maintain an imprest register;
- (iii) The holders of the imprests did not surrender or account for the imprests within seven working days after returning to duty station; and
- (iv) Employees were paid per-diems in cash hence accountability of the imprests was weak.

2. Non-existence of Board of Directors

Information available indicates that the board of directors' operations were suspended because of the impending reorganization and merging of the water companies as directed by the Kiambu County Government Executive. However, documentary evidence in support of the suspension of the board was not produced for audit review. Further, in the absence

of the board, formulation of the Company's policies, procedures and execution of the functions of the board would be curtailed contrary to section 79(1) of the Water Act, 2016.

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 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 Kenyan Companies Act, 2015 I report based on the 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 my audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's statement of financial position and statement of comprehensive income are in agreement with books of account; and
- (iv) In my opinion the information given in the report of the directors on pages 10 and 11, is consistent with the financial statements.

Responsibilities of Directors and Those Charged with Governance

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for maintaining effective internal control as the directors 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, the directors are responsible for assessing the ability of Githunguri Water and Sanitation Company Limited to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the directors either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are 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, the directors are 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 manner.

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

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 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 directors.
- Conclude on the appropriateness of the directors' 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 ability of Githunguri Water and Sanitation Company Limited to continue as a going concern. 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 to cease to continue as a going concern.
- 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 Githunguri 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 directors 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 the directors 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.

A handwritten signature in black ink, appearing to read 'E. O. Ouko', with three dots below the signature.

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

Nairobi

09 April 2019