

REPORT OF THE AUDITOR-GENERAL ON ITEN TAMBACH WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Iten Tambach Water and Sewerage Company Limited set out on pages 13 to 29, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity and 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 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 Iten Tambach Water and Sewerage Company Limited as at June 30, 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 Companies Act, 2015.

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

Basis for Qualified Opinion

1.0 Non-current Assets - Work In Progress

The statement of financial position reflects a balance of Kshs.22,251,463 for non-current assets as at 30 June 2017 which comprises property, plant and equipment of Kshs.5,371,341 and work in progress of Kshs.16,880,122. Records availed for audit revealed that all the projects under Work In Progress had been completed in time and were in use. However, as at the time of audit in the month of February 2018, none of the projects had been transferred to Rift Valley Water Services Board.. Although, the management had written transfer letters attached with the completion reports, no responses had been received from the Board.

Consequently, the validity and completeness of the non-current assets balance of Kshs.22,251,463 as at 30 June 2017 could not be confirmed.

2.0 Administration Costs - Staff Costs-Wages to Temporary Employees

The statement of comprehensive income for the year ended 30 June 2017 reflects administration costs of Kshs.12,165,002 out of which Kshs.7,254,484 relates to staff costs. Included in the staff costs figure is an amount of Kshs.3,240,345 paid to casual employees (wages of temporary employees) who have been engaged throughout the year contrary to the Employment Act. The management is therefore in breach of the law.

3.0 Trade Receivables

The statement of financial position at 30 June 2017 reflects trade and receivables balance of Kshs.9,517,406 which includes dormant receivables amounting to Kshs.3,693,295 being 38% of the total receivables balance. The management did not indicate the measures it had instituted to collect these long outstanding debts.

Further, the provision for bad and doubtful debts of Kshs.1,140,940 appears inadequate. In the circumstances the recoverability of debts of Kshs.3,693,295 as at 30 June 2017 is doubtful.

4.0 Audit Fees

Payable provisions and accruals increased from Kshs.8,095,027 as at 30th June 2016 to Kshs.10,912,758 by Kshs.2,817,731 (35%) as at 30 June 2017. Available information revealed that the provision of audit fees had increased from Kshs.1,160,000 to Kshs.1,392,000. It is clear that adequate amounts of funds were not available to pay the audit fees as it falls due yet the management continued to incur more debts.

Under the circumstances, the management is in breach of the Public Audit Act, 2015.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Iten Tambach 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 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 section of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Emphasis of the Matter

Financial Performance

During the year under review, the Company recorded a loss of Kshs.914,695 (2015/2016 loss of Kshs.3,460,156) which reduced the retained earnings to Kshs.2,154,833 from

Kshs.3,069,528 as at 30 June 2016. Although the Company recorded a positive working capital of Kshs.2,287,591 as at 30 June 2017, if the strategies are not put in place to reverse the loss trend, the company's future operations are likely to face financial challenges.

My opinion is not qualified with respect to the above matter.

Other Information Included in the Annual Report

The Directors are responsible for the other information, which comprises the report of the directors as required by the Kenyan Companies Act, 2015. The other information does not include the financial statements and my auditor's report thereon.

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

In connection with my 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 my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed on the other information which I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Other Matter

1.0 Non-Revenue Water

Records availed for audit review during the year indicated that the Company produced 402,985 cubic meters (m³) of water. However, out of this volume, only 274,029 m³ was billed to customers, out of which 201,988 M3 was metered and 72,041 M3 was through flat rate. The balance of 128,956 (M³) or approximately 32% of the total volume represented Non-Revenue Water which is 7% over and above the allowable loss of 25% of the total production as per guidelines published by the Water Services Regulatory Board(WSRB).The significant level of Non–Revenue Water may negatively impact on the Company's profitability and its long term sustainability.

2.0 Failure to Observe One Third Staff Establishment Rule

An audit review of personnel records availed for audit revealed that as at 30 June 2017 the Water Company had a staff establishment of 9 (nine) permanent staff, four (4) officers seconded by the national Government and 35 (thirty-five) temporary employees all of whom are from the same ethnic community. Consequently, the management is in contravention of section 7(2) of National Cohesion and Integration Act No. 12 of 2008 and article 232 (1) (h) of the Constitution of Kenya 2010.

3.0 Failure to Establish Internal Audit Function

As previously reported, the Company had not established an internal audit function as required by Section 73(1) (a) of the Public Finance Management Act, 2012 which requires every public entity to put appropriate arrangements in place for conducting internal audit. The absence of an internal audit function may expose the Company to incidents of fraud and misstatement of financial information. In the circumstances, the management is in breach of the law.

4.0 IT Internal Control Environment

A review of the Information and Communication Technology (ICT) of the Iten Tambach Water Company Limited revealed that the Company lacked a formally approved ICT Policy.

Consequently, there is risk that organizational objectives may not be achieved and also it may not be possible to maximize the utilization of the IT resources.

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, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends 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 of Kenya. 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 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 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 offering 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 to continue offering services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities 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 MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015.

As required by Companies Act 2015, 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 statements of financial position and statement of comprehensive income are in agreement with the accounting records; and
- iv. In my opinion, the information given in the report of the directors is consistent with the financial statements.



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

Nairobi

15 May 2018