

REPORT OF THE AUDITOR-GENERAL ON KAPSABET-NANDI WATER SERVICES COMPANY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kapsabet-Nandi Water Services Company set out on pages 14 to 43, 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 matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kapsabet-Nandi Water Services Company as at 30 June, 2018, and 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, 2015.

Basis for Qualified Opinion

1.0 Property, Plant and Equipment

1.1 Assets not Transferred to Lake Victoria North Water Services Board

The statement of financial position as at 30 June 2018 reflects property, plant and equipment balance of Kshs.20,779,488 which includes an amount of Kshs.14,610,252 relating to buildings. As reported in the previous year, completed projects developed by the company which ought to have been transferred to Lake Victoria North Water Services Board (LVNWSB) in accordance with Clause 1.2(4) of the Service Provision Agreement (SPA) had not been transferred as at 30 June 2018. No reason was provided for failure to transfer these assets to the Board.

Further, the value of land on which buildings stand in Kapsabet and Nandi Hills towns whose ownership documents such as title deeds, leases or allotments were not availed for audit verification was not included in the reported balance for property, plant and equipment as at 30 June 2018.

Consequently, the validity, accuracy and completeness of property, plant and equipment balance of Kshs.20,779,488 as at 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kapsabet-Nandi Water Services Company 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 matter(s) described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

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 matter(s) described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources/ qualified opinion 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 Trade Payables

The statement of financial position as at 30 June 2018 reflects trade and other payables balance of Kshs.7,274,486 which includes trade payables of Kshs.4,855,271 out of which trade payables amounting to Kshs.2,922,906 has been outstanding for over 120 days. Under the circumstance, the company is at risk of paying interest on the outstanding creditors.

2.0 Failure to Observe One Third (1/3) Rule for Staff Establishment

During the year, the company employed a total of 8 employees of which all of them were from one ethnic group contrary to sections 7 (1) and (2) of National Cohesion and Integration Act, 2008 which requires that, all public establishments shall seek to represent the diversity of the people of Kenya in the employment and no establishment shall have more than one third of its establishment from the same community. Also, an examination and analysis of the human resource records of the company indicated that, the entity had eight (8) members of the board, four (4) senior management staff and sixteen (16) other permanent and pensionable staff as at 30 June 2018. However, analysis of ethnic background evidenced that, eighty-five per cent (85%) of employees of the company are from the dominant ethnic community contrary to sections 7 (1) and (2) of National Cohesion and Integration Act, 2008. Consequently, the company was in breach of the law.

3.0 Non-Revenue Water

Records availed for audit review indicated that the Company produced a total of 797,818 cubic meters (M³) of water during the year under review and out of which, 501,162 cubic meters (M³) of water was billed to customers for Kshs.31,337,330 while the balance of 296,656 cubic meters (M³) or approximately 37% of the total volume of water produced represents non-revenue water. However, the balance of 296,656 cubic meters (M³) for non-revenue water included a volume of 97,202 cubic meters (M³) or approximately 12% which was over and above the allowable loss of 199,455 cubic meters (M³) or 25% of the total production prescribed in the guidelines issued by the Water Service Regulatory board. Consequently, the significant level for non-revenue water of 97,202 cubic meters (M³) or 12 % billed at the rate of Kshs.58.97 per cubic meter (M³) resulted in loss of sales estimated at Kshs.5,731,972 which had a negative impact on the company's profitability and could erode sustainability of its operations.

4.0 Long Outstanding Trade and Other Receivables

The Statement of Financial Position as at 30 June 2018 reflects trade and other receivables figure of Kshs.20,628,777 which includes an amount of Kshs.20,417,287 which has been outstanding for over 60 days contrary to Section 6.3 of the Water Services Board financial manual of December 2005 which stipulates that, a water service provider may allow up to 45 days moratorium before payment for monthly fees, levies, commissions or any other amount due on contractual obligations. Further, management did not provide documentary evidence indicating the measures that have been put in place to ensure the long outstanding debts are recovered. In the circumstances, the recoverability of the long outstanding debts balance of Kshs.20,417,287 could not be confirmed

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

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter(s) described in the Basis for qualified opinion 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.

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.

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 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 Kapsabet-Nandi Water Services Company 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 Kapsabet-Nandi Water Services 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 Kapsabet-Nandi Water Services Company 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 noncompliance. 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 Kapsabet-Nandi Water Services Company 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 Kapsabet-Nandi Water Services Company 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 Kapsabet-Nandi Water

Services Company 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 Kapsabet-Nandi Water Services Company 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

23 August 2019

Appendices

Appendix 1

2017/2018 Newly Employed Staff

No	Staff Name	Personal No	Date Employed	Designation	Tribe
5	Philemon Kering	0130	07/01/2017	Plumber	Kalenjin
1	Ben Kipkemboi	0131	07/01/2017	Driver	Kalenjin
2	Everlyne Kenei	0132	07/01/2017	Plumber	Kalenjin
7	David Kiprono	0133	07/01/2017	Plumber	Kalenjin
6	Asha Chepchirchir	0134	07/01/2017	Plumber	Kalenjin
3	Joseph Kipkemboi	0135	07/01/2017	Plumber	Kalenjin
8	Isaiah Choge	0136	07/01/2017	Plumber	Kalenjin
4	Albert Cheruiyot	0137	07/01/2017	Accounts Assistant	Kalenjin

Appendix II -Ethnic Composition

No	Ethnic Community	Board Directors		Senior Management		Other Permanent and Pensionable Employees		Total	
		No	%	No	%	No	%	No	%
1	Kalenjin	8	100	4	100	22	79	34	85
2	Luo	0	0	0	0	2	7	2	5
3	Kisii	0	0	0	0	2	7	2	5
4	Luhya	0	0	0	0	2	7	2	5
	Total	8	100	4	100	28	100	40	100