

REPORT OF THE AUDITOR-GENERAL ON KARURI WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Karuri Water and Sanitation Company Limited set out on pages 18 to 42, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity, and the statement of cash flows and the 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 Karuri Water and Sanitation Company Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015 of the Laws of Kenya and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment with a net book value of Kshs.20,479,880. However, as previously reported, the balance excluded fixed assets of undetermined value comprising of land, water pipes and vehicles.

Consequently, the accuracy and completeness of the reported balance for property, plant and equipment could not be confirmed.

2. Trade and Other Payables

2.1. Non-Remittance of Regulatory Fees, Lease Fees and Billing Charges

The statement of financial position reflects trade and other payables balance of Kshs.65,368,660 which, as previously reported, included lease fees payable to Athi Water Service Board, regulatory fees payable to Water Service Regulatory Board, billing service charges payable to Thika Water and Sewerage Company and Nairobi Water Company amounting to Kshs.27,092,744, Kshs.5,227,888, Kshs.960,365 and Kshs.25,587,860, respectively that have been outstanding for a long period. No explanation was provided for the failure to remit the outstanding amounts to the respective organizations.

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

The statement of profit or loss and other comprehensive income indicates that the Company recorded a loss of Kshs.6,224,909 (2018: Kshs.6,919,546). The operating loss depleted the capital and reserves balance from a negative Kshs.27,212,058 as at 30 June, 2018 to negative Kshs.33,436,967 as at 30 June, 2019. Further, the Company's current liabilities balance of Kshs.82,123,930 exceeded the current assets balance of Kshs.28,207,083, resulting into a negative working capital of Kshs.53,916,847. This is an indication of the existence of a material uncertainty which may cast 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 Kiambu County Government and its creditors. However, the material uncertainty in relation to going concern and mitigating measures put in place by the Company's Directors to reverse the undesirable financial position have not been disclosed in the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Karuri Water and Sanitation Company Limited Management in accordance with ISSAI 130 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. There were no key audit matters to report in the year under review.

Other Matter

1. Under Absorption of Capital Expenditure Budget

During the financial year ended 30 June, 2019, Karuri Water and Sanitation Company Limited had an approved capital budget of Kshs.46,000,000. However, the Company incurred an actual expenditure of Kshs.6,907,214, resulting in an under absorption of Kshs.39,092,786 which is equivalent to 85% of the budget. This means that the approved budget was not fully utilized as planned, which negatively impacted on delivery of water infrastructure and sanitation services.

2. Unresolved Prior Year Audit Matters

As disclosed under the progress on follow-up of auditors recommendations section of the financial statements, audit matters reported in the previous years remained unresolved as at 30 June, 2019.

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 described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources 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

Unaccounted for Water (UFW)

During the year under review, the Company produced 1,561,189 cubic meters (m³) of water. However, out of this volume, 1,048,484 cubic metres (m³) were billed to the customers and the balance of 512,705 cubic metres (or approximately 33% of the total water produced) represented unaccounted for water (UFW), which is 8% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board (WASREB) guidelines. The UFW of 33% may have resulted in loss of sales estimated at Kshs.26,300,459. The significant level of UFW is an indication of inefficiency and ineffectiveness in the use of public resources and, has negatively impacted on the Company's profitability and its long-term sustainability.

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 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 Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Failure to Appoint Board of Directors

As previously reported, the Board of Directors of Karuri Water and Sanitation Company Limited was dissolved in March, 2018. This was due to a proposed re-organization and merging of the water companies by the Kiambu County Government. The Board had not

been constituted as at August, 2020 contrary to Section 79(1) of the Water Act, 2016 which provides for a Board of Directors of a water services provider. Further, the Company did not hold an Annual General Meeting as required under Section 310 (1) of the Companies Act.

In the absence of a Board of Directors, Board functions such as, establishing and reviewing strategies and goals of the Company, review and evaluation of present and future opportunities, risks and threats and; general oversight of finance and Audit Committee functions among others could not be implemented.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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 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 profit or loss and other comprehensive income are in agreement with books of account.

Responsibilities of Management and the Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, and for maintaining effective internal control as the Management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, the Management is responsible for assessing the ability of Karuri Water and Sanitation Company Limited 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 is aware of intention to liquidate the Company or to cease operations.

The 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, the Management 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 way.

The Directors are responsible for overseeing the Company's 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 Management.
- Conclude on the appropriateness of the Managements' 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 Karuri 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 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 Karuri 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 the 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

24 August, 2021