

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kirandich Water Company Limited set out on pages 14 to 31, 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, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Kirandich Water 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 do not comply with the Companies Act, 2015 of the Laws of Kenya.

Basis for Adverse Opinion

1. Discrepancies in Financial Statements

The financial statements reflect the following discrepancies:

- (i) The report of the Managing Director at Page 7 does not make any mention of the financial performance of the Company during the year.
- (ii) The Management report at Page 9 indicates that total Company income for the year under review was Kshs.20,717,306. However the cited balance excludes revenue from grants totalling Kshs.33,447,900 received from the Government during the year.
- (iii) The statement of changes in equity has no comparative balances for the previous year ended 30 June, 2018.
- (iv) Notes to the financial statements do not contain the following disclosures:
 - a) General information;
 - b) Statement of compliance and basis of preparation;
 - c) Description on application of new and revised International Financial Reporting Standards (IFRS);
 - d) Summary of significant accounting policies;
 - e) Significant judgments and sources of estimation of uncertainty;
 - f) Detailed analysis of cash and cash equivalents;
 - g) Notes on the statement of cash flows;
 - h) Details on related parties, and

- i) An appendix of progress on follow-up of auditor recommendations.
- (v) Note 6 to the financial statements on property, plant and equipment reflects depreciation for the year totalling Kshs.461,194 which includes a charge of Kshs.340,750 made on plant and machinery acquired during the year, contrary to the Company policy of not depreciating assets in the year of acquisition.
- (vi) Note 14 to the financial statements on share capital does not meet the disclosure requirements of International Accounting Standards 1 (IAS1) which requires disclosure to be made on number of shares authorized, issued and fully paid, and issued but not fully paid and reconciliation of the outstanding number of shares as at the beginning and at the end of the year.
- (vii) The top page of the financial statements reads “Amended”. No explanation has been cited on the statements.
- (viii) The profile picture for one member of the Board of Directors is missing.

From the foregoing, the financial statements do not conform to the IFRS requirements and the reporting format prescribed by the Public Sector Accounting Standards Board.

2. Discrepancies in the Financial Statements

The statement of profit or loss and other comprehensive income reflects expenses totalling Kshs.54,720,006 whereas the statement of comparison of budget and actual amounts reflects expenses totalling Kshs.56,984,847 resulting in an aggregate variance of Kshs.2,264,841 between the two records as detailed below:

Component	Statement of Profit or Loss and Other Comprehensive Income (Kshs.)	Statement of Comparison of Budget and Actual (Kshs.)	Variance (Kshs.)
Repairs and Maintenance	3,247,239	2,829,957	417,282
Production Costs	35,775,302	35,775,337	(35)
General Expenses	4,037,321	4,198,307	(160,986)
Depreciation	461,194	-	461,194
Purchase of Assets	-	2,982,296	(2,982,296)
Total	54,720,006	56,984,847	(2,264,841)

Management did not provide a reconciliation for the variances and as a result, the accuracy of the financial statements could not be confirmed.

3. Errors in Comparative Figures

Several comparative (2017/2018) financial year balances in the statement of profit or loss and other comprehensive income differ with the audited financial statements balances as detailed below:

Item	Comparative 2017/2018 Balances (Kshs.)	Comparative Audited Financial Statements 2017/2018 Balances (Kshs.)	Variance (Kshs.)
Employee Costs	11,894,424	12,737,389	(842,965)
General Expenses	2,429,990	1,587,025	842,965
Revenue Reserves	3,120,194	0	3,120,194

No explanation has been provided for the variances and as a result, the accuracy and validity of the balances has not been confirmed.

Consequently, the accuracy and completeness of reported water sales revenue totalling Kshs.19,606,782 for the year ended 30 June, 2019 could not be confirmed.

4. Unsupported Fuel and Oils Expenditure

The statement of profit or loss and other comprehensive income reflects general expenses totalling Kshs.4,037,321;(2018-Kshs.2,429,990), as further disclosed in Note 12 to the financial statements. Included the balance is Kshs.744,990 spent on purchase of fuel and oil. However, the respective purchase and consumption records were not presented for audit.

In the circumstance, the occurrence, validity and accuracy of fuel and oil expenditure totalling Kshs.744,990 for the year ended 30 June, 2019 could not be confirmed.

5. Cash and Cash Equivalent

The statement of financial position reflects cash and cash equivalents balance of Kshs.2,497,187 as further disclosed in Note 4 to the financial statements. However, the respective cashbooks and bank reconciliation statements were not presented for audit. As a result, the accuracy, completeness and validity of the cash and cash equivalents balance totalling Kshs.2,497,187 as at 30 June, 2019 could not be confirmed.

6. Refundable Deposits from Customers

The statement of financial position reflects consumer deposits totalling Kshs.561,234. However, analysis of the water connection ledgers as at 30 June, 2019 revealed that the 4,109 customers connected to the Company's water supply system were liable to pay deposit monies totalling Kshs.4,720,000. Consequently, the reported refundable customers deposits totalling Kshs.561,234 reflected in the financial statements may be understated by Kshs.4,158,766.

7. Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions totalling Kshs.32,697,602 as at 30 June, 2019, as further disclosed in Note 3 to the financial statements. The analyses to the balance indicated that balances totalling Kshs.22,339,373 had been outstanding for more than one (1) year but no provision had been made for their possible impairment.

In the circumstance, the fair statement of the receivables from exchange transactions balance totalling Kshs.32,697,602 as at 30 June, 2019 could not be confirmed.

8. Inventories

The statement of financial position reflects an inventories balance totalling Kshs.3,225,099, as further disclosed in Note 2 to the financial statements. However, stock sheets showing the respective items included in the balance were not presented for audit and as a result, the accuracy and completeness of the balance could not be confirmed.

9. Share Capital

The statement of financial position reflects share capital amounting to Kshs.100,000 as at 30 June, 2019, as further disclosed in Note 14 to the financial statements. However, the share certificate confirming the ownership structure of the Company was not presented for audit.

In the circumstance, the accuracy and validity of the share capital balance amounting to Kshs.100,000 as at 30 June, 2019 could not be confirmed.

10. Other Inherited Incomes

The statement of financial position reflects revenue arrears totalling Kshs.27,102,739 as at 30 June, 2019 inherited from the Rift Valley Water Services Board(RVWSB), as disclosed in Note 15 to the financial statements. However, the balance has not been analyzed to indicate the identities of the debtors and the periods the amounts have been outstanding. In addition, the RVWSB has since become defunct and was succeeded by Rift Valley Water Works Development Agency. Management has not indicated the nature of its engagement with the Agency on the matter.

In the circumstances, the accuracy and the completeness of the arrears of revenue totalling Kshs.27,102,739 as at 30 June, 2019 could not be confirmed.

11. Inherited Assets

The statement of financial position reflects property, plant and equipment totaling Kshs.2,648,986. Available information indicates that the Company inherited fixed assets including land and buildings from the defunct RVWSB. The Company's water treatment plant is one among the assets from which rental income totalling Kshs.230,400 was collected in the year under review. However, the assets have not been incorporated into the financial statements.

As a result, the disclosure provided in the financial statements on property, plant and equipment balance totalling Kshs.2,648,986 as at 30 June, 2019 is inadequate.

12. Revenue Reserves

The statement of financial position reflects cumulative reserves deficit balance of Kshs.554,800, whereas the statement of changes in equity reflects a balance of

Kshs.2,565,394 in respect to the account resulting in an unexplained difference of Kshs.3,120,194 between the two records.

Consequently, the accuracy of revenue reserve balance totalling Kshs.554,800 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

13. Unreported Revenue

The statement of profit or loss and other comprehensive income reflects revenue from exchange transactions, water sales, totalling Kshs.19,606,782;(2018-Kshs.19,853,155) as further disclosed in Note 7 to the financial statements. However, the balance differs from the year's billed sales totalling Kshs.21,612,560. No explanation was provided for the difference amounting to Kshs.2,005,778 which denoted revenue that may not have been not accounted for.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kirandich Water 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 adverse 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. I have determined that there were no key audit matters to report in the year under review.

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.

Other Matter

Budget Performance

The statement of comparison of budget and actual amounts reflects income budget and actual receipts totalling Kshs.86,368,699 and Kshs.54,165,206 respectively resulting to underperformance of Kshs.32,203,463 or 37% of the budget.

The budget also indicates that the Company relies on grants from the County Government to fund its operations and projects. In the year under review, the grants amounted to 74% of total revenue. This is despite the significant revenue losses the Company incurs in unaccounted for water supplies which, as highlighted elsewhere in this report accounted for 42% of total water produced in the year under review.

The Management has not provided adequate explanations on why revenue targets were not met and the measures, if any, established to improve revenue collection and efficiency in distribution of water.

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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources 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 Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects revenue from exchange transactions, water sales, totalling Kshs.19,606,782;(2018-Kshs.19,853,155) as further disclosed in Note 7 to the financial statements. At the billing rate of Kshs.50 per cubic meter applied in the year under review, the income was derived from sale of 429,584 cubic meters of water or 58% of the 741,435 cubic meters shown in the Company's records as having been produced during the year. Consequently, the Non-Revenue-Water (NRW) amounted to 311,851 cubic meters or approximately 42% of total production against the allowable ratio of 25%.

The excess loss of water amounted to 126,492 cubic meters or 17% of total production and resulted in loss of Kshs.6,324,600 at the billing rate of Kshs.50 per cubic meter. Management has not disclosed the measures it has instituted to lower the NRW and save the Company from further loss.

2.0 Unmetered and Faulty Water Connections

Examination of water meter records revealed that three hundred and eighteen (318) active water accounts connected to the supply grid did not have water meters. An additional nine hundred and thirty-five (935) accounts had faulty meters but continued to draw water.

As a result, the Company lost significant amount of revenue through unmetered and faulty connections.

3.0 Limited Access Over Systems

The Company's access to the e-pay and resource water billing systems used for staff payroll and customer billing respectively is limited since the systems are controlled by Rift Valley Water Works Development Agency. Further, the Company's staff have not been trained on the two systems and therefore their proficiency and productivity in using them may not be optimal.

4.0 Failure to File Returns

The Company did not file its annual returns with the Registrar of Companies and Kenya Revenue Authority as required under Section 705 of the Companies Act, 2015.

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 OVERALL 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 Overall Governance section of my report, I confirm that, nothing has else come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Lack of Risk Management Policy

Section 158(1)(a) and 158(b) of the Public Finance Management (County Governments) Regulations 2015 which requires each Accounting Officer in a public entity to develop risk management strategies and controls that build robust business operations. However, audit review of the internal control and governance system revealed that the Company did not have a documented risk management strategy during the year under review.

Consequently, risks on the operations of the Company may not be identified and mitigated appropriately.

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 overall 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

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 financial statements are not in agreement with the accounting records and returns.

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 (IFRS) 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 and for its assessment of the effectiveness of internal control, risk management and overall 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 is aware of intention to liquidate the Company or to cease operations.

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 Company 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 overall 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 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.

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 overall 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 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 Company's ability to continue 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 Company to cease to continue 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 Company and 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 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

17 August, 2021