

REPORT OF THE AUDITOR-GENERAL ON LODWAR WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Lodwar Water and Sanitation Company Limited set out on pages 14 to 33, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in owners' 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer of Opinion

1.0 Delay in Submitting Financial Statements for Audit

The management of Lodwar Water and Sanitation Company submitted its financial statements for the year ended 30 June 2017 for audit on 16 January 2018, a period of over three (3) months after the end of the statutory deadline of 30 September, 2017 contrary to Section 164(4)(a) of the Public Finance Management Act, 2012.

Consequently, the management of Lodwar Water and Sanitation Company is in breach of the law.

2.0 Presentation of the Financial Statements

The statement of comprehensive income and the statement of cash flows are indicated as being for the year ended 30 June 2015 instead of for the year ended 30 June 2017. Consequently, the financial statements are not in line with International Financial Reporting Standards.

3.0 Inaccuracies in the Financial Statements

3.1 Variances between the Financial Statements and Supporting Schedules

The financial statements availed for audit reflected variances between the financial statements and supporting schedules which have not been reconciled or explained as summarised below:

Administrative Cost	The Financial Statement figure (Kshs)	Supporting Schedules figure (Kshs)	Variance (Kshs)
Personnel Expenditure	16,140,054.52	21,741,556.00	(5,601,501.48)
Telephone and Postage	942,600.00	1,110,640.00	(168,040.00)
Transport Operations	0.00	46,500.00	(46,500.00)
Travelling and subsistence	0.00	3,668,300.00	(3,668,300.00)
Depreciation	4,804,148.00	963,750.00	3,840,398.00
Regulatory Levies	2,594,797.65	0	2,594,797.65
Office Miscellaneous and Supply	914,280.00	1,112,910.00	(198,630.00)
Training and Development	1,914,500.00	1,600,500.00	314,000.00
Sales and Marketing	67,500.00	62,000.00	5,500.00
Staff Gratuity	0.00	427,195.00	(427,195.00)
Platinum	1,280,363.92	636,791.45	643,572.47
Total	28,658,244.09	31,808,142.45	(2,711,898.36)

Consequently, the accuracy, validity and completeness of the Company's financial statements for the year ended 30 June 2017 could not be confirmed.

3.2 Property, Plant and Equipment.

The statement of financial position reflects property, plant and equipment balance of Kshs.21,393,707 which is at variance with the figure of Kshs.20,804,309 indicated under note 7 to the financial statements resulting to unexplained or unreconciled difference of Kshs.589,398 .

Consequently, the accuracy, and completeness of property, plant and equipment amount of Kshs.21,393,707 as at 30 June 2017 could not be confirmed.

3.3 Variances between the Comparative Figures and year 2016 Audited Financial Statements

The financial statements for the year under review include various opening balances which are at variance with closing balances reflected in the prior year audited financial statements as detailed below.

Item	Balances as per comparative figure for 2016/2017 Financial Statements	Balances as per 2015/2016 audited financial statements	Variance

	Kshs	Kshs	Kshs
Statement of Financial Position			
Property, Plant and Equipment	24,897,038	25,529,566	(632,528)
Debtors	3,947,810	4,222,406	(274,596)
Cash and Bank balance	3,940,272	4,376,654	(436,382)
Total current assets	7,888,082	8,599,060.32	
Creditors and accruals	31,243,510	50,420,470	(19,176,960)
Net current assets	(23,355,427.87)	(41,821,410.05)	18,465,982.18
Suspense	21,796,411.87	19,499,06.92	2,297,350.95
Capital Reserve	-	2,568,129	(2,568,129)
Revenue Reserve	(2,897,038)	(8,497,294)	(5,600,256)
NIC Loan	5,502,960	1,795,402	3,707,558
Capital Grants	14,838,023	7,240,980	7,597,043
Total shareholders' funds and liabilities	23,338,021.91	3,207,217.22	20,130,804.69
Statement of comprehensive income			
Administrative Cost			
Personal expenditure	11,552,312	23,195,986	(11,643,674)
Board expense	71,062	-	71,062
Telephone and postage	508,614	951,750	(443,136)
Transport operating	2,247,578	135,375	774,558
Travelling and substance	960,980	1,473,020	960,980
Office rent	180,000	-	180,000
Office electricity and water	72,245	-	72,245
Bank charges	312,036	259,018	53,018
Depreciation	4,322,273	3,890,796	431,477
Regulatory	7,724,772	1,552,834	6,171,938
Office Miscellaneous and supply	1,411,111	962,800	448,311
Training and development	647,250	530,000	117,250
Insurance	516,616	312,296	204,320
Provision of audit fee	150,000	382,000	(232,000)
Building & Maintenance	68,680	-	68,680

Office supplies/Stationeries	632,470	632,470	-
Sales and Marketing	86,750	166,000	(79,250)
Legal and Consultancy	118,000	-	118,000
Entertainment	138,000	83,890	54,110
Staff Gratuity	7,200	234,391	(227,191)
Newspapers	86,000	59,200	26,800
Computer/Printer repairs	9,000	3,000	6,000
Totals	31,822,948.84	37,354,441.01	(5,531,492.17)

Consequently, the accuracy and completeness of the comparative balances for the year ended 30 June 2017 could not be confirmed.

4.0 Work in Progress

Included in the property, plant and equipment figure of Kshs.21,393,707 is work in progress balance of Kshs.16,748,352 which include additions of Kshs.6,176,673. However, accounting records such as ledgers, schedule of payments, payment vouchers, engineer's valuation report and interim certificates were not availed for audit verification.

Consequently, the accuracy and propriety of work in progress additions expenditure of Kshs.6,176,673 for the year ended 30 June 2017 could not be confirmed.

5.0 Inaccurate Computation of Depreciation Charge

Note 7 to the financial statements reflects depreciation charge for the year of Kshs.963,751 which is at variance with the computed amount of Kshs.3,221,434 as summarized below resulting to unexplained or unreconciled difference of Kshs.2,257,683.

Item	Cost Valuation as at 30 June 2017 Kshs	Rate %	Depreciation charge as per Note 7 Kshs	Computed Depreciation Charge Kshs	Variance Kshs
Computers	736,687	33.3	245,563	245,316.77	246.23
Furniture and fittings	185,351	12.5	63,813	23,168.88	40,644.13
Meters and equipment	1,329,089	12.5	500,625	166,136.13	334,488.88
Motor vehicles and motorbikes	11,147,250	25	153,750	2,786,812.50	(2,633,062.50)
Work in progress	16,748,352		0	0	
Total	30,146,729		963,751	3,221,434	(2,257,683)

Consequently, the accuracy and completeness of depreciation figure of Kshs.963,751 for the year ended 30 June 2017 could not be confirmed.

6.0 Statement of Cash Flows

The statement of cash flows for the year ended 30 June 2017 reflects acquisition of assets balance of Kshs.929,000 while Note 7 to the financial statements indicate an amount of Kshs.6,737,440 for additions during the year under review resulting in a variance of Kshs.5,808,440 which has not been explained or reconciled. The statement of cash flows further reflects suspense account balance of Kshs.36,579,577.43 which is at variance with the statement of financial position figure Kshs.11,044,438.08 resulting in a variance of Kshs.25,535,139.35 which has not been explained. In addition, the statement of cash flows reflects closing cash balance of Kshs.2,013,999.88 which is also at variance with the statement of financial position figure of Kshs.1,200,430.52 again resulting in unexplained or unreconciled variance of Kshs.813,569.36.

Under the circumstances, the accuracy and completeness of the statement of cash flows for the year ended 30 June 2017 could not be confirmed.

7.0 Cash and Bank Balances

The statement of financial position reflects cash and bank balances figure of Kshs.1,200,430.52 which is at variance with the figure Kshs.2,013,999.88 in Note 9 to the financial statements resulting in unexplained or unreconciled difference of Kshs.813,569.36. Further, bank confirmation certificates and board of survey reports were not made available for audit verification.

Consequently, the validity, accuracy and completeness of cash and bank balances of Kshs.1,200,430.52 as at 30 June 2017 could not be confirmed.

8.0 Debtors

The statement of financial position as at 30 June 2017 reflect debtors figure of Kshs.7,768,645 while Note 8 to the financial statement indicate a balance of Kshs.25,799,661 resulting in unexplained or unreconciled variance of Kshs.18,031,016. Further, as reported in the previous year, the ledgers and other supporting documents including analysis of trade debtors and billing records were not provided for audit verification. In addition, provision for doubtful debts was not made during the year under review due to lack of guiding policy on provisioning for doubtful debts. Consequently, the accuracy, completeness and existence of the trade debtors balance of Kshs.7,768,645 as at 30 June 2017 could not be confirmed.

9.0 Unsupported Creditors and Accruals

The statement of financial position as at 30 June 2017 reflects creditors balance of Kshs.38,763,051 which is at variance with the figure of Kshs.59,694,176.59 as shown in note 10 to the financial statements resulting in a variance of Kshs.20,931,125.59 which has not been explained or reconciled. Further, as reported in the previous year, creditors analyses, invoices and customer ledgers and creditors statement were not availed for audit review.

Consequently, the validity, accuracy and existence of the creditors balance of Kshs.38,763,051.39 as at 30 June 2017 could not be confirmed.

10.0 Unsupported Suspense Balance

The statement of financial position reflects suspense account figure of Kshs.11,044,438 as at 30 June 2017. However, as reported in the previous year, no analysis/documentary evidence in support of this figure was availed for audit review. Consequently, the validity and accuracy of the suspense account balance of Kshs.11,044,438 as at 30 June 2017 could not be confirmed.

11.0 Unaccounted for Water (UFW)

Records made available for audit review indicated that 41,558,425.35 cubic meters of water (m³) were produced by the Company during the year under review out of which 26,181,807.97 M³ was billed to customers for Kshs.52,906,103 thus leaving out 15,376,612.43 M³ or approximately 37% of the total volume of water produced unaccounted for water (UFW) which is 12% over and above the Water Services Regulatory Board (WASREB) guidelines allowance loss of 25%. The significant level of unaccounted for water of 15,376,612.43 m³ saleable at the rate of Kshs.2.021 per m³ may have resulted to a loss of sales estimated at Kshs.31,071,828.27 which may impact negatively on the Company's profitability and its long term sustainability.

Consequently, the Company is likely to continue incurring huge financial losses in future due to failure to collect revenue accruing from the unaccounted for water.

12.0 Unsupported Turnover

The statement of comprehensive income reflects turnover balance of Kshs.52,906,103 whose supporting documents were not availed for audit verification.

Consequently, the accuracy and completeness of turnover figure of Kshs.52,906,103 for the year ended 30 June 2017 could not be confirmed.

13.0 National Investment Corporation Loan (NIC) Loan

The statement of financial position as at 30 June 2017 reflects NIC Bank loan balance of Kshs.4,098,542 relating to asset financing for motor vehicles while Note 13 to the financial statements indicate an amount of Kshs.1,813,904 resulting in a variance of Kshs.2,284,638 which has not been reconciled or explained. Further, as reported in the previous year, the loan agreement and Board of Directors minutes approving the loan were not availed for audit verification.

Consequently, the accuracy and propriety of the NIC loan figure of Kshs.4,098,542 for the year ended 30 June 2017 could not be confirmed.

14.0 Finance Costs

The statement of comprehensive income reflects finance cost balance of Kshs.253,217 which is at variance with a figure of Kshs.1,813,904 as disclosed in Note 6 to the financial statements. The difference of Kshs.1,560,687 has not been

explained or reconciled. Further, the supporting schedules for the finance cost figure of Kshs.253,217 was not availed for audit verification.

Consequently, the accuracy, propriety and completeness of finance costs figure of Kshs.253,217 for the year ended 30 June 2017 could not be confirmed.

15.0 Bank Charges

The statement of comprehensive income reflects administrative cost figure of Kshs.37,271,319 out of which Kshs.175,897 relates to bank charges which is at variance with supporting documents balance of Kshs.145,897 resulting to a variance of Kshs.30,000 which has not been reconciled or explained.

Consequently, the accuracy and completeness of bank charges figure of Kshs.175,897 for the year ended 30 June 2017 could not be confirmed.

16.0 Unsupported Cost of Sales

Included in the cost of sales figure of Kshs.6,376,458.33 reflected in the Company's statements of comprehensive income is an amount of Kshs.6,268,458 relating to expenditures on electricity for pumping water. However, the supporting schedules for electricity expenditure indicated an amount of Kshs.10,559,849 resulting in a variance of Kshs.4,291,391 which has not been explained. Further, payment vouchers for the expenditure of Kshs.10,559,849 for electricity expenditure as well as power consumption statements were not availed for audit verification.

Consequently, the propriety, accuracy and completeness of Kshs.6,268,458 for the year ended 30 June 2017 could not be confirmed.

17.0 Training and Development

Note 4 to the financial statements reflects training and development expenditure of Kshs.1,914,500 out of which Kshs.1,023,000 was not supported with documentary evidence such as invitation letters, motor vehicle work tickets or bus tickets, attendance register and training programs.

Consequently, the propriety of Kshs.1,023,000 spent on training for the year ended 30 June 2017 could not be confirmed.

18.0 Administrative Cost

The statement of comprehensive income reflects administrative cost balance of Kshs.37,271,320 which is at variance with the figure of Kshs.28,834,141 as shown in Note 4 to the financial statements resulting in a variance of Kshs.8,437,179 which has not been explained or reconciled. Further, included in administrative cost balance of Kshs.28,834,141 as disclosed under Note 4 to the financial statements is depreciation expense figure of Kshs.4,804,148 which is at variance with depreciation charge figure of Kshs.963,730 for the year as disclosed under Note 7 to the financial statements resulting in a variance of Kshs.3,840,398 which has also not been reconciled or explained.

Under the circumstances, the accuracy and completeness of the administrative cost balance of Kshs.37,271,320 reflected in the statement of comprehensive income for the year ended 30 June 2017 could not be confirmed.

19.0 Administrative Costs - Platinum Deductions

Note 4 to the financial statements reflects administrative cost figure of Kshs.28,834,141 out of which Kshs.1,280,364 was in respect of platinum. Inquiry from management revealed the amount was in respect of loan repayment deductions from employees of the Company paid to M/s Platinum Credit Limited. However, examination of personnel expenditure indicated that the same amount was already deducted from the salaries of the employee leading to double posting.

Consequently, the accuracy and completeness of the platinum deduction cost of Kshs.1,280,364 for the year ended 30 June 2017 could not be confirmed.

20.0 Unsupported Fuel and Lubricants Expenses

Included in the operating expenses balance of Kshs.2,461,561 reflected in the Company's statement of comprehensive income for the year ended 30 June 2017 is an amount of Kshs.92,830 in respect of fuel and lubricants expenses. However, the supporting documents such as fuel register, detail orders, work tickets, monthly reconciliations of fuel consumed and monthly consumption report were not availed for audit verification.

Consequently, the propriety of Kshs.92,830 expenditure incurred on fuel and lubricants for the year ended 30 June 2017 could not be confirmed.

22.0 Repairs and Maintenance

Included in the operating expenses balance of Kshs.2,461,561 reflected in the Company's statement of comprehensive income for the year ended 30 June 2017 is an amount of Kshs.2,461,561 in respect of repairs and maintenance expenses out of which supporting documents for an amount of Kshs.2,167,334 were not availed for audit verification. Further, no evidence was provided to show that the services were procured competitively since no quotation/tender documents and evaluation minutes were availed for audit verification.

Consequently, the propriety of Kshs.2,461,561 for the year ended 30 June 2017 could not be confirmed.

23.0 Failure to Establish Audit Committee

As reported in the previous year 2015/2016, Lodwar Water and Sanitation Company Limited has not established an Audit Committee contrary to Section 167(1) of the Public Finance Management (County Governments) Regulations 2015, which requires County Government Entities to establish Audit Committees in accordance with prescribed regulations to monitor the entity governance process, accountability process and control systems of the entity, offer objective advice on issues concerning risk, control, regulatory requirement and governance of the company. Consequently, the Company has breached the law on governance of public entities.

24.0 Going Concern

The statement of financial position as at 30 June 2017 reflect current assets totalling to Kshs.8,969,075.52 as compared to current liabilities of Kshs.38,763,051.39 and therefore resulting in a negative working capital of Kshs.29,793,975.87 an indication that the Company is experiencing financial difficulties in settling maturing obligations as and when they fall due. The Company's financial position is therefore precarious and its continued existence as a going concern is dependent upon continued support from the County Government, creditors and its bankers.

Management's Responsibility for the Financial Statements 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 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 Lodwar Water and Sanitation Company Limited ability to continue as a going concern, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends 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.

Those charged with governance are responsible for overseeing the Lodwar Water and Sanitation Company Limited's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of Lodwar Water and Sanitation Company Limited's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matter described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of Lodwar Water and Sanitation Company Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.



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

Nairobi

30 May 2018