

REPORT OF THE AUDITOR-GENERAL ON LODWAR WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

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 1 to 25, which comprise the statement of financial position as at 30 June 2018, and the statement of profit and loss and other comprehensive income, statement of changes in equity, 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 on these financial statements.

Basis for Disclaimer of Opinion

1.0 Presentation, Accuracy and Completeness of the Financial Statements

1.1. Preparation and Approval of Financial Statements

The financial statements of Lodwar Water and Sanitation Company Limited for the year ended 30 June 2018 submitted for audit were prepared and approved by a caretaker management team instead of the board of directors as required by section 635(1) of companies Act, 2015 which states that the directors of every company shall prepare a financial statement for the company for each of the financial year of the company and section 691(1) which states that an abbreviated financial statement of company is not valid until it has been approved by company board of directors and signed on behalf of the board by a director of the company.

Consequently, the validity of the company's financial statement for the year ended 30 June 2018 could not be confirmed and the Company is in breach of the law.

1.2. Presentation of Financial Statements

The company's financial statements for the year ended 30 June 2018 submitted for audit were prepared based on International Financial Reporting Standards basis and applicable government legislations and regulations. However, the financial statements do not include: chairman's statement, report of chief executive officer, corporate governance statement, corporate social responsibility, report of directors, follow up of auditor's recommendations and statement of comparison of budget and actual that are required by financial reporting standards approved by the Public Sector Accounting Standards Board (PSASB).

In consequence, the financial statements for the year ended 30 June 2018 are not in line with the format approved by Public Accounting Standards Board (PSASB) issued on 19 June 2018 vide circular Ref: PSASB 1/1/Vol 1/108.

1.3 Inaccuracies in Financial Statements

1.3.1 Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.65,162,190 as at 30 June 2018 which is at variance with the supporting schedules figure of Kshs.72,568,595 resulting in an unexplained difference of Kshs.7,406,405. Under the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.65,162,190 as at 30 June 2018 could not be confirmed.

1.3.2 Reserves

The statement of financial position as at 30 June 2018 reflects figures which are at variance with corresponding figures in the statement of changes in equity as detailed below:

Item	Statement of Financial position (Kshs)	Statement of changes in equity (Kshs)	Difference (Kshs)
Capital Reserve	2,568,129	-	2,568,129
Revenue Reserve	(18,838,754)	-	(18,838,754)

1.3.3 Statement of Cash Flows

The statement of cash flows reflects purchase of property, plant and equipment amount of Kshs.2,313,370 which is at variance with the fixed asset movement schedule balance of Kshs.1,039,370 resulting in an unexplained difference of Kshs.1,219,377.

The cash flow statement further reflects capital grants figure of Kshs.15,892,435 while the statement of changes in equity reflects a nil balance. In addition, the cash flow statement reflects repayment borrowings of Kshs.356,265 while note 16 to the financial statement reflects loan repayment of domestic borrowings amounting to Kshs.450,000 resulting in an unexplained difference of Kshs.93,735.

Consequently, the accuracy of the figures in the cash flow statement for the year ended 30 June 2018 could not be confirmed.

1.3.4 Audit Fees

Provision for audit fees amount of Kshs.382,000 is not included in the administrative and operating expenses amount of Kshs.48,687,374 for the year ended 30 June 2018.

Consequently, the accuracy and validity of the administrative and operating expenses amount of Kshs.48,687,374 for the year ended 30 June 2018 could not be confirmed.

1.4 Delay in Submitting Financial statements

The management of Lodwar water and Sanitation Company Limited submitted the financial statements for the year ended 30 June 2018 for audit on 7 November, 2018 after the statutory deadline of 30 September, 2018 contrary to section 164(4)(a) of the Public Finance Management Act, 2012.

Consequently, the management is in breach of the law.

In view of the foregoing, the presentation, accuracy and completeness of the financial statements for the year ended 30 June 2018 could not be ascertained.

2.0 Unaccounted for Water

Available information indicates that 2,271,082 cubic meters (m³) of water was produced by the company during the year ended 30 June 2018 out of which 1,371,648 cubic meters (m³) equivalent to 59% of water production was billed for Kshs.45,675,883 thus leaving out 899,433.86 cubic meters (m³) or 41% of total volume water produced Unaccounted for Water (UFW) which is 16% over and above the Water Services Regulatory Board (WASREB) guidelines allowable loss of 25%. The significant level of the unaccounted for water of 899,433.86 cubic meters (m³) saleable at rate of Kshs.33.3 per cubic meter may have resulted to a loss estimated at Kshs.29,951,148 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.

3.0 Trade and other Receivables

The statement of financial position as at 30 June 2018 reflects trade and other receivables figure of Kshs.29,182,103 as at 30 June 2018 as disclosed in note 13 to the financial statements relating to outstanding water billing. However, a debtors aging analysis was not made available for audit review. Further, provisions for doubtful debts were not made during the year under review due to lack of guiding policy on provisioning made for doubtful debts. As a result, the validity, accuracy and completeness of trade and other receivables balance of Kshs.29,182,103 as at 30 June 2018 could not be confirmed.

4.0 Trade and Other Payables

The statement of financial position reflects trade and other payables amounting to Kshs.65,162,190 as at 30 June 2018 and as disclosed in note 17 to the financial statements

which is at variance with the creditors' ledger figure of Kshs.72,568,595 resulting to unexplained variance of Kshs.7,406,405 . Further, invoices, creditors' statements and creditors ageing analysis in respect of ledger balances of Kshs.72,568,595 were not provided for audit review.

In consequence, the validity and accuracy of trade and other payables balance of Kshs.65,162,190 as at 30 June 2018 could not be confirmed.

5.0 National Investment Corporation (NIC) Loan

The statement of financial position as at 30 June 2018 reflects NIC Loan balance of Kshs.1,900,388 as disclosed in note 16 to the financial statements relating to asset financing for motor vehicle. However, as reported in the previous year, the loan agreement and Board of Directors minutes approving the loan were not produced for audit review. Further, note 16 reflects opening loan balance of Kshs.2,350,388 while the certified financial statements for year ended 30 June 2017 reflect balance of Kshs.1,813,904 resulting to difference of Kshs.536,484 which has not been explained or reconciled. Consequently, the accuracy and propriety of the loan balance of Kshs.1,900,388 as at 30 June 2018 could not be confirmed.

6.0 Lack of Approved Budget

Lodwar Water and Sanitation Company Limited annual budget for the year ended 30 June 2018 submitted for audit review was not approved by the board and treasury contrary to section 4 2(a) State Corporations Cap 446, 2010 states that the Board of a state corporation shall implement budgets approved by the Treasury and the parent Ministry. Further, the budget reflected total revenue amounting to Kshs.86,096,713 and expenditure totaling to Kshs.211,278,700 and therefore not balanced.

Consequently, the validity of budget for the year ended 30 June 2018 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for [Conclusion on Lawfulness and Effectiveness in Use of Public Resources/ Disclaimer of Opinion] section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

1.0 Budget Performance

During the year ended 30 June 2018, the company had an total expenditure of Kshs.211,278,472.70. At the end of the financial year ended 30 June 2018, the company recorded total expenditure of Kshs.74,574,432 or approximately 35% of the total budget resulting to under expenditure of Kshs.148,171,526 or approximately 65% of the total budget. However, the budget performance reflected overall budget over expenditure of Kshs.11,467,485 on five expenditure items of more than 10%.

Further, total revenue budget for the year ended 30 June 2018 amounted to of Kshs.86,096,713 resulting to overall budget deficit of Kshs.125,181,760 as indicated below:

Item	Budget Amount (Kshs)	Actual Expenditure (Kshs)	Under Expenditure (Kshs)	Over Expenditure (Kshs)	%
Commercial and Administration Expense	26,000,000	11,957,974	14,042,026		54%
Salaries and expenses	28,000,000	30,984,377		2,984,377	11%
Financial Costs	2,000,000	168,735	1,831,265		92%
Operations and maintenance(Plant maintenance & Pipework's repairs)	2,400,000	-	2,400,000		100%
Electricity.	8,000,000	12,080,893		4,080,893	51%
Chemicals	-	115,000		115,000	100%
NRW (Non- Revenue Water)	1,200,000	-	1,200,000		100%
Motorbikes (HONDA 10NO)	1,500,000	-	1,500,000		100%
O & M tools and equipment and materials	4,000,000	5,633,473		1,633,473	41%
Training and Development(Capacity building)	700,000	121,560	578,440		83%
O & M vehicle (Land cruiser type 1NO)	8,000,000	-	8,000,000		100%
WASREB (1% Of Revenue)	52,370,800	750,690	51,620,110		99%
RVWSB {17% of Revenue }	10,107,988	12,761,729		2,653,741	26%
WARMA	66,999,685	-	66,999,685		100%
Total Expenditure	211,278,473	74,574,432	148,171,526	11,467,485	35%

Budget under-absorption is an indication that planned projects /activities were not implemented by the company and therefore affecting service delivery to residents of Turkana County.

2.0 Refined Fuel and Lubricants

The statement of profit and loss and other comprehensive income reflects administration and operating expenses figure of Kshs.48,687,374.35 which includes fuel and lubricants cost of Kshs.623,910 as disclosed in note 10 to the financial statements. However, the management did not have a register of prequalified suppliers. Further, the procurement of fuel and lubricants amounting to Kshs.623,910 was done without use of quotations contrary to section 105 of the Public Procurement and Asset Disposal Act, 2015 which states that a procuring entity may use a request for quotations from the register of suppliers for a procurement if— (a) the estimated value of the goods, works or non-consultancy services being procured is less than or equal to the prescribed maximum value for using requests for quotations as prescribed in Regulations, (b) the procurement is for goods, works or non-consultancy services that are readily available in the market and (c) the procurement is for goods, works or services for which there is an established market. Consequently, the management is in breach of the law.

3.0 Repairs and Pipework Maintenance

The statement of profit and loss and other comprehensive income reflects administration and operating expenses figure of Kshs.48,687,374.35 which includes repairs and maintenance cost of Kshs.5,633,473 as disclosed in note 10 to the financial statements. However, the management did not have a register of prequalified suppliers and the procurement of repairs and maintenance amounting to Kshs.3,568,079.00 was done without use of quotations contrary to Section 105 of the Public Procurement and Asset Disposal Act, 2015 which states that a procuring entity may use a request for quotations from the register of suppliers for a procurement if— (a) the estimated value of the goods, works or non-consultancy services being procured is less than or equal to the prescribed maximum value for using requests for quotations as prescribed in Regulations, (b) the procurement is for goods, works or non-consultancy services that are readily available in the market and (c) the procurement is for goods, works or services for which there is an established market.

Consequently, the management is in breach of the law.

4.0 Staff Composition

The statement of profit and loss and other comprehensive income reflects administrative expenses amounting to Kshs.48,687,374.35 which includes salaries and wages amount of Kshs.30,984,377.35 as disclosed in note 10 to the financial statements. Audit review of the company's payroll for month of June 2018, revealed that Lodwar Water and Sanitation Company Ltd had a staff establishment of fifty-three (53), out of whom forty-three (43) or 83 % of staff were from the dominant ethnicity leaving nine (9) or 17% from other ethnicities contrary to Section 7(1) and (2) of the National Cohesion and integration Act, 2008 which requires that all public establishments shall seek to represent the diversity of the people of Kenya in employment of staff and that no public establishment shall have more than one third of its establishment from the same ethnic community.

Consequently, the management is in breach of the law.

5.0 Debt Management Policy

The statement of financial position reflects trade and other receivables figure of Kshs.29,182,103 as at 30 June 2018 as disclosed in note 13 to the financial statements relating to outstanding water billing.

However, the organization does not have a debt management policy to provide guidance in management of debts due to the company.

6.0 Filing Company Annual Returns

Lodwar Water and Sanitation Company Limited (LOWASCO) was incorporated under the Companies Act Cap 486 of the laws of Kenya and issued with incorporation certificate number C.135044 on 9 February 2007. However, evidence to show that the company has been filing annual returns to the registrar of companies in accordance with section 705(1) of the Companies Act 2015 which states that every company shall submit to the registrar successive annual returns each of which is made up to a date not later than the date that is from time to time the company's return date was not availed for audit review.

Consequently, the company is in breach of the law and exposes the company to fines and penalties.

7.0 Employees Receiving Less Than a Third of Basic Salary

Audit review of the company's payroll for the year ended 30 June 2018 revealed cases of employees receiving net salaries which were less than a third of their respective basic salaries as indicated in Appendix I contrary to Section 19(3) of the Employment Act 2007, which states that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry. Consequently, the management is in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7 (1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Conclusion of Internal Controls, Risk Management and Governance /Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

Information Technology

Audit review of the company's Information and Communication Technology (ICT) revealed that the company has ICT infrastructure which includes computers and laptops. However, the company does not have an IT strategic committee, IT strategic plan and policy, IT training policy and programme and approved user management standards and procedures in the organization to manage upgrades and system changes made to all financial / performance information systems.

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 Lodwar Water and Sewerage Company ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the County Government either intends to liquidate the Lodwar Water and Sewerage 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 Lodwar Water and Sewerage 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

My responsibility is to conduct an audit of the Lodwar Water and Sanitation Company Limited 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. However, because of the matters 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.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

I am independent of Lodwar Water and Sewerage 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.



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

Nairobi

22 May 2019

Appendix 1

Earnings Below A Third of Basic Salaries					
Names Employee Name	Month	Basic Pay (Kshs)	Expected Net Pay (Kshs)	Actual Net Pay (Kshs)	Variance (Kshs)
Lokwakori Peter Lokudole	Sep-17	15,000.00	5,000.00	2,422.70	- 2,577.30
Wilson Kokoi Nyanga	Oct-17	17,400.00	5,800.00	2,814.60	- 2,985.40
Wilson Kokoi Nyanga	Nov-17	17,400.00	5,800.00	2,814.60	- 2,985.40
Wilson Kokoi Nyanga	Dec-17	17,400.00	5,800.00	2,814.60	- 2,985.40
Wilson Kokoi Nyanga	Jan-18	17,400.00	5,800.00	2,814.60	- 2,985.40
Benard Adungo	Mar-18	31,250.00	10,416.67	5,149.95	- 5,266.72
Benard Adungo	Apr-18	31,250.00	10,416.67	5,149.95	- 5,266.72
Benard Adungo	May-18	31,250.00	10,416.67	5,149.95	- 5,266.72
Benard Adungo	Jun-18	31,250.00	10,416.67	5,149.95	- 5,266.72