

REPORT OF THE AUDITOR-GENERAL ON MBOONI 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 Mbooni Water and Sanitation Company Limited set out on pages 10 to 16, which comprise the statement of financial position and as at 30 June 2017, and the statement of comprehensive income, statement of changes in 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 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. Non Submission of Prior Years Financial Statements and Prior Year Balances

Although the Company was incorporated on 8 March 2012 and started operations on the same date, the Directors did not prepare and submit financial statements for the years prior to financial year 2016/2017. This is contrary to Section 47 (1) of the Public Audit Act, 2015 and Section 13 (1) of then Public Audit Act, 2003 which was in force at the time of incorporation of the Company, both of which require financial statements to be submitted for audit within three months after the end of the financial year to which the accounts relate. The Company has, therefore, been in a persistent breach of the law.

In addition, due to failure to prepare and lack of the financial statements for the previous years, the financial statements for the year ended 30 June 2017 submitted for audit do not include or reflect brought forward balances from or comparative figures for the previous year. Consequently, the accuracy of the balances reflected in the financial statements for the year ended 30 June 2017 cannot be confirmed.

2. Late Submission of the Financial Statements

The financial statements for the year ended 30 June 2017 were submitted to the Auditor-General on 6 April 2018, six months after the statutory submission date of 30 September 2017. This is contrary to Section 47 of the Public Audit Act, 2015 and Section 116 (7) of the Public Finance Management Act, 2012 which require submission of financial

statements to the Auditor-General not later than three months after the end of the financial year to which the accounts relate. Consequently, the Company was in breach of the law.

3. Presentation of the Financial Statements

Although the Company's financial statements for the year ended 30 June 2017 were prepared using the appropriate accounting framework, the statement of compliance and basis of preparation and the summary of significant accounting policies respectively, were not disclosed. Consequently, the presentation of the financial statements does not conform to the presentation guidelines issued by the Public Sector Accounting Standards Board.

4. Inaccuracies in the Financial Statements

The following inaccuracies have been noted in the financial statements for the year under review:

- (i) Administration expenses are shown against Note 5 in the statement of comprehensive income but appears as Note 4a in the notes to the financial statements.
- (ii) Note 6 to the financial statements reflects other receivables of Kshs.40 but the statement of financial position reflects nil.
- (iii) The statement of changes in equity has omitted movement (deficit) in retained earnings/revenue reserve of Kshs.159,641 as at 30 June 2017.
- (iv) The statement of cash flow reflects net cash generated from operations of negative Kshs.731,081 but the same work out to negative Kshs. 530,014 resulting in unexplained difference of Kshs. 201,067. Further, the statement of cash flow reflects cash and cash equivalent at the beginning of the year of Kshs.1,101,494.59 but the statement of financial position reflects nil.

Consequently, the accuracy of the financial statements for the year ended 30 June 2017 cannot be confirmed.

5. Debtors and Other Receivables

The debtors and other receivables balance of Kshs.1,103,342 as at 30 June 2017 disclosed in Note 5 to the financial statements, includes gross debtors of Kshs.1,102,117 which were supported by schedules totalling Kshs.377,128 resulting in unreconciled and unexplained difference of Kshs.724,989. The balance also includes prepaid electricity of Kshs.1,185 while the power bill provided had an outstanding balance of Kshs. 147,281 as at 30 June 2017.

In addition, the debtors and other receivables were not aged and no provision for bad and doubtful debts was made in the financial statements. Consequently, the accuracy and full

recoverability of debtors and other receivables balance of Kshs. 1,103,342 as at 30 June 2017 cannot be confirmed.

6. Bank and Cash Balances

The bank and cash balance of Kshs.370,413.59 as at 30 June 2017 includes cash in hand of Kshs. 304,679 and cash at bank of Kshs.65,734.59. However, the cash at bank balance was not supported by bank reconciliation statements and a bank confirmation certificate. The cash at hand was also not supported by a board of survey report.

In addition, the management did not maintain a cash book during the year under review which made it impossible to prepare bank reconciliation statements. Further, no explanation was given for holding a huge amount of cash in the office. Consequently, the accuracy of the bank and cash balances of Kshs.370,414 as at 30 June 2017 cannot be confirmed.

7. Creditors and Other Payables

Creditors and other payables balance of Kshs.1,473,675.59 as at 30 June 2017 includes other payables amounting to Kshs.1,336,247.59 which were supported by schedules totalling Kshs.1,651,278.59 resulting in unexplained variance of Kshs. 315,031

In addition, the liabilities exclude provisions for audit fee and bad and doubtful debtors for the year under audit. Further, payables also include customer deposits balance of Kshs.38,000 which was not supported by any documentary evidence or a corresponding deposit bank account maintained for the customer deposits as expected.

Consequently, the accuracy of the creditors and other payables balance of Kshs.1,473,675.59 as at 30 June 2017 cannot be confirmed.

8. Revenue

The revenue for the year ended 30 June 2017 of Kshs. 6,004,651.10 shown in the statement of comprehensive income includes cash water sales and other income totalling Kshs.994,304 for which, the supporting schedules indicate that the actual revenue earned from the two sources during the year was Kshs. 945,306, resulting in unexplained variance of Kshs.48,998.

Consequently, the accuracy of the revenue for the year ended 30 June 2017 of Kshs.6,004,651.10 cannot be confirmed.

9. Operating Expenses

The statement of comprehensive income for the year ended 30 June 2017 reflects total operating expenses Kshs.6,164,292.10. However, the supporting schedules reflect Kshs.7,026,816 resulting in unexplained variance of Kshs. 862,523.90.

In addition, the operating expenses did not include provision for audit fees and bad and doubtful debts. Consequently, the accuracy of the operating expenses for the year ended 30 June 2017 amounting to Kshs. 6,164,292 cannot be confirmed.

10. Non-revenue Water (NRW)

During the year under audit, the company produced 66,718 cubic meters (m³) of water. However, only 49,961m³ of water was billed to customers. The balance of 16,757 cubic meters or approximately 25% of the volume represented Unaccounted for Water (UFW) or Non-Revenue Water (NRW). Although the ratio of UFW equaled the allowable ratio of 25% as prescribed in the Water Services Regulatory Board guidelines, the parameters used to arrive at the production and billing could not be verified due to lack of adequate documentation. The UFW resulted in loss of revenue estimated at Kshs.1,535,058 at prevailing rates. The significant level of UFW impacted negatively on the Company's profitability and its long term viability.

11. Appointment of Board of Directors

The Water Services Regulatory Board's Corporate Governance Guidelines for the Water Services Sector clause 4.2.1 requires that the Boards of the Water Service Providers (WSP) shall have a minimum of seven members (7) and a maximum of eleven (11) members with a professional mix of directors appointed from the county government and directors appointed from the stakeholders through a competitive stakeholder participation procedure such that no individual or group of individuals or interests can dominate its decision making.

Further, no more than one director shall be appointed from each of the local authorities covered by the WSP (in a clustered system). Clause 4.2.5 requires the Water Service Providers to avoid a situation where all board members retire at the same time. Consequently, one third of the board members other than those from the County government, are required to retire from office by rotation every year starting from the third year of operation. The retiring members are to be determined on the basis of those who have served longest and, if they have served for the same period of time, then the retirement is determined by lot. However, the Directors of the Company have been in office since 2011. In addition, the management did not provide copies of appointment letters for the Directors and therefore, the terms and conditions of service for the Directors could not be confirmed.

Consequently, the Company was in contravention of the Water Services Regulatory Board Corporate Governance Guidelines.

12. Budgetary Control and Performance

The Company's approved revenue budget for the year ended 30 June 2017 was Kshs.3,654,749 against an expenditure budget of Kshs.8,254,320 leading to a budget deficit of Kshs.5,135,586. Comparison of budget and actual amounts indicate that the Company incurred total expenditure of Kshs.6,164,292 against approved budget of

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Kshs.8,254,320 resulting in under-expenditure of Ksh.2,090,028 which translate to 25% of the approved budget. In addition, no explanation was provided on how the deficit budget was to be financed in order to give all the stakeholders the envisaged services of provision of clean water and sanitation. Consequently, the company was unable to meet its performance target for the year ended 30 June 2017.

13. Internal Audit Function and Audit Committee

Section 155 of the Public Finance Management Act, 2012 and the related regulations requires every government entity to establish an internal audit unit for the purpose of carrying out in depth reviews of the internal control and the internal audit process. The regulations require an internal audit department reporting to the internal audit committee as an independent, non- operational unit of the entity separate from management. However, the Company did not have an internal audit function in place during the year under audit.

Further, Section 155 (5) of the Act states that a government entity will establish an audit committee whose composition and functions are to be prescribed by the Public Finance Management regulations. However, the company did not have an audit committee to oversee the implementation of both the internal and external audit reports during the year under audit.

Consequently, the reliability of the company's internal control in place as at 30 June 2017 cannot be confirmed.

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.

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.

Responsibilities of Board of Directors and Those Charged with Governance for the Financial Statements

The Board of Directors 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 the Directors 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, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are 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 Company's financial reporting process.

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

My responsibility is to conduct an audit of the Company'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. 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 Mbooni Water and Sanitation Company Limited 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015 I report based on the audit, that:

- i. I have not 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 not 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 comprehensive income are not in agreement with books of account; and
- iv. In my opinion the information given in the report of the directors on pages 8 and 9, is not consistent with the financial statements.



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

Nairobi

24 September 2018