

REPORT OF THE AUDITOR-GENERAL ON MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Meru Water and Sewerage Services Registered Trustees set out on pages 15 to 26, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amount 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 the Meru Water and Sewerage Services Registered Trustees as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Public Finance Management Act, 2012 and the Water Act, 2016.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis of Qualified Opinion and Other Matter section of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 Irregular Payment of Board Allowances

During the financial year under review, the Trustee paid board allowances totaling to Kshs.2,818,922 based on the rates approved by the Board of Trustees in a meeting held on 26 November 2009. However, Kshs.2,818,922 total Board allowances paid was higher than Kshs.2,357,922 that would have been paid had the Salaries and Remuneration Commission (SRC) rates as prescribed in circular referenced SRC/ADM/CIR/1/13(122) dated 16 April 2014 been used by Kshs.461,000. The Trust did not seek an approval from the Salaries and Remuneration Commission (SRC) for the higher rates contrary to Article 230 (4) of the Constitution of Kenya, 2010.

Consequently, the Board of Trustees made an irregular overpayment of Board allowances of Kshs.461,000 as at 30 June 2017.

2.0 Inventories

The statement of financial position reflects an inventory balance of Kshs.14,568,846 as at 30 June 2017. However, the inventory valuation report generated from Sage Inventory Control system shows a balance of Kshs.13,831,226 resulting in an unexplained/unreconciled difference of Kshs.737,620.

In the circumstances, the security and accuracy of the inventory balance of Kshs.14,568,846 as at 30 June 2017 could not be ascertained.

3.0 Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.194,212,343 as at 30 June 2017 which included a chemical house with a net book value of Kshs.6,922,500. However, records provided for audit review showed that the ownership of Plot No. Ntima/Igoki/2032 in which the chemical house was constructed at a cost of Kshs.7,100,000 was in dispute and the Trust did not avail the ownership documents.

Consequently, the security and ownership of the chemical house stated at a cost of Kshs.7,100,000 as at 30 June 2017 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Meru Water and Sewerage Services Registered Trustees 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. 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, were of most significance in the audit of the financial statements. Except for the matter described in the Basis for Qualified Opinion section of my report, I have determined that there were no Key Audit Matters to communicate in my report.

Other Matter

1. Late Submission of Financial Statements

Section 164 of the Public Finance Management Act, 2012 (1) requires that at the end of each financial year, the accounting officer for a County Government entity shall prepare financial statements in respect of the entity in formats to be prescribed by the Accounting Standards Board. Further, within three months after the end of each financial year, the accounting officer for an entity shall submit the entity's financial statements to the Auditor-General. In addition, the Water Act, 2016 Section 129(2) states that within a period of three months after the end of each financial year, each body corporate shall submit to the Auditor-General the accounts of the body corporate in respect of that year. Also, Section 47 of the Public Audit Act, 2015, requires all public entities to submit their financial statements to Auditor-General within three months after the end of each financial year. However, the Trust submitted accounts to the Auditor-General on 5 October 2017, which was five (5) days after the Constitutional deadline.

In view of the above, the Trust was in breach of the Public Finance Management Act, 2012, the Water Act, 2016 and the Public Audit Act, 2015.

2. Budget and Budgetary Control

The Meru Water and Sewerage Services Registered Trustees budget of Kshs.247,051,239 for the year under review was approved on 29 September 2016. Considering that the financial year under review commenced on 1 July 2016 the Trust therefore, operated for three months without an approved budget. Further, the expenditure estimates of Kshs.247,051,239 exceeded revenue estimates of Kshs.185,137,298 by Kshs.61,914,000 as follows:

Title and Details	Final Budget (Kshs.)	Actual Expenditure (Kshs.)	Under/Over (Kshs.)	Absorption Rate (%)
Turnover	160,387,515	149,049,232	11,318,283	93%
Other Income	24,749,783	24,983,786	(243,003)	101%
TOTAL INCOME	185,137,298	174,053,018	11,104,280	94%
Administration and Establishment Expenses	88,689,305	73,894,294	14,795,011	83%
Selling and Distribution Expenses	145,188,362	100,207,125	44,981,236	69%
Finance Cost	13,173,572	4,941,524	8,232,048	38%
TOTAL EXPENDITURE	247,051,239	179,042,943	68,008,296	62%

In the circumstances, the Trustees collected revenue and incurred expenditure for the three months without authority contrary to Section 149 (1) of the Public Finance Management Act, 2012.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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.

In preparing the financial statements, management is responsible for assessing the Trust's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Trust 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.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

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

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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Trust's 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 the Trust'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 Trust 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 Trust 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

18 February 2019