

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Naivasha Water Sewerage and Sanitation Company Limited set out on pages 14 to 41, 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 amounts for the period 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 Naivasha Water Sewerage and Sanitation Company Limited 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 Water Act, 2002 and the Companies Act, 2015 of the laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, nothing else 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. Understated Miscellaneous Income

Note 1 to the financial statements reflects miscellaneous income of Kshs.4,650,958 which tallied with the ledger balance. However, examination of miscellaneous income register disclosed a balance of Kshs.7,604,117 and therefore, the reported miscellaneous income was understated by Kshs.2,953,159.

In the circumstances, the accuracy of the financial statements could not be confirmed.

2. Under Collection of Revenue

The Company was not able to realize the budgeted revenue during the year under review. It was noted that the approved budget for revenue was Kshs.127,288,551 and

the Company only managed to collect Kshs.102,639,412.20 thereby under collecting revenue by Kshs.24,567,348.80 or 19%.

No explanation has been given for the underperformance.

3. Non-Revenue Water (NRW)

The Company produced 1,052,189 cubic metres (m³) of water during the period under review. However, only 713,509 cubic metres (m³) was sold to customers leaving a balance of 338,680 cubic metres (m³) or approximately 32.2% of the total volume of water produced unaccounted for. The non-revenue water amounting to 338,680 cubic metres (m³) was approximately 7.2% above the allowable loss of 25% by the Water Services Regulatory Board guidelines.

In addition, the non-revenue water resulted in a loss of potential sales estimated at Kshs.11,176,440 at the rate of Kshs.33 per cubic metre (m³) charged by the Company to customers.

The significant level of non-revenue water may negatively affect the Company's profitability and cash flow.

4. Overstated Customer Deposit

The statement of financial position as at 30 June 2017 reflects customer deposit of Kshs.5,255,976. However, the reconciled cashbook balance for customer deposit account reflected a balance of Kshs.1,508,755 as at 30 June 2017 and therefore, the reported balance in the statement of financial position was overstated by Kshs.3,747,221.

In the circumstances, the accuracy and completeness of the statement of financial position could not be confirmed.

5. Increase in Trade Receivables

The statement of financial position reflects trade receivables balance of Kshs.97,385,879 which increased by Kshs.2,562,441 from Kshs.94,823,438 reported in the previous year. The reported debtors balance included debts due from customers of Kshs.89,983,246 as at 30 June 2017. However, the aging analysis report shows that 83% of debts from customers have been outstanding for more than 180 days and no efforts appear to have been made to recover the outstanding amount. It was also noted that the Company does not have an approved debt management policy in place a clear indication that the Company has no strategy in collection of debts.

6. Outstanding Imprests

Note 6 to the financial statements reflects salary advances and imprests of Kshs.293,278 as at 30 June 2017. Out of this amount, Kshs.221,944 was in respect of temporary imprests issued to seven members of staff which date back to the year 2008.

However, no efforts appear to have been made to recover the outstanding amount.

Further, the imprest register was not provided for audit verification and it was therefore not possible to ascertain the accuracy of the reported outstanding amount.

In the circumstances, the accuracy of the reported balance could not be confirmed.

7. Unsupported Share Capital

The statement of changes in equity reflects share capital of Kshs100,000. However, no documents were produced for audit to confirm existence and ownership of share capital. It was therefore not possible to confirm the reported figure of Kshs.100,000.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Naivasha Water Sewerage 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. 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, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

1. Unsupported and Irregular Procurements

Audit of use of goods and services revealed expenditure totaling Kshs.2,964,091 was incurred but without proper value for money to the Company.

Folio	Description	Amount Kshs	Nature of Irregularity
1	Travel & Accommodation	547,181	Amount not Supported
2	Water Companies Sports Organization	344,008	Over-expenditure above the budgeted Kshs.1,000,000

	(WASCO)		
3	Legal fees	622,859	Fees paid to a law firm without procurement details
4	Telephone & Postage expenses	640,843	No supporting documents
5	Transport Expenses - repairs	417,200	No defect reports by respective drivers
6	Fuel	152,000	No fuel register
7	Honoraria	240,000	Paid to the chairman of the Board without approval
	Total	2,964,091	

2. Misrepresentation of Required Supplementary Information

Examination of required supplementary information accompanying the financial statements for the year ended 30 June 2017 revealed misrepresentation of the following information:

- The Report of the Directors indicated that the Auditor General has expressed willingness to continue in office in accordance with the Public Audit Act, 2003 instead of the Public Audit Act, 2015.
- The Statement of Directors' Responsibilities indicated that the Directors are required to prepare financial statements in accordance with Section 14(7) of the State Corporation Act. However, it was observed that the entity is not a State Corporation but a limited Company Limited established under the Water Act, 2002 and must comply with the Companies Act, 2015.

In the circumstances, the required supplemental information contained in the financial statements is inaccurate and misleading.

3. Failure to Maintain a Risks Register

During the period under review, the Company did not have in place a customized Risk Management Policy / Risk Register and therefore, had no approved processes and guidelines on how to mitigate operational, legal and financial risks such as:

- Assessing the likelihood or occurrence of risks;
- Estimating the significance of risks;
- Identifying business risks relevant to financial reporting objectives; and
- Deciding about actions to address those risks.

No explanation has been given for failure to have a Risk Management Policy in place.

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 Company's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management intends 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 Company'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 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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment 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 Company'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 Company's ability to continue as a going concern. 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 as a going concern.
- 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 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- 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, 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 in agreement with the accounting records.



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

Nairobi

13 July 2018