

# **REPORT OF THE AUDITOR-GENERAL ON NAKURU WATER AND SANITATION SERVICES COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Nakuru Water and Sanitation Services Company Limited set out on pages 1 to 45, which comprise the statement of financial position as at 30 June, 2019, and statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts 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 effects 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 Nakuru Water and Sanitation Services Company Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015, and Water Act, 2016.

### **Basis for Qualified Opinion**

#### **1. Inaccuracies in the Financial Statements**

The statement of profit or loss and other comprehensive income reflects net profit amount of Kshs.74,593,382 but had the following errors and inconsistencies: -

**1.1.** The statement of profit or loss and other comprehensive income reflects sales/turnover of Kshs.963,149,470; (2018 - Kshs.860,874,266) and as disclosed under Note 6(a) to the financial statements. However, the supporting schedules reflect a balance of Kshs.966,269,708 resulting to unexplained variance of Kshs.3,120,238;

**1.2.** The statement of profit or loss and other comprehensive income reflects provision for impairment losses of Kshs.5,253,928 whereas Note 15(a) the corresponding disclosure to the financial statements reflects a decrease in the provision to Kshs.49,036,883; (2018 - Kshs.162,456,714) resulting to an unexplained variance of Kshs.108,165,903; and

**1.3.** The statement of profit or loss and other comprehensive income reflects water fittings of Kshs.11,063,775; (2018 - Kshs.10,168,130) and as disclosed under Note 8(d) to the financial statements. However, the balance differs from supporting schedule amount of Kshs.9,549,214 resulting to a variance of Kshs.1,514,561.

Consequently, the accuracy of the net profit amount of Kshs.74,593,382 could not be ascertained.

## **2. Undisclosed Loan from African Development Bank (AfDB)**

The statements of profit or loss and other comprehensive income reflects operating and maintenance costs of Kshs.295,719,736;(2018-Kshs.318,924,551) and as disclosed under Note 8(d) to the financial statements. Included in this amount is the AfDB Loan repayment amount of Kshs.39,468,540. As previously reported, although the Company procured the amount of Kshs.994,706,658 from African Development Bank (AfDB) through Rift Valley Water Works Development Agency (RWWDA) and continues to service it, the outstanding loan balance is not reported on the financial statements as required by the standards. This is also in breach of section 628(3) of the Companies Act No.17 of 2015 which requires company accounting records to contain day to day entries of all amounts of money received and spent.

Consequently, the accuracy and fair statement of the Company financial position could not be established.

## **3. Doubtful Reserve Assets Transferred**

As previously reported, the statement of financial position reflects reserve assets transferred balance of Kshs.262,893,991 and as disclosed under Note 18(c) to the financial statements. However, the balance is not supported by way of detailed analysis of customer accounts contrary to Regulation 99(3) of the Public Finance Management (County Governments) Regulations, 2015 that requires every entry in the accounts to be supported by a voucher or document containing full details, clear narrations and particulars of the items to which it relates.

Consequently, the accuracy and fair statement of reserve assets transferred balance of Kshs.262,893,991 as at 30 June, 2019 could not be established.

## **4. Trade and Other Payables**

The statement of financial position reflects trade and other payables balance of Kshs.683,831,716; (2018 - Kshs.621,740,720) and as disclosed under Note 17 to the financial statements. The following issues were noted: -

### **4.1. Audit Fees Understatement**

Included in the balance is outstanding audit fees of Kshs.382,500. However, this differs with the invoiced amount of Kshs.1,567,472 by the Office of the Auditor-General resulting to an unreconciled and unexplained variance of Kshs.1,184,972. Further, the audit charge provision for the year has not been incorporated in the financial statements.

### **4.2. Customer Deposits**

Included also in the balance is customer deposits amounting to Kshs.85,080,307. However, there was no certificate of bank balance or reconciliation for the account holding the customer deposits in support of the balances. Detailed breakdown of the customers was also not provided for audit review. This is contrary to the provisions of Regulation 107(2)(b) of the Public Finance Management (County Governments) Regulations, 2015 that requires monthly bank reconciliations to be carried out.

## **5. Long Outstanding Debt - Rift Valley Water Works Development Agency**

The statement of financial position reflects trade and other payables balance of Kshs.83,831,716 and as disclosed under Note 17 to the financial statements. Included in this amount is Kshs.410,356,723 owed to Rift Valley Water Works Development Agency on account of administrative fees payable that has accrued since 2013 due to instructions not to pay issued by the County Government of Nakuru. This is in breach of the service provision agreement. Further, records maintained at the Agency reflects receivables from the Company of Kshs.275,796,820 resulting to an overstatement of Kshs.134,559,903. No explanation has been provided or evidence of steps taken by the company to resolve the matter.

From the foregoing, the accuracy and fair statement of trade and other payables balance of Kshs.683,831,716 as at 30 June, 2019 could not be confirmed.

## **6. Trade and Other Receivables**

The statement of financial position reflects trade and other receivables of Kshs.738,069,728; (2018 - Kshs.710,483,930) and as disclosed under Note 15(a) to the financial statements. Included in the balance is net trade receivables of Kshs.653,001,621; (2018 - Kshs.604,673,801). However, the trade receivables balance is unsupported by way of detailed debtors aging analysis contrary to Paragraph 5.2 of the Company's financial manual. The adequacy of provisions for likely impairment could therefore, not be established.

Consequently, the accuracy and fair statement of the trade and other receivables balance of Kshs.738,069,728 as at 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Nakuru Water and Sanitation Services Company Limited Management in accordance with ISSAI 130 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. There were no key audit matters to report in the year under review.

## **Other Matter**

### **Budget Control and Performance**

The statement of comparison of budget and actual amounts reflects an approved revenue budget of Kshs.1,074,350,004. The actual income for the year amounted to Kshs.986,183,778 resulting to an overall shortfall of Kshs.88,166,225 or 8% of the budget. Management has not rendered satisfactory explanations for the revenue shortfall that may have impacted negatively on service delivery to the residents of Nakuru town.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

### **Non-Revenue Water**

Available records indicate that the Company produced 12,381,852 cubic meters (M<sup>3</sup>) of water, of which only 8,513,010 M<sup>3</sup> were billed to customers leaving out the balance of 3,868,842 M<sup>3</sup> unbilled representing 31% of the production as Non-Revenue Water (NRW). The NRW exceeded the set threshold of 25% as approved by the Water Services Regulatory Board (WASREB) guidelines. No explanations have been rendered for the high NRW and measures being put in place to resolve it so as to reduce revenue losses.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, except for the matters under the Basis for Qualified Opinion and Conclusion on Effectiveness of Internal Controls, Risk Management and Overall Governance sections of my report, I report based on my audit, that:

- i 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;
- ii 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 and returns.

## Responsibilities of Management and the Board of Directors

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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Company's 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 Management is aware of the intention to liquidate the Company or 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.

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.

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how Management 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

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.

In addition to the audit of the financial statements, a compliance audit is planned and performed 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.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems 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. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**21 July, 2021**