

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

## REPORT ON THE FINANCIAL STATEMENTS

### Disclaimer of Opinion

I have audited the accompanying financial statements of Narok Water and Sanitation Company set out on pages 1 to 14, which comprise the statement of financial position as at 30 June 2018, and the statement of comprehensive income, statement of changes in owners' equity, statement of cash flows 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 Misstatement of Financial Statement

#### 1.1 Unexplained Variance

The company presented a trial balance with the total debit balance of Kshs.131,649,140 against a credit balance of Kshs.133,814,414 leading unexplained difference of Kshs.2,165,274. It was further noted that the following figures in the financial statement did not agree with the figures in the ledger;

Item	Financial Statements Figure (Kshs )	Ledger Balance (Kshs)	Variance (Kshs)
Water sales and production cost	36,342,891	36,883,266	540,375
Depreciation	379,104	691,604	312,500
Property, plant and equipment	35,957,300	38,166,851	2,209,551
Cash flow-Depreciation	405,205	717,704	312,499
Cash flow-increase in debtors	(8,563,297)	(3,122,831)	5,440,466
Net cash from investing activities	791,838	3,152,778	139,060
Cost of Production	11,152,957	12,579,005	1,426,028

#### 1.2 Inaccurate Opening Balances

The following opening balances (comparative figures for 2016/2017) are wrongly stated;

	2016/2017	2017/2018	Difference Kshs.

<b>Item</b>	<b>Certified Financial Statements figures Kshs.</b>	<b>Financial Statements Comparative Figures Kshs.</b>	
Statement of financial position-Property, plant and equipment	35,705,679	35,683,626	22,053
Statement of financial position-bank and cash balances	(2,313,207)	(7,113,914)	(4,800,707)

### **1.3 Presentation of Financial Statements**

The financial statements did not include a statement of comparison of budget and actual amounts for the year. Further report on progress on follow up of Auditors Recommendations was also not included.

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

### **2.0 Unexplained and-Overdrawn Cash book**

The company under note 8 of the financial statement reported a negative cash and cash equivalents balance of negative Kshs.3,735 771. This was as a result of overdrawn cash bank account No. 100342177902 . Bank reconciliations availed for audit for the same account revealed that it had unresolved errors of Kshs.1,188,804 dated October 2013. The management did not explain why the errors had not been resolved five years later. Consequently, the negative balance in the cash book account could not be confirmed.

### **3.0 Overstated Non-Current Assets**

The statement of financial position reflects net book value for Non-Current assets of Kshs.35,957,300. This balance includes work in progress of Kshs.33,488,876. However, and as previously reported, the work in progress represents projects which are being undertaken by the Rift valley water works development agency (previously the water services Board) and whose ownership had not been transferred to Narok Water and Sewerage Services Company Limited. Therefore, the balance on non-current assets has been overstated by Kshs.33,488,876.

The Company reported under note 4 of the financial statement a total of Kshs.11,152,957 as expenditure on chemicals. However, the ledger balances provided for audit revealed a total expenditure on Chemicals of Kshs.12,579,005.6 thus leaving undisclosed balance of Kshs.1,426,028. The cost of production figure was therefore understated by Kshs.1,426,048.

### **4.0 Overstated Trade and Other Receivables**

Note 7 of the financial statements reflects a balance of Kshs.30,026,213 as trade receivables as at 30 June 2018. However, scrutiny of the opening balance as at 1 July 2017, billings during the year and actual collections on the billings indicate that the trade receivables balance is Kshs.24,585,747, occasioning an overstatement of Kshs.5,440,466. The difference has not been explained nor supported.

Further, although the financial statements indicate the company had kshs.32,646,966 as trade receivables as at 30 June 2018, no trade receivables control ledger nor ageing analysis report was provided to confirm the closing balance. In the circumstances, the trade and other receivables closing balance of Kshs.30,462,791 as reported in statement of financial position as at 30 June 2018 could not be confirmed.

## **5.0 Understated Water Sales and Production Costs**

The financial statements under note 4 on water sales and production cost indicates expenditure of Kshs.36,342,891 for the year ended 30 June 2018. However, the Company did not pay or disclose lease fee of kshs.13,020,011 (based on 18% of revenue collections during the year of Kshs.72,333,393) payable to Rift valley water works development agency (formerly Rift valley water services board) in the financial statements as provided for in the service provision agreement between the company and the water development agency. Further under WASREB fee, the Company has reported expenditure of Kshs.2,292,384. However, review of records indicated the expenditure for the year was kshs.755,867 (being 1% of invoiced water billings for the year of Kshs.75,586,700) and the difference of kshs.1,524,649 relates to prior years expenditure for the period 2014 to June 2017 and which was expensed in 2017/18 instead of restating the opening balance.

In the circumstances, the expenditure of Kshs.36,342,891 incurred as at 30 June 2018 could not be ascertained.

## **6.0 Lack of Board of Directors**

During the year under audit, Narok Water Company Limited operated for six months between January to June 2018 without a board of directors. Though the financial statements and also statement of director's responsibilities have been signed by a director, it was not clear on whose authority it was signed as the whole board was dismissed in December 2017 and no board meeting has been held to ratify the draft financial statements for the year ended 30 June 2018.

The management did not provide for audit examination, board minutes for the period they were in office between July 2017 and December 2017 and in addition the company has also not held an AGM within thirteen months since the previous AGM was held in 2016 as provided for in the WASREB corporate governance guidelines and its own enabling legislation.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

### **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 Irregular Payment of Directors Emoluments**

Note 3 of the financial statements reflects expenditure of Kshs.49,520,890 which include Kshs.1,020,000 as director's emoluments for the year ended 30 June 2018. However, an expenditure of Kshs.595,000 paid through payment voucher number 3041,3049, 3025 amounting to Kshs.165,000, Kshs.260,000 and Kshs.170,000 respectively spent on board meetings had not been supported by attendance register or board minutes. In the circumstance, it was not possible to confirm the authenticity of the expenditure.

#### **2.0 Irregular expenditure on Customer Deposits Kshs. 4,935,995**

The Financial Statements under note 10 reported customer deposits of Kshs.5,023,293. However, a perusal of the bank statements revealed a balance of Kshs.87,298 for the year ended 30 June 2018. The difference of Kshs.5,023,293 had been expended but no supporting evidence such as Board minutes/resolutions were provided for audit. As a result, the expenditure was therefore irregular.

#### **3.0 Capital Expenditure Not Capitalized**

Property, plant and equipment under note 5 reflects additions of Kshs.486,608 for the year ended 30 June 2018. However, note 4 under water sales and production cost, the company reported recurrent expenditure of Kshs.15,244,509 under repair and maintenance, and which includes capital items of Kshs.2,500,000. These items are water meters, pipes and fittings for water extensions and which have been expensed. Consequently, plant and machinery asset additions has been understated by Kshs.2,500,000 and repairs and maintenance overstated by a similar figure.

#### **4.0 Lack of Land Title Deeds**

Note 5 of the financial statements reflects freehold land of Kshs.1,500,000 as at 30 June 2018. The company has several parcels of land where its water treatment plants are constructed. However, the company did not provide for audit examination title deeds

to confirm ownership and acreage of those pieces of land. In the circumstances, propriety of freehold land of Kshs.1,500,000 could not be ascertained.

## **5.0 Unsupported Office Supplies**

The financial statements under note 3 reflects an expenditure of Kshs.1,381,006 on office supplies and general services. However, the expenditure was not supported by requisition from user departments, purchase approvals, Counter receipt vouchers (S13), and counter issue vouchers (S11). In the circumstance therefore, it was not possible to confirm the propriety of the expenditure.

## **6.0 UnSupported Expenditure on Consultancy Fee**

The Financial statement under Note 3 reported a total expenditure of Kshs.49,520,890 under administrative costs which included Kshs.2,240,800 on consultancy services. Out of this Kshs.520,000 paid to Enterprise Integrated Great Lakes (Consultancy for strategic plan) and Diverse Eco Safety Consultant Limited. (environmental impact assessment) was not supported by any documentary evidence. It was therefore, not possible to authenticate the expenditure.

## **7.0 Unsupported Fuel and Motor services expenditure**

The financial statement under Note 4 reflects an expenditure under water sales and production cost of Kshs.36,342,891 which includes Kshs.3,749,413 on fuel and oil out of which Kshs.1,767,145 that was not supported by a fuel register, detail orders and motor vehicle work tickets. It was therefore not possible to authenticate the said expenditure.

## **8.0 Unsupported Creditors**

The Financial statements under note 10 on Trade and other payables reported a figure of Kshs.40,754,840. However, included in that figure is a balance of Kshs.6,171,120 which relevant invoices, delivery notes in support of the payables were not availed for audit examination. In the circumstances, it was not possible to confirm the authenticity of the said payables.

## **9.0 Share Capital**

The statement of financial position reflects capital and reserves balance of Kshs.21,964,280. Included in the balance is Kshs.100,000 in respect of ordinary share capital which, according to the memorandum and articles of association of the company, comprises 5,000 shares of Kshs.20 par value each. However, it is doubtful if these documents were registered with the Registrar of Companies as required by section 12 and 13 of the Companies Act since they did not bear the signatures of the subscribers of the shares. Further, no statement has been provided as required by section 14(2) (d) of the Act to show the subscribers paid for the shares. Also, despite the constitution part 2 section 10(a)11(b) placing the water function at the counties under the respective County

Governments, the board of directors has not taken any steps to amend the memorandum and articles of association to include the County Government of Narok as a shareholder.

### **10.0 Non-Remittance of Statutory Deductions**

The financial statements under note 10 reported a figure of Kshs.40,754,840 on Trade and Other payables, out of which Kshs.13,813,250 was pay as you earn ( PAYE ) deducted from permanent and contractual employees and which have not been remitted. No adequate explanation was provided for failure to remit the statutory deductions.

### **11.0 Grant Projects Assets Not Disclosed**

Note 5 of the financial statements on property, plant and equipment as at 30 June 2018 indicates assets net book value of Kshs.35,957,300. However, a signed handing over report dated 28 June 2018 from exiting managing director indicates he handed over a complete reticulation system that was installed by the JICA and GOK through Grant aid project. A site visit to the reticulation project and review of the project file indicated the grant cost was approximately kshs.1.35 billion and the project started operations in May 2016, but commissioned and handed over to the water company on 7 April 2017. However, the handing over report and the actual cost of the project was not provided for audit scrutiny. The project has assisted the company in doubling its water revenue since it started its operations. The company has therefore not disclosed a major asset used in revenue generation. In the circumstances, the net book value of property, plant and equipment of Kshs.35,957,300 as at 30 June 2018 2018 could not be confirmed.

### **12.0 Going Concern**

During the year under audit, the Company made a loss of Kshs.4,012,488 compared to a loss of Kshs.1,395,736 during the year 2016/2017, resulting in accumulated losses of Kshs.11,126,403 as at 30 June 2018. Further, current liabilities of Kshs.40,754,840 exceeded current assets of Kshs.26,727,020 by a negative working capital of Kshs.14,027,820. Consequently, the Company is technically insolvent and may not be able to meet its current obligations as and when they fall due and its continued operation as a going concern is dependent on the support of its creditors, donors and the County Government.

## **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**

### **Lack of Internal Audit Department**

The company does not have a functional internal audit department as required by the laws and regulations therefore there are no checks and balances.

### **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.

In preparing the financial statements, management is responsible for assessing the Narok Water and Sanitation Company financial statements ability to continue as a going concern disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Narok Water and Sanitation 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Narok Water and Sanitation 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 Narok Water & Sanitation Company 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, the conclusion arrived in the report on compliance and Lawfulness and the con, 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 with limited assurance as to 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 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, my responsibility is to consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and 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.

I am independent of Narok Water & Sanitation 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**

**15 May 2019**