

# **REPORT OF THE AUDITOR-GENERAL ON NOL-TURESH LOITOKITOK WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Disclaimer of Opinion**

I have audited the accompanying financial statements of Nol-Turesh Loitokitok Water and Sanitation Company Limited set out on pages 16 to 31, 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 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. Late Submission of Financial Statements**

The financial statements for the year ended 30 June 2017 were submitted to the Auditor-General on 27 October 2017 and not within three months after the end of the financial year contrary to the requirement under Section 47 of the Public Audit Act, 2015. Further, the Company did not submit during the year under review, quarterly financial and non-financial statements to the County Executive Committee Member responsible for Water services, with a copy to the County Treasury and the Auditor-General as required under regulation 207 of the Public Finance Management (County Government) Regulations 2015. The company was therefore in breach of the law.

#### **2. Presentation and Disclosures in the Financial Statements**

The following anomalies on presentation and disclosure have been noted in the financial statements:

- (i) No disclosure notes have been provided in the financial statements for the following individual account items;

<b>Item</b>	<b>Amount in the Statement of Financial Position (Kshs)</b>
Capital reserves	25,324,043
Fair value adjustment reserve	11,974,370
Revenue reserve	(51,002,828)

Borrowings-KOTDA	58,000,000
Provision for leave pay	780,000

- (ii) Page 26 of the financial statements identifies the notes as notes to the quarterly financial statements.
- (iii) The statement of financial position has two columns representing the current financial year and the previous year (comparative figures). However, these columns have not been properly labeled, as they appear as "prior year" and "actual audited" as the headings.
- (iv) The following inconsistencies have been noted in the referencing of the notes to the financial statements:

Item	Reference in the Statement of Financial Position/Comprehensive Income	Reference in the Notes
Investment	17	14
Inventories	18	15
Trade and other receivables	19	16
Prepaid insurance	20	-
Bank and cash balances	22	18
Ordinary share capital	23	19
Borrowing	24	-
Trade and other payables	25	21

Consequently, the financial statements have not been properly prepared and presented in accordance with the reporting guidelines issued by the Public Sector Accounting Standards Board.

### 3. Inaccuracies in the Financial Statements

The following inaccuracies have noted in the financial statements:

- (i) The statement of comprehensive income reflects revenue components which cast to Kshs.122,102,742 but the respective Note 1 cast to Kshs.117,102,742 resulting in a casting error of Kshs.5,000,000.
- (ii) The statement of financial position reflects property, plant and equipment balance of Kshs.144,576,980 but the respective Note 13 reflects Kshs.135,773,481 resulting in unexplained difference of Kshs.8,803,499.
- (iii) The Managing Director's report at page 9 indicate that kiosks and draw points realized Kshs. 30,848,498 in the financial year whereas Note 1 at page 26 reflects a figure of Kshs. 25,848,498 as revenue from kiosks and draw points leading to unexplained difference of Kshs. 5,000,000.

- (iv) The report of the directors at page 13 indicate that operational profit for the financial year 2015/2016 was Kshs.20,517,448 whereas the audited financial statements for that year reflect a figure of Kshs.4,428,578 resulting in unexplained variance of Kshs.16,088,870.
- (v) The statement of comprehensive income reflects an amount of Kshs.30,848,498 as revenue from kiosks and draw point and refers to Note 1. However, the Note has a figure of Kshs.25,848,498 resulting in unexplained difference of Kshs.5,000,000.
- (vi) The following casting errors have been noted in the financial statements:

<b>Item/Note</b>	<b>Amount Reflected Kshs.</b>	<b>Amount Casted Kshs.</b>	<b>Difference Kshs.</b>
Current assets	177,386,243	126,383,415	51,002,829
Capital and reserves	37,298,513	(13,704,315)	51,002,829
Non-current liabilities	90,862,009	148,862,009	58,000,000
Current liabilities	193,912,701	135,912,701	58,000,000

- (vii) The statement of changes in equity at page 18 reflects balances as at 30 June 2016. The movements for year ended 2017 have however been omitted.
- (viii) The following misstatements and inconsistencies have been noted in the statement of cash flow:

<b>Item</b>	<b>Balance Reflected Kshs.</b>	<b>Balance Supported Kshs.</b>	<b>Difference Kshs.</b>
Cash and cash equivalent at end of year	97,048,654	268,214	96,780,440
Decrease in payables	8,281,817	54,443,456	46,161,639
Proceeds from borrowing (comparative)	90,862,009	45,599,344	45,262,665
Cash and cash equivalent at end of year (comparative)	41,947,209	4,354,493	37,592,716

- (ix) Property, plant and equipment schedule at page 31 shows property, plant and equipment value of Kshs. 152,901,371 and cumulative depreciation of Kshs. 8,913,499 at the beginning of the year. According to the company's significant accounting policies at page 23, a depreciation rate of 25% is to be applied annually on the property, plant and equipment. However, the property, plant and equipment schedule reflects depreciation charge of Kshs. 640,318 for the year. It is not clear how the figure was arrived at.
- (x) The management did not provide a trial balance in relation to the financial statements for the year ended 30 June 2017.

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

#### **4. Bank and Cash Balances**

The statement of financial position reflects bank and cash balances of Kshs.268,214 as at 30 June 2017. However, no proper cashbooks were maintained for the period under review to support the balances reported. Further, a board of survey was not constituted at the closure of the financial year to ascertain cash at hand notwithstanding the fact that the company operates water kiosks, which handles cash transactions on a daily basis. The Company did not also present monthly bank reconciliation statements to the County Treasury with a copy to the Auditor-General as required by law.

Further, analysis of records and bank statements provided for audit review, indicated that various cash withdrawals amounting to Kshs. 22,984,837 were made by various officers for unexplained purposes as shown below:

<b>Bank Account</b>	<b>Name of Officer</b>	<b>Amount</b>
KCB-1130831272-Expenditure Account	Fridah Ngina	2,851,000
KCB-1130831272-Expenditure Account	Thomas Korir	6,662,674
KCB-1178476189-KOTDA Project Account	Thomas Korir	13,471,163
<b>Total</b>		<b>22,984,837</b>

No imprests register was maintained to account for the cash withdrawals issued as imprests. It was also noted that cheques were not issued directly to the suppliers but instead, cash was withdrawn regularly from the bank by the staff for onward payment to the suppliers. However, acknowledgement receipts from the alleged payees were not provided for audit verification.

Consequently, the accuracy of cash and bank balances of Kshs.268,214 as at 30 June 2017 cannot be confirmed.

#### **5. Non-disclosure of Material Uncertainty Related to Going Concern**

The statement of financial position reflects current liabilities of Kshs.193,912,701 as at 30 June 2017 which exceeds current assets of Kshs.177,386,243, resulting in a negative working capital of Kshs.16,526,458. This is an indication that the company is experiencing financial difficulties in settling its obligations as and when they fall due. The financial statements have been prepared on a going concern basis on the assumption of continued support from the creditors and the County Government of Kajado. However, this material uncertainty which casts significant doubts on the ability of the Company to continue as a going concern has not been disclosed in the financial statements by the management.

#### **6. Unaccounted for Water**

During the year under review, the Company produced 3,414,729 M3 of water. Out of this volume only 1,218,861M3 were billed to customers. The balance of 2,195,868 or approximately 64% of total production represented Unaccounted For Water (UFW). This

level of Unaccounted for Water (UFW) of 64% is 39% above the allowed industry loss of 25%. The significant level of UFW may have resulted in an apparent loss of water revenue estimated at Kshs.219,586,800, which can negatively impact on the Company's profitability and sustainability in the long run.

In addition, an amount of Kshs.1,666,250 charged as abstraction fees cannot be verified in the absence of accurate data in respect of production. This state of affairs depicts weak internal control and ineffective resource management. Further, the company had not installed master meters at the intake and production site to monitor accurately daily production and keep accurate production data.

## **7. Non-current Assets**

The statement of financial position reflects total non-current assets balance of Kshs.144,686,980. However, the assets were reported at cost instead of net book value balance of Kshs.135,773,481 as recorded in the movement schedule. Further, the schedule of property, plant and equipment reflects additions of Kshs.110,000 but there were no details to show the nature of these additions. In the circumstances, the accuracy and valuation of non-current assets as reported in the financial statements cannot be confirmed.

## **8. Trade and Other Receivables**

The statement of financial position reflects net trade and other receivables balance of Kshs. 121,373,316 (2015/2016 – Kshs.120,675,656) and as disclosed under Note 16 to the financial statements. Although the Company's policy is to make provisional adjustments at the rate of 15% for likely impairment by way of doubtful debts for debtors above 180 days, which would have amounted to Kshs.19,666,282, the Company instead made a general provision amounting to Kshs.26,620,972.

Information presented for audit review indicated that the company had 3622 accounts in debts out of which 2231 or 62% were inactive, an indication that the provision made may not be adequate. The increased level of debtors and the huge level of inactive accounts may point to a weak internal control and poor debt management strategy. Consequently, the recoverability of trade and other receivables balance of Kshs.121,373,316 as at 30 June 2017 cannot be confirmed.

## **9. Prepaid Insurance**

The statement of financial position reflects prepaid insurance balance of Kshs.201,123 as at 30 June 2017. However, details and other supporting documents for the amount were not provided for audit verification. Consequently, the validity of the prepaid insurance balance of Kshs.201,123 as at 30 June 2017 cannot be ascertained in the absence of supporting documentation.

## **10. Non-current Liabilities**

The statement of financial position as at 30 June 2017 reflects non-current liabilities totaling Kshs.148,862,009 composed of borrowings from Sidian Bank of Kshs.90,862,009 and Konza Technopolis Development Authority (KOTDA) of Kshs.58,000,000. Management did not provide duly signed loan agreements and repayment schedules in relation to these loans. The previous year's audited financial statements reflected a balance of Kshs.42,000,000 as long-term loan from KOTDA.

However, this has not been shown in the comparative figures column in the current year's statement of financial position. No explanation has been provided for this omission.

Further, it is not clear how the amount of Kshs.58,000,000 borrowed from Konza Technopolis Development Authority (KOTDA) was authorized since the Company's budget did not provide for such borrowing and the available financing agreement was not signed by either of the parties.

In addition, the Company opened and operated a KCB Bank Account No. 117847689 for KOTDA borrowings. According to available bank statements, the account received a total of Kshs. 53,000,000 as follows:

<b>Date</b>	<b>Details</b>	<b>Amount Kshs.</b>
18/5/2016	KONZA	42,000,000
5/12/2016	RTGS	11,000,000
	<b>Total</b>	<b>53,000,000</b>

The management did not explain the source of the figure of Kshs. 58,000,000 reflected in the financial statements. An analysis of the bank statement revealed that payments amounting to Kshs. 48,916,135 were made out of the account. However, the transactions were not supported by cash book, payment vouchers, contract agreements or any other records.

In the absence loan agreements, repayment schedules and records supporting the payments from the loan accounts, the validity, completeness and accuracy of the total non-current assets balance of Kshs.148,862,009 cannot be confirmed.

## **11. Current Liabilities**

The statement of financial position as at 30 June 2017 reflects a balance of Kshs.193,912,701 in respect of total current liabilities. Included in the current liabilities balance are trade and other payables totalling Kshs.133,616,254 which, however, were not supported by creditors ledger, repayment schedules, account statements or any other records.

Under the circumstances, the accuracy of current liabilities balance of Kshs.193,912,701 as at 30 June 2017 cannot be confirmed.

## **12. Capital and Reserves**

The statement of financial position reflects capital and reserves balance Kshs.37,298,513 as at 30 June 2017. The balance includes fair value adjustment reserve of Kshs.11,974,370 whose details have not been disclosed. Further the statement of changes in equity shows a negative balance of Kshs. 9,830,082 which differs with the balance of Kshs.37,298,513 shown in the statement of financial position, resulting in unexplained variance of Kshs.47,128,595.

In the circumstances, the accuracy of capital and reserves balance of Kshs.37,928,513 as at 30 June 2017 cannot be confirmed.

### **13. Staff Costs**

The statement of comprehensive income reflects staff costs of Kshs. 66,632,634 for the year ended 30 June 2017. Note 5 to the financial statements indicates an analysis of the personnel costs and includes an amount of Kshs. 8,160,000 in respect of wages of temporary employees. Details of engagement, amounts payable, terms of engagement, muster roll and actual payments were not however provided for audit review.

Further, examination of expenditure details revealed that amounts of Kshs.576,000 and Kshs.264,000 were paid as transport allowance and airtime allowances respectively to two officers during the year outside the payroll and in cash. Evidence to show that the amount was subjected to taxation at the applicable rates and remitted to the relevant authorities as required was not provided for audit verification.

In the circumstances, it has not been possible to ascertain whether the payments amounting to Kshs.9,000,000 were valid, lawful and a proper charge to public funds.

### **14. Directors Allowances**

The statement of comprehensive income reflects directors' allowances/expenses of Kshs. 992,000 which includes Kshs.512,000 paid as board allowances and Kshs.480,000 as chairman's honoraria. However, as indicated in the key entity information at page 2 of the previous year's audited financial statements, all directors served until 28 June 2016. There was no documentary evidence to show that the term of service of the directors was extended. The management did not explain the composition of the board and the basis on which the expenditure was incurred.

In addition, expenditure schedules provided reflect board allowances of Kshs.860,920 and chairman's honoraria of Kshs. 336,000 both totalling Kshs.1,196,920 instead of the total amount of Kshs.992,000 indicated above. The resulting difference of Kshs.204,920 has not been explained. In the circumstances, the accuracy of the expenditure of Kshs.992,000 in respect of directors allowances/expenses cannot be confirmed.

### **15. Operation and Maintenance Costs**

As disclosed at Note 6 to financial statements, a nil expenditure is reflected under water fittings. However, available records indicate that Smartways Company Limited was awarded a tender for supply and installation of four hand pumps, a generator, steel plates and other water fittings at a contract sum of Kshs.2,948,904. Another company, OLTIM Company Limited was also awarded tender for supply of water fittings at a contract sum of Kshs. 858,000. The two companies were not in the list of registered suppliers and it is not clear how they were identified. Further scrutiny of the procurement documents revealed that these two companies belonged to the same directors but there was no indication of the procurement process followed. The management did not demonstrate that the process followed was equitable, transparent, fair, cost-effective and competitive as required under Article 227 of the Constitution of Kenya. Information available indicate that payments totalling Kshs.3,806,904 to both companies were made

in cash. However, the propriety of the expenditure cannot be ascertained and it is not possible to confirm whether there was value for money.

## 16. Unsupported Expenditure

Supporting schedules in respect of the following expenditure items were not provided for audit verification:

Item	Amount (Kshs)
Administrative Costs	15,234,910
Regulatory Levels	7,188,067
Operations and Maintenance	33,146,253
Planning and Development	510,392
<b>Total</b>	<b>56,079,622</b>

Consequently, the validity and completeness of the expenditure totalling Kshs.56,079,622 for the year ended 30 June 2017 cannot be confirmed.

## 17. Budget and budgetary Control

The statement of budget and actual comparison for the year ended 30 June 2017 reflects budgeted total income of Kshs.123,516,032 against total estimated expenditure of Kshs.128,964,134, hence a deficit of Kshs.5,448,102. However, the budget documents provided for audit review indicated that the Company had a budgeted income of Kshs.123,516,032 against total projected expenditure of Kshs.314,377,182. This therefore meant that the Company had projected a budget deficit of Kshs.190,861,150. Management did not provide an explanation on how it intended to finance the budgetary deficit.

Further, due to differences in classification of items in the financial statements and those in the budget, it has not been possible to compare the budget against the actual expenditure for the year. There was also no documentary evidence provided to confirm that the budget was approved as required under regulation 205 of the Public Finance Management (County Government) Regulations 2015.

## 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 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 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 Company or to cease operations, or have no realistic alternative but to do so.

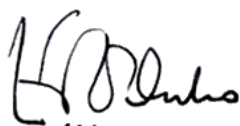
Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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 Nol-turesh Loitokitok Water and 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**

**17 July 2018**