

REPORT OF THE AUDITOR-GENERAL ON NZOIA WATER SERVICES COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of the Nzoia Water Services Company Limited set out on pages 26 to 70, which comprise the statement of financial position as at 30 June 2017, and the statement of profit and loss and other comprehensive income, 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 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, because of the significant matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly the financial position of Nzoia Water Services Company Limited as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) and do not comply with the Water Act, 2016 and the Kenyan Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Un-accounted for Water Revenue

A review of water production figures revealed that 7,223,114 m³ of water was produced out of which 4,200,352m³ was billed to customers resulting to 3,022,763 m³ un-accounted for water representing 42% as highlighted in the table below;

Item	Capacity, m3
Water Produced	7,223,114
Water Billed	4,200,351
Un-accounted for Water	3,022,763
% of Un-accounted for Water	42%

This is 17% over and above the water industry's allowable loss of 25% non-revenue water translating into voidable revenue loss of Kshs.169,274,728.

This therefore impacts negatively on the performance of the company and its sustainability to continue delivering water and sewerage services to its customers.

2. Administration Costs

2.1 Staff and Other Related Expenses

Included in the administration costs of Kshs.209,647,945 under Note 4 (a(i)) is staff and other related expenses amounting to Kshs.137,891,479, which is approximately 45% of the total revenue billed in the year under review. This is in contravention with the SRC circular and Water Services Regulation Authority's limit on salaries and wages which should not exceed 40% and 35% of an organization generated revenue respectively. In view of the foregoing, the administrative costs are likely to lead to liquidity challenges hindering the company from delivering its services.

2.2 Consultancy Services

Included also in the administration costs of Kshs.209,647,945 under Note 4(a(iv)) is consultancy services amounting to Kshs.4,479,739 paid to M/s Kirui Registers & CPS for Company Secretarial Services for increase of nominal capital at Kshs.1,500,000 while the rest being various fees amounting to Kshs.2,979,739. However, the procurement records availed for audit verification indicates that the firm was single sourced hence the management was in contravention of Section 103 of the Procurement and Asset Disposal Act, 2015.

In the circumstances, propriety of the expenditures figure of Kshs.4,479,739 could not be ascertained.

3. Property, Plant and Equipment

Included in the property, plant and equipment balance of Kshs.74,906,564 under Note 9(i) is acquisition of assets amounting to Kshs.12,389,825. However, the general ledgers to support the acquisition has a difference of Kshs.3,193,611 as show below:

Item	Figures in the F/S	Figures in the General Ledgers	Difference
Computer and related equipment	3,853,006	4,040,095	(187,089)
Network (Water pipeline infrastructure)	3,205,504	5,211,241	(2,005,737)
Water meter	5,331,315	6,332,100	(1,000,785)
Total	12,389,825	15,583,436	(3,193,611)

Consequently, the accuracy and completeness of the value of assets acquired during the year could not be confirmed.

4. Trade and Other Receivables

4.1 Long Outstanding Receivables

Included in balance for trade and other receivables of Kshs.223,255,347 under Note 12(a) is an amount of trade receivables of Kshs.197,926,539 with Kshs.133,776,635 being long outstanding and relates to prior years as shown in the aging analysis below;

Trade Receivables			
Scheme	Prior years Kshs.	Less than 1yr Kshs.	Total Kshs.
Kitale	80,160,908	35,190,014	115,350,922
Kimilili	14,282,555	6,226,401	20,508,956
Webuye	21,106,621	8,729,960	29,836,581
Bungoma	18,226,551	14,003,529	32,230,080
Total	133,776,635	64,149,904	197,926,539

Despite the existence of a Debt Management Policy of September 2016, the management has not taken effective and efficient measures to ensure recovery of these doubtful debts.

Further, the breakdown of individual listing agreeing to the total receivables of Kshs.197,926,539 as at 30 June 2017 was not availed for review.

4.2 Understated Receivables

During the year under review, the company took over the operation of Chwele and Kapkateny region from Bungoma County as from January 2017. The consolidated balance for the trade receivables analysis in the financial statements did not conclusively include all the trade receivables from these two new schemes as the balances were incomplete and not fully taken into the company's financial statements.

4.3 Deposits and Prepayments

Included in the trade and other receivables balance of Kshs.223,255,347 and as disclosed under Note (12(a)) to the financial statements is deposits and prepayments figure for Kshs.1,353,349 being customer's deposits inherited from the defunct Bungoma Local Authority. The analysis of the deposits and documents in support of the prepayments were not availed for audit verification.

Consequently, accuracy and completeness of trade and other receivable balance of Kshs.223,255,347 as at 30 June 2017 could not be confirmed.

5. Trade and Other Payables

5.1 Water Deposit

Included in the trade and other payables balance of Kshs.92,759,209 under Note 20 is water deposits amounting to Kshs.30,990,365 part of which were inherited from the defunct Bungoma Water Supply Company. A complete and properly analysis of these deposits were not availed for audit verification.

Under the circumstances, the accuracy and completeness of deposits amounting to Kshs.30,990,365 could not be confirmed.

5.2 Long Outstanding Payables

Further, included in the trade and other payables figure of Kshs.92,759,209 are long outstanding payables of Kshs.75,143,959 or 81% accumulated for a period of over 90 days and prior years and are overdue. Consequently, the settlement of these long outstanding debts are doubtful, and that the accuracy and completeness of the trade and other payables balance of Kshs.92,759,209 as at 30 June 2017 could not be confirmed.

6. Bank Overdraft

Included in borrowing under Note 19 is a figure of Kshs.16,568,521 which represents bank overdraft with Equity Bank as at 30 June 2017. However, there is no documentary evidence to the effect that the overdraft was approved by the County Assembly as per Section 142 of the Public Finance Management Act, 2012. Furthermore, the overdraft attracts an interest of 14% against a 7% fixed deposit guarantee of Kshs.15,787,500 from the same bank hence resulting to financial losses of 7% annually. Consequently, the negative outflow of financial returns leads to Loss of public funds hence not sustainable.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs).I am independent of the Nzoia Water Services 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 adverse 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 Adverse Opinion and Other Matter sections of my report, I confirm that there were no Key Audit Matters to communicate in my report.

Other Matter

Budgetary Control and Performance

Report of the Auditor-General on the Financial Statements of Nzoia Water Services Company Limited for the year ended 30 June 2017

The Company did not frequently carry out budgetary monitoring and review of its financial performance during the year under review. In view of the forgoing, the Company may not monitor its budget and financial performance effectively while irregular payments may be incurred through incorrect budget usage.

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 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

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 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 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 Kenyan Companies Act, 2015 I report based on the 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 not been kept by the Company, so far as appears from the examination of those records; and,
- (iii) The Company's financial statement are in agreement with the accounting records and returns.



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

Nairobi

11 October 2018