

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

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of set out on pages 11 to 21, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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

Section 47 of the Public Audit Act, 2015 requires the Managing Director to prepare and submit for audit financial statements within three months after the end of the financial year. However, the company submitted the financial statements for the year ended 30 June 2017 on 2 July 2018, over nine (9) months after the statutory deadline of 30 September 2018. The company was therefore in breach of the law.

2. Prior Year adjustments

A comparison of the financial statements for financial year 2016/2017 and the audited comparative figures revealed that the balances for year 2015/2016 were restated as follows:

Components	Audited Balances (2015/2016) Kshs.	Restated Values (2015/2016) Kshs.	Variance Kshs.
Sales / Income	22,207,008	26,393,115	(4,186,107)
In kind contributions	3,374,405	-	3,374,405
Other Income	1,160,000	3,190,500	(2,030,500)
Administration costs	20,398,167	22,836,781	(2,438,614)

Staff costs	7,350,000	-	7,350,000
Other operating Expenses	-	8,432,851	(8,432,851)
Property, plant and equipment	33,962,232	34,629,458	(667,226)
Intangible assets	42,875	30,625	12,250
Inventories	823,050	965,170	(142,120)
Trade and other receivables	8,487,152	7,726,908	760,244
Bank and cash balances	4,136,416	889,1460	3,247,270
Revenue Reserve	7,218,452	7,609,911	(391,459)
WSTF grant	38,108,125	33,538,875	4,569,250
Trade and other payables	14,693,621	15,095,865	(402,244)

However, the nature of the prior period corrections, effects and period to which it relates was not disclosed in these financial statements. Further, journal vouchers were not prepared to support the adjustments. As a result, the accuracy and completeness of the financial statements for the year ended 30 June 2017 could not be confirmed.

3. Revenue

The statement of comprehensive income for the year ended 30 June 2017 reflects revenue collections of Kshs.28,724,616. However, analysis of revenue reports from the billing system revealed that revenue recorded during the year under review amounted to Kshs.26,430,315 resulting to unexplained and unreconciled variance of Kshs.2,294,301.

Consequently, the accuracy of revenue balance of Kshs.28,724,616 for the year ended 30 June 2017 could not be confirmed.

4. Other Income

Similarly, the statement of comprehensive income reflects other income balance of Kshs.3,675,706 for the year ended 30 June 2017. The amount comprised of Kshs.3,445,740 paid by the County Government to seconded staff and Kshs.229,966 in respect of creditors written off. However, no details were provided to support these other income balances. As a result, the accuracy and completeness of the other income for the year ended 30 June 2017 could not be confirmed.

5. Suspense Account

Note 15 to the financial statements reflects suspense account balance of Kshs.12,891,906 relating to administration expenses comprised of operation account and unspecified account of Kshs.11,571,906 and Kshs.1,320,000 respectively. Although a suspense account is a temporarily general ledger stop-gap that stores any transactions for which there is uncertainty about the account in which they should be recorded, the

management has not provided explanation or reconciliation for the balance as at the time of this audit. Consequently, the accuracy and completeness of the financial statements for the year ended 30 June 2017 could not be ascertained.

6. Cash and Cash Equivalents

The statement of financial position reflects cash and bank balance of Kshs.4,942,494 as at 30 June 2017, which comprised of cash at bank of Kshs.2,181,637 and cash on hand of Kshs.2,760,857. However, note 14 to the financial statements does not give a breakdown of the bank balances for each of the bank accounts operated by the water company. The figure of Kshs.4,942,494 is also at variance with a balance of Kshs.(14,953,280) reflected in the statement of cash flows, resulting in unreconciled balance of Kshs.19,895,774. Further, no cash books and bank reconciliation statements were prepared for Revenue account No. 01109467355000 and deposit account no.01109467355001 both at the Cooperative Bank. In addition, neither a petty cash book was maintained nor cash survey was conducted at the close of the financial year to confirm existence and accuracy of cash on hand of Kshs.2,760,857. In view of these anomalies, the accuracy of cash and cash equivalents balance as at 30 June 2017 could not be ascertained.

7.0 Financial Irregularities

7.1 Weak Accounting System

An assessment carried out on the company's accounting system revealed that proper and reliable records were not kept during the year under review. In most cases Payment vouchers were processed without basic and appropriate details such as the voucher number, date and the cheque numbers. On the other hand, relevant transactions details were not captured in most cheque counterfoils. Therefore, there was loss of audit trail and the completeness, occurrence and accuracy of most of the transactions could not be confirmed.

Further, a review of records maintained by the company in respect of cash and bank balances revealed financial irregularities as follows:

7.1 Irregular Transfer of Funds from Ol-Kalou Household Sanitation Project

A review of the company's bank statements revealed that a total of Kshs.2,563,400 was transferred during the financial 2016/2017 from Ol-Kalou Household Sanitation Project Account No.01148467355001, a special project account held at Cooperative Bank to the general water company's expenditure account no.01148467355000 in the same bank. The special account was meant for sanitation project. However, no approval and relevant records were provided to support for the transfer. The transfer of the funds from project account to the company's expenditure account was therefore irregular.

7.2 Unaccounted for Transfers from Deposit Account

Similarly, a review of the company's bank statement revealed that a total of Kshs.1,197,382 was transferred from the company's deposit account No.01149467355001 held at Cooperative bank to the water expenditure account No.01148467355000 in the same bank. However, authority and relevant records in respect of the deposit funds transfer were not provided for audit review. Further, the transfer had not been refunded to the deposit account as at the time of the audit in June 2018. Further no returns were provided to account for the Kshs.1,197,382 transferred to the expenditure account and remain unaccounted for.

7.3 Overpayment to Suppliers

A scrutiny of payment vouchers and amounts processed through the company's bank accounts revealed several transactions indicating that some suppliers were paid a total of Kshs.770,280 over and above the invoice value of goods and services delivered. The excess payments led to loss of public funds amounting to Kshs.770,280.

7.4 Irregular Petty Cash Transactions

A review of records maintained by the company in respect of petty cash payments and cash withdrawn from the bank during the year revealed a total of Kshs.1,102,625 was processed through falsified records, double payments or unverified claims. Although the management reported the matter to the police, no other action has been taken against the officers involved in the irregular transactions resulting to loss of public funds.

7.5 Difference between Cheque Counterfoils and the Amount Cleared by Bank

A comparison of cheque counterfoils balances against the amount paid out as recorded in bank statements revealed that in some instances, the amount indicated in the counterfoils differed with the amount cleared by the bank. Indications therefore are that the amounts entered in the cheques presented to the bank for payment were altered and public funds amounting to Kshs.1,367,349 was misappropriated.

8.0 Unsupported Payments

A review of bank statements and other accounting records maintained by the company revealed that during the financial year, cheques totaling to Kshs.16,525,100 processed and cleared through the company's bank accounts but were not supported by other relevant documentation.. In absence of the payment vouchers, the regularity and effectiveness of the expenditure of kshs.16,525,100 could not be confirmed.

9. Trade Receivables

As similarly reported in the previous year, the trade and other receivables balance of Kshs.9,122,295 as at 30 June 2017 includes trade debts amounting to Kshs.739,998 inherited from the Ministry of Water and Irrigation which have been outstanding for a long

time. The recoverability of these debts is uncertain and a provision of Kshs.77,295 for bad and doubtful debts made in the financial statements appears inadequate. Further, the trade and other receivables balance of Kshs.9,122,295 was not supported by schedules and ledgers.

Consequently, the accuracy, completeness and recoverability of trade and other receivables balance of Kshs.9,122,295 as at 30 June 2017 could not be confirmed.

10. Capital Reserves

The statement of financial position reflects capital reserves amounting to Kshs.1,768,431 which according to note 7 to the financial statement represent debts inherited from the Ministry of Water at inception of the company. However, no details were provided to support this figure. As a result, the accuracy of the capital reserves balance of Kshs.1,768,431 as at 30 June 2017 could not be confirmed.

11. Trade and Other Payables

The statement of financial position reflects trade and other payables balance Kshs.22,959,435 as at 30 June 2017. The amount comprise of trade payables of Kshs.10,776,223, payable to KENAO, Kshs.1,688,000 owed to Rift Valley Water Services Board, Kshs.9,370,015 and payable to house hold project Kshs.1,125,197. However, no ledgers were maintained to support these balances. Consequently, the accuracy and completeness of trade payables balance of Kshs.22,959,435 as at 30 June 2017 could not be confirmed.

12. Non-Disclosure of a Contingent Liability - Pending Law Suit

A review of the company's Board Meeting Minutes revealed that the company had a pending civil suit no.5712 of 23 August 2016 in relation to purchase of an exhauster from Thika Motor Dealers at a cost of Kshs.12,450,000. However, no disclosure of the pending civil suit and potential financial effects was made in the financial statements for the year ended 30 June 2017 in compliance with IAS 37. The financial statements are therefore not in line with International Financial Reporting Standards as prescribed by the Public Sector Accounting Standards Board.

13. Sustainability of Services – Going Concern

During the financial year 2016/2017, the company recorded a loss of Kshs.6,551,529 (2015/2016 loss of Kshs.1,686,018) which increased the accumulated loss from Kshs.7,609,911 to Kshs.14,161,440 as at 30 June 2017. Further current liabilities balance of Kshs.22,959,435 exceeded current assets balance of Kshs.15,118,499 resulting to a negative working capital of Kshs.7,840,936. This is an indication that the company's financial position is precarious and may be experiencing difficulties in meeting its obligations as and when they fall due. However, the financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive support from the Government and creditors.

14. Unaccounted for Water (UFW)

During the year under review, the company produced a total of 431,362 cubic meters (m³) of water. However out of this volume 223,917 m³ of water was sold (billed) to customers. The difference of 207,445 m³ or approximately 48% of total volume of water produced represented Unaccounted For Water which is 23% above the allowable loss of 25% as per Water Services Regulatory Board (WASREB) guidelines. The UFW of 48% may have resulted to loss in sales estimated at Kshs.24,060,267.. The significant level of UFW may negatively impact on the Company's profitability and its long term sustainability.

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 going concern 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 Ol-Kalaou Water 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.



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

Nairobi

31 January 2019