

REPORT OF THE AUDITOR-GENERAL ON OLKEJUADO WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Olkejuado Water and Sewerage Company limited set out on pages 2 to 23, which comprise the statement of financial position as at 30 June 2018 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.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Olkejuado Water and Sewerage Company Limited as at 30 June,2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and do not comply with the Water Act, 2012 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Inaccuracies in the Financial Statements

- (i) The statement of comprehensive income reflects miscellaneous income under tankering Revenue of Kshs.4,325,455 while the trial balance presented for audit reflects Kshs.4,305,455 resulting to an unexplained difference of Kshs.20,000.
- (ii) There were unexplained variances between the financial statements and the trial balance and supporting schedules as tabulated below:

	Audit Component	Financial Statement Figure (Kshs.)	Supporting Schedule Figure (Kshs.)	Variance (Kshs.)
Administration expenses	Travelling	1,193,200	1,218,400	(25,200)
	Fuel and gases	1,798,096	1796896	
	Office stationery	111,245	111,095	150
Staff costs	Salaries permanent	9,791,410	10,967,610	(1,176,200)
	Salaries contract	682,000		682,000
	Other pension contribution	456,000	0	456,000
Operation Costs	Maintenance of water supply	1,030,992	1,006,992	24,000

	Audit Component	Financial Statement Figure (Kshs.)	Supporting Schedule Figure (Kshs.)	Variance (Kshs.)
Trade and other Payables		69,944,694	69,944,694	830,517
Total				792,467

- (iii) Note 9(a) and (b) indicates trade receivables as 4(b) and provision for bad debts as note 4(c) whereas the financial statements do not contain such notes.
- (iv) The statement of comparison of Budget and actual amounts does not contain percentage variance and does not include explanatory notes explaining the variances.
- (v) The corporate governance statement indicates that there was no board of directors appointed during the year under review yet the financial statements have been approved by a Board of Directors.
- (vi) The statement of comprehensive income reflects staff costs of Kshs.12,595,417 while the payroll for twelve months for the year under review shows Kshs.14,406,007 hence unexplained difference of Kshs.1,810,590 between the payroll and financial statements.
- (vii) The statement of financial position reflects trade and other payables amounting to Kshs.69,944,694 while the trial balance and supporting schedule show a figure of Kshs.69,114,177 resulting to an un explained variance of Kshs.830,517.
- (viii) Various discrepancies were noted on comparison of Note 10 in the financial statements with the Bank reconciliation statements, Bank certificate balances and Bank statements as at 30 June 2018 on the following accounts:

Account	Financial Statements (Kshs.)	Bank Reconciliation (Kshs.)	Bank Certificate (Kshs.)	Bank Statement (Kshs.)
Tankering 00	161,773.00	141,772.43	141,772.43	141,772.43
Expenditure 02	466	202,337.22	202,337.22	202,337.22
Deposits 03	6,227.15	6,380.15	6,380.15	6,864.15
Isinya UPC -04	-	(445.96)	(445.96)	(445.96)
Paybill collection 69	6,000.00	108,000.00	-	6,000.00

No satisfactory explanations have been provided for these differences. Consequently, the accuracy and the validity of the above account balances cannot be confirmed.

2. Non Accounting for Revenue

The statement of comprehensive income reflects total revenue of Kshs.25,018,461 compared to Kshs.22,040,076 for the year 2016/2017. It was noted that the Company's revenue for the year increased by Kshs.2,978,385 from Kshs.22,040,076 for 2016/2017 to Kshs.25,018,461 for 2017/2018 representing an increase of 14%.

Further, revenue for the year of Kshs.25,018,461 includes miscellaneous income of Kshs.4,738,567 composed of tankering/water bowser and new connections, which reduced by Kshs.1,323,328 or 22% compared to previous year's amount of Kshs.6,061,895. No proper records were maintained to show the water bowsers involved, dates, trips made, amounts charged and banked and daily meter readings from the draw points.

In addition, it was noted that, the company does not have a billing system for capturing customer details and meter readings as collected from the customers. Instead, the company has outsourced its billing services to Thika Water and Sewerage Company without an active service level agreement. Further, the management did not provide further details of the revenue i.e. schedules, ledger and trial balance to support figures in the financial statements.

In the circumstances, the internal controls necessary to enable preparation of financial statements that are free from misstatements are lacking.

3. Non Maintenance of Records/Books of Account

The financial statements presented for audit for the year ended 30 June, 2018 have not been adequately supported by way of records, proper schedules, cashbooks, ledgers and other proper books of account. In the circumstances, the internal controls necessary to enable preparation of financial statements that are free from misstatements are lacking.

4. Maintenance of Water Production Records

The statement of comprehensive income reflects water sales revenue of Kshs.16,123,031 (year 2016/2017-Kshs.11,663,694) and as disclosed under note 6(a) to the Financial Statements. However as reported in 2016/2017 and prior years, the water company does not maintain proper records of water sales volumes, quantities produced and billed during the year under review.

For instance, the records provided for audit review relating to production indicated that, during the months of December 2017 to May 2018, the company was billing more volumes than production as shown below;

Date	Total Water Produced (M³)	Total Water Billed (M³)	Variance (M³)	NRW %
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Jul-17	22,093		22,093	100
Aug-17	22,700	9,715	12,985	57
Sep-17	20,478	12,497	7,981	39
Oct-17	26,765	20,922	5,843	22
Nov-17	26,238	24,045	2,193	8
Dec-17	25,478	28,194	(2,716)	(11)
Jan-18	24,238	30,246	(6,008)	(25)
Feb-18	25,847	30,227	(4,380)	(17)
Mar-18	23,646	27,320	(3,674)	(16)
Apr-18	16,611	20,605	(3,994)	(24)
May-18	16,863	27,358	(10,495)	(62)
Jun-18	21,326	21,020	306	1
Total	272,283	252,149	20,134	7

Consequently, this could be an indicator that the production records are falsified and misleading since it's not possible to bill what was not produced. Further, it is not possible to confirm whether the Company's Non-Revenue water is within the loss threshold of 25% permitted under Water Services Regulatory Board guidelines and any estimated revenue loss thereof.

5. Unaccounted Administrative Expenditure

The Statement of comprehensive income reflects a total expenditure amounting to Kshs.27,537,113. Out of this, an amount of Kshs.5,862,327 as per note 7(a), is in respect of administrative expenses. The analysis provided as per note 7(a) includes an amount of Kshs.1,193,200, Kshs1,798,096 and Kshs.832,496 in respect of travelling, Fuel & gases and transport respectively. However, these expenses were not adequately supported by payment details, appropriate authority and any other documentations as required. Further, out of the expenditure of Kshs.1,193,200.00 on traveling, only Kshs.120,000 was budgeted for while fuel and gases have a budget figure of Kshs.1,140,000.00 compared to an actual amount of Kshs.1,798,096.00. No explanations or amendments has been provided for the overutilization funds on these items.

6. Non- Current Assets

The statement of financial position reflects property, plant and equipment balance of Kshs.19,153,226 (Year 2016/2017 –Kshs.19,169,373) and as disclosed under Note 8 to the financial statements. This includes a balance of Kshs.19,040,803 described as work in progress There was no detailed breakdown provided to support the work in progress. Further, the company did not maintain an assets register for proper recording of location and state of assets owned.

Consequently, the valuation and accuracy of the property, plant and equipment balance of Kshs.19,153,226 as at 30 June 2018 cannot be confirmed.

7. Trade and Other Receivables

Trade and other Receivables figure increased to Kshs.27,690,027 as at 30 June 2018 from Kshs.22,730,040 as at 30 June 2017, an increase of Kshs.4,959,987. Included in this amount is un surrendered imprests of Kshs.1,036,444 and which has remained constant from prior years and inactive trade receivables amounting to Kshs.26,653,583. No analysis has been provided in support of the outstanding imprests. Further, the company has made a general provision for bad debts amounting to Kshs.6,332,410 which is not supported by any validly approved policy.

Consequently, the validity and proper valuation of the trade and other receivables cannot be ascertained.

8. Cash and Cash Equivalents

The statement of financial position reflects cash and bank balances of Kshs.465,346 as at 30 June 2018. However, the balances are not supported by a board of survey report or proper cashbook. Further, the financial statements reflects nil balance as cash at hand yet there is no board of survey report to confirm that the company did not have any cash at hand at the end of the financial year despite operating various water kiosks which are cash collection points.

Cash books are maintained in Microsoft excel and there is no mechanism to ensure that the figures are not subject to manipulation. It was also noted that the company did not present monthly bank reconciliation statement not later than the 10th of the subsequent month to the County Treasury with a copy to the Auditor-General as required by law.

In the circumstances, the accuracy and valuation of Cash and bank balances as reflected in the financial statements could not be confirmed.

9. Trade and other payables

The statement of financial position reflects trade and other payables amounting to Kshs.69,944,694 out of which Kshs.62,860,169 is from the previous year 2016//2017 and cannot be ascertained because there were no detailed breakdown reflecting the makeup of the trade and other payables, what was supplied and when the supplies were done. There is no proof that the balance carried down was actually owed and not paid and that these payables are actually in existence.

Consequently, the validity and valuation of trade and other payables balance of Kshs.69,944,694 cannot be confirmed.

10. Bank Overdraft

The statement of financial position reflects an overdraft of Kshs.446.00 for Isinya UPC Account contrary to provisions under section 119(4) of the Public Finance Management Act 2015, which requires that an accounting officer for a county government entity shall not cause a bank account of the entity to be overdrawn beyond the limit authorized by the County Treasury or a Board of a county government entity, if any.

The company did not provide evidence of authorization and the nature of overdraft arrangements it has for respective bank accounts.

In the circumstances, it was not possible to ascertain the nature and purpose of the bank overdraft.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the management of Olkejuado Water and Sewerage Company Ltd 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.

Emphasis of Matter

Going Concern

The statement of financial position as at 30 June 2018 reflects current liabilities of Kshs.69,945,140 against current assets of Kshs.28,155,373 resulting in a negative working capital of Kshs.41,789,767. The net capital reserves also deteriorated from a negative Kshs.20,117,929 as at 30 June 2017 to a negative Kshs.22,636,581 as at 30 June 2018 an indication that the company may be experiencing financial difficulties in settling its obligations as and when they fall due.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, are of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

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 section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Budgetary Controls and Performance

During the year under review, the organization did not approve its working budget since there was no board of directors in place. It was therefore not presented to the County Treasury and Assembly for approval as required under Regulation 205(1) of the Public Finance Management (County Government) Regulations 2015 which states that the County Executive Committee Member responsible for the county corporation shall approve the estimates of budget of the county corporation and shall, not later than end of January every year, submit to the County Treasury for approval of those estimates for the following financial year.

Further analysis revealed that budgeted revenue of Kshs.28,460,000 was more than actual revenue of Kshs.25,018,461 therefore creating a deficit of Kshs.3,441,539 or 12% mainly against miscellaneous income of Kshs.1,921,433 which is a reduction from last years collections by Kshs.1,323,328. There are no notes in the financial statement or explanation to support the shortfall in the budget.

Additionally, a comparison of actual expenditure items against budgeted amounts revealed that the management spent more under the following item;

Audit Component	Budgeted Figure 2017/2018 (Kshs)	Actual Figure 2017/2018 (Kshs.)	Variance (Kshs.)	% Absorption Rate
Operational costs	7,310,000	7,318,968	-8,968	-0.12%
Administrative expenses				
• Travelling	120,000	1,193,200	-1,073,200	-89.4%
• Fuel and gases	1,140,000	1,798,096	-658,096	-55.7%

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, except for the matter described in the basis for conclusion on lawfulness and effectiveness in use of public resources, 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

Report of the Auditor-General on the Financial Statements of Olkejuado Water and Sewerage Company for the year ended 30 June 2018

Board of Directors

As disclosed in the corporate governance statement at page xiv, the company operated without a functional board of directors during the year ended 30 June 2018. The term of the company's board of directors expired on 31 October 2015 except for the two representatives of Kajiado County Government and the Managing Director. This state of affairs impacts negatively on the governance and management oversight. As a result, the requisite committees for proper functioning of the company including the board audit committee have not been put in place.

In the circumstances, the company lacks the required stewardship and may lead to decisions made without any binding effect in the absence of a Board of Directors and hence the Company may not be able to transact its full business as enshrined in the articles of association.

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, because of the significance of the matter discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

Audit Committee and Internal Audit Function

From the assessment of the internal controls, the following documents are non-existent in the organization, these include a code of conduct, HR policy, staff establishment and organizational chart and risk management policy. This is due to a lack of a board of directors to offer governance and management functions.

The internal audit department has been there for the past few years and no audit reports conducted according to the Accounting Standards Board have been availed for review, this

undermines the role of the internal audit function which plays an oversight role to the organization.

Further, there is also no audit committee or board of directors in place as this provides the organization with the governance role. No reasonable assurance has been provided through the audit committee on the state of risk management, internal controls and governance within the organization and no review of the effectiveness of the financial and non-financial performance management systems of the entities has been provided. Further, there was no audit plan for the year 2017/2018.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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.

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, risk management and 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 going concern using the going concern basis of accounting unless the management either intends to liquidate the corporation 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 resources are applied in an effective way.

Those charged with governance are responsible for overseeing the 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

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 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 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 or to sustain its services. 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 or to sustain its services.
- 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.



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

Nairobi

16 April 2019

Report of the Auditor-General on the Financial Statements of Olkejuado Water and Sewerage Company for the year ended 30 June 2018