

REPORT OF THE AUDITOR-GENERAL ON RUIRU-JUJA WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Ruiru-Juja Water and Sewerage Company Limited set out on pages 10 to 24, 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 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, except for the effect of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Ruiru-Juja Water and Sewerage Company Limited as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with both the Water Act, 2002 and the Companies Act, 2015 of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter section of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Water Sales Debtors

Note 11 to the financial statements reflects gross water sales debtors balance of Kshs.23,269,200 as at 30 June 2017, which have been outstanding for a considerable long period of time. Although the recoverability of these debts is clearly uncertain, the provision for bad and doubtful debts of Kshs.1,163,460 made in the financial statements against the outstanding debts appears inadequate. Consequently, the accuracy of water sales debtors as at 30 June 2017 could not be confirmed.

2. Customer Deposits

The customer deposits balance of Kshs.55,116,682 reported in the financial statements as at 30 June 2017 was at variance with the consumer deposits bank account balance of Kshs.62,036,111, resulting in unreconciled and unexplained difference of Kshs.6,919,429. Consequently, the accuracy of the consumer deposits balance of Kshs.55,116,682 as at 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Ruiru-Juja Water and Sewerage 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 qualified 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 matter described in the Basis for Qualified Opinion section of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1. Unaccounted for water

During the year under review the company produced a total of 5,456,819 cubic meters (M³) of water. However, out of this volume, only 3,829,510 M³ of water was billed to customers. The balance of 1,627,309 M³ or approximately 30% of the total volume of water produced represented unaccounted for water (UFW) which is 5% over and above the allowable loss of 25% in accordance with WASREB guidelines. The UFW of 30 % may have resulted in loss of sales estimated at Kshs.53,701,197.

The significant level of UFW may negatively impact on the Company's profitability and its long term sustainability.

2. Board Expenses

The statement of Comprehensive Income for the period ending 30 June 2017 reflects Board expenses of Kshs.779,726. However, the management did not budget for the expenses and therefore the expenses was charged on other expenditure items. Further, Board minutes and attendance register in respect of meetings held during the year under review were not provided for audit verification. In the circumstances, the regularity of board expenses balance figure of Kshs.779,726 for the year ended 30 June 2017 could not be confirmed.

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

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 of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards of Supreme Audit Institutions (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 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and 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.

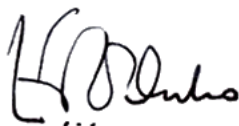
I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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 Companies Act, 2015 I report based on my audit, that:

- 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, adequate accounting records have been kept by the company, so far as appears from my examination of those records; and,
- The Company's financial statements are in agreement with the accounting records.



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

Nairobi

15 October 2018