

# **REPORT OF THE AUDITOR-GENERAL ON RUIRU-JUJA WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018**

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## **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 11 to 35, which comprise the statement of financial position and the statement of profit or loss and other 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 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 effects of the matters 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 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply the Kenyan Companies Act, 2015.

### **Basis for Qualified Opinion**

#### **1. Education and Training Expenses**

Disclosed in Note 4 to the financial statements under administration expenses are education and training expenses totalling Kshs.4,115,906 which were not supported by the Company's training policy, training needs assessment, approved training programmes and budget, procurement records for training materials and facilities, invoices and reports on training. In the absence of these documents and records, the validity, propriety and accuracy of the expenditure of Kshs.4,115,906 incurred on education and training could not be confirmed.

#### **2. Outstanding Water Sales Debtors**

Disclosed in Note 15(b) to the financial statements are gross trade debtors balance of Kshs.30,081,572 as at 30 June 2018 (2017: Kshs.23,269,200) and relating to outstanding water sales debtors. No satisfactory reasons were given for failure to recover the outstanding debts which had increased as of 30 June 2018 by Kshs. 6,812,372.

#### **3. Inventories**

The statement of financial position as at 30 June 2018 reflects inventories balance of Kshs.7,946,190 and as disclosed in Note 14 to the financial statements. However, stock sheets as at 30 June 2018 reflects a balance of Kshs.5,362,541 while the store ledger and stock control (S3) cards reflects a balance of Kshs.4,815,821, resulting in a difference of Kshs.546,720. The above differences between the three sets of records were not reconciled or explained. As a result, the accuracy of inventories balance of Kshs.7,946,190 could not be confirmed.

#### **4. Short Term Deposits**

Examination of records revealed that the Company transferred Kshs.50,000,000 from Kenya Commercial Bank Deposit Account No.1102730939 to Post Bank Revenue Account No.0744130011658 on 5 July 2017 and the same amount was further deposited in a Post Bank Fixed Deposit Account No.1102730939 on 6 July 2017. The statement of financial position reflects short-term deposits balance of Kshs.54,750,000 as at 30 June 2018 inclusive of an interest of Kshs.4,750,000 earned and apparently rolled over. However, the Company did not provide for audit review any documentary evidence showing the terms of the fixed deposit account and the rate of interest applicable to the amount earned. Consequently, the validity and accuracy of the amount of Kshs.4,750,000 could not be ascertained.

#### **5. Property, Plant and Equipment**

Disclosed in Note 12 to the financial statements under property, plant and equipment are nil cost, additions, transfers, disposals and net book value in respect of freehold land and capital work in progress, respectively as at 30 June 2018. However, the audit revealed that the Company had as at that date other assets with undetermined value including land, dams, water pipelines, sewer system and water treatment plants that are used in revenue generation. No reasons were provided for failure to disclose these assets or to include them in the financial statements. Consequently, the property, plant and equipment balance of Kshs.33,379,062 reflected in the financial statements as at 30 June 2018 is not fairly stated. In addition, the Company did not provide for audit review a fixed assets register. As a result, the descriptions and locations of the property plant and equipment disclosed in Note 12 to the financial statements could not be fully ascertained.

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 matters described in the

Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections, I have determined that there are no Key Audit Matters to communicate in my report.

### **Other Information**

The directors are responsible for the other information. The other information comprises the report of directors as required by the Companies Act, 2015, and the statement of the directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## **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 matters described in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections of my report, 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**

#### **1. Unaccounted for water**

During the year under review the Company produced a total of 6,703,703 cubic meters (M<sup>3</sup>) of water. However, out of this volume, only 4,434,173 M<sup>3</sup> of water was billed to customers leaving a balance of 2,269,530 M<sup>3</sup> being unaccounted for (UFW) or approximately 33.8% of total water produced which is 8.8% above allowable loss of 25% in accordance with Water Service Regulatory Board guidelines. The unaccounted for water may have resulted in a loss of sales estimated at Kshs.194,952,627. Had the unaccounted for water been sold, the company would have reported an operating profit of Kshs.256,089,658 instead of Kshs.61,137,031 now shown.

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, based on the audit procedures performed, except for the matter described in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

#### **1. Internal Control**

Verification of records provided for audit revealed that the management did not have during the year under review effective controls in respects of imprests. The Company did have an up to date imprests register and lacked imprests warrant books.

#### **2. Failure to Appoint Board of Directors**

A review of records relating to the Company's board of directors revealed that although the board members were expected to be nine, only four members including the managing director served the entity during the period under review and the rest had retired. The vacant board positions had not been filled as of January 2019. In the absence of full board, activities that require full board approval cannot be implemented.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit so as to obtain assurance about whether 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.

## 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 my audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with books of account; and
- (iv) In my opinion the information given in the report of the directors on page 9, is consistent with the financial statements.

### **Responsibilities of Directors and Those Charged with Governance**

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of The Kenyan Companies Act, and for maintaining effective internal control as the directors 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, the directors are responsible for assessing the ability of Ruiru - Juja Water and Sewerage Company Limited ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the directors either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are 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, the directors are 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 manner.

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 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 directors.
- Conclude on the appropriateness of the directors' 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 ability of Ruiru-Juja Water and Sewerage Company Limited 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 Ruiru-Juja Water and Sewerage Company Limited to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the directors 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 the directors 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**

**17 April 2019**