

# **REPORT OF THE AUDITOR-GENERAL ON SAMBURU WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of Samburu Water and Sanitation Company Limited set out on pages 5 to 13, which comprise the statement of financial position as at 30 June 2018, 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 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 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 Samburu Water and Sanitation 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 Kenyan Companies Act, 2015.

### **Basis for Adverse Opinion**

#### **1. Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalents balance of Kshs.129,358 as at 30 June 2018. However, the following irregularities were noted:

- (i) The cash book was not updated for the period January 2017 to June 2017.
- (ii) Revenue receipts amounting to Kshs.3,000,000 received on 1 March 2018 were not captured in the cash book or included as reconciling items in the bank reconciliation statements.
- (iii) The closing bank balances were erroneously posted in the cash books as opening balances in the subsequent months without justification.
- (iv) Included in cash and cash equivalents balance as at 30 June 2018 under Note 5 to the financial statements are Equity Bank balances in respect of revenue and expenditure accounts amounting to Kshs.115,641 and Kshs.717, which are at variance with cash book balances of Kshs.627,045.08 and Kshs.772.37, respectively.

Consequently, the accuracy and validity of the cash and cash equivalents balance of Kshs.129,358 as at 30 June 2018 could not be confirmed.

## **2. Revenue Reserves**

Disclosed in Note 9 to the financial statements is a comparative opening balance as at 01 July 2017 of Kshs.4,000,581 for the revenue reserves which is at variance with audited 2016/2017 figure of Kshs.14,887,590. The resulting difference of Kshs.10,887,009 was not reconciled or explained. As a result, the accuracy and completeness of the revenue reserves negative balance of Kshs.6,956,984 as at 30 June 2018 could not be ascertained.

## **3. General Reserves**

The statement of financial position as at 30 June 2018 reflects general reserves balance of Kshs.67,617,994. However, detailed schedules for the balance were not presented for audit review. Further, explanatory note in respect of the balance was not included in these financial statements. Consequently, the accuracy and validity of the general reserves balance of Kshs.67,617,994 as at 30 June 2018 could not be confirmed.

## **4. Fixed Assets**

The statement of financial position as at 30 June 2018 reflects fixed assets balance of Kshs.86,039,618. However, a fixed assets register was not maintained indicating description of the asset, date of purchase, serial numbers, cost, location, depreciation and net book values. Further, ownership documents for motor vehicles with a net book value of Kshs.681,928 were not provided for audit verification.

In addition, a review of expenditure records for the company revealed that capital expenditure for purchase of water meters, construction of water kiosks and pipeline extension of Kshs.675,000, Kshs.2,450,000 and Kshs.23,539,830 were erroneously expensed during the year instead of being capitalized and depreciation charged over the useful life of the assets.

Consequently, the accuracy and completeness of the fixed assets balance of Kshs.86,039,618 as at 30 June 2018 could not be ascertained.

## **5. Debtors**

The statement of financial position reflects debtors balance of Kshs.9,468,725 as at 30 June 2018. However, detailed schedules and ledger for the debts were not provided for audit review. Further age analysis and provision for bad and doubtful debts were not disclosed in these financial statements. As a result, the accuracy and validity of the debtors' balance of Kshs.9,468,725 as at 30 June 2018 could not be confirmed.

## **6. Customer Deposits**

Disclosed in Note 6 to the financial statements under creditors are customers' deposits totalling Kshs.6,057,449 as at 30 June 2018. However, the balance was not supported by a certificate of bank balance. Further, a deposits ledger and schedules of deposits were not maintained. As a result, the validity, accuracy and completeness of the customers' deposits balance of Kshs.6,057,449 as at 30 June 2018 could not be confirmed.

## **7. Investments and Establishment Expenditure**

Disclosed in Note 12 to the financial statements under investment and establishment expenditure are amounts of Kshs.23,539,830 and Kshs.3,535,260 in respect of pipeline extension and water fittings, respectively. However, records maintained by the company indicates expenditure of Kshs.4,211,260 and Kshs.30,201,992, respectively. Consequently, the accuracy and completeness of the expenditure on pipeline extension and water fittings for the year ended 30 June 2018 could not be confirmed.

## **8. Unsupported Expenditure**

Included in operations, maintenance and administration costs of Kshs.17,782,214 are expenditure amounting to Kshs.1,705,780 in respect of various office operations, for which no supporting payment vouchers, invoices, certificates and other relevant documents were provided for audit verification. As a result, the propriety and completeness of the expenditure of the Kshs.1,705,780 could not be confirmed.

## **9. Failure to Disclose Material Uncertainty in Relation to Going Concern**

During the financial year ended 30 June 2018, the company recorded an operating loss of Kshs.2,956,403 (2017: an operating loss of Kshs.7,443,795). Its revenue reserves balance as at 30 June 2018 was negative Kshs.6,956,984 (2017: negative Kshs.14,887,589).

Further, the current liabilities balance of Kshs.34,976,690 exceeded the current assets balance of Kshs.9,598,083, resulting in a negative working capital of Kshs.25,378,607 as at 30 June 2018. This precarious financial position is an indication of the existence of a material uncertainty which may cast a significant doubt on the company's ability to continue as a going concern and to meet its obligations as and when they fall due.

However, this material uncertainty in relation to going concern and any mitigating measures put in place by the company directors to reverse the undesirable precarious financial position have not been disclosed in the notes to the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Samburu 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. 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 discussed in the Basis for Adverse 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 other 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 discussed in the Basis for Adverse 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. Failure to Remit Statutory Deductions**

During the year under review, the company withheld at source statutory deductions of Kshs.465,600 and Kshs.832,750 in relation to National Social Security Fund (NSSF) and National Hospital Insurance Fund (NHIF), respectively. However, records of payments indicated that the company remitted lesser amounts to the statutory bodies of Kshs.38,400 and Kshs.487,300, only. The resultant difference amounting to Kshs.772,650 was neither paid nor disclosed as creditors in these financial statements. No reason was provided for the omission.

#### **2. Non-Revenue Water**

During the financial year under review, the company produced a total of 230,172 cubic meters (M<sup>3</sup>) of water. However, out of this volume, only 115,189 cubic meters (M<sup>3</sup>) of water was billed to customers. The balance of 114,983 cubic meters (m<sup>3</sup>) which is approximately 49.96% of water produced represented Unaccounted for Water (UFW). The UFW of 49.96% was over and above the allowable loss of 25% by 24.96% according to Water Services Regulatory Board (WASREB) guidelines. The non-allowable Unaccounted for Water of 49.96% may have resulted in loss of sales estimated at Kshs.3,730,968. Further, records indicate that the company had a total of 188 unmetered connections in various centres within the County thus further increasing non-revenue water.

The significant level of Unaccounted for Water is an indication of inefficiency and ineffectiveness in delivery of the services to the residents of Samburu County and, may negatively impact on the company's profitability and its long term sustainability.

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 matters discussed in the Basis for Adverse 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.

### 1. Personnel Records Management

A review of personnel records of the company revealed various anomalies and internal control weaknesses as follows:

- (i) The company did not maintain staff establishment, scheme of service and remuneration structure. As a result, the staff were paid consolidated salary without appropriate authority.

- (ii) Personnel files did not have relevant documentations including appointment letters; copies of National Identity Cards, KRA PIN certificates and academic certificates; and records of promotions and leave due or taken.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit 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 not 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 comprehensive income are not in agreement with the books of account; and
- (iv) In my opinion the information given in the report of the directors on page 2, 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 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 Samburu Water and Sanitation Company Limited to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern 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 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 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 Samburu Water and Sanitation 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 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 Samburu Water and Sanitation 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.

A handwritten signature in black ink, appearing to read 'E. O. Ouko'.

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

**Nairobi**

**25 June 2019**