

REPORT OF THE AUDITOR-GENERAL ON SIBO WATER AND SANITATION COMPANY LTD FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Sibbo Water and Sanitation Company Limited set out on pages 1 to 42, which comprise the statement of financial position as at 30 June 2018, 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 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 Sibbo 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 comply with the Kenya Companies Act, 2015.

Basis for Qualified Opinion

1. Financial Statement Inaccuracies

1.1 Prior Year Adjustments

The statement of changes in equity includes prior year adjustments of Kshs.8,838,204. However, the balance is not supported with any documentation on how the figure of prior year adjustments amounts was arrived at casting doubt on the accuracy of the 2017/2018 financial statements.

Consequently, the accuracy and validity of prior year adjustment figure of Kshs.8,838,204 could not be confirmed.

2. Unsupported Bank and Cash Balances

Included in the financial statements under note 29 is bank and cash balances figure of Kshs.4,183,272 for nine (9) bank accounts as at 30 June 2018. However, the company did not maintain any cashbook for the accounts and as a result, monthly bank reconciliations statements were not prepared. The KCB expenditure account No 110689302 bank statement indicated cash withdrawals amounting to Kshs.6,525,917 without the supporting imprest register and imprests warrants.

In addition, the bank statements for Cooperative Bank M-Banking account No. 1136255579 was not availed for audit review.

Under the circumstance, the accuracy and completeness of the bank and cash balances figure of Kshs.4,183,272 as at 30 June 2018 could not be confirmed.

3. Unauthorized Spending

Included in the financial statements under note 29 is bank and cash balances figure of Kshs.4,183,272 which also includes customer deposits bank account balance of Kshs.314,223. However, the financial statements reflect the water deposits of Kshs.6,741,354 as a current liability raising doubt on the compliance of the company to Public Financial Management Act,2012. That is, the difference of Kshs.6,427,131 in customer deposits were diverted for other unexplained office use.

Consequently, the company management is in breach of the regulation.

4. Unsupported Provision for Doubtful Debts

Included in the financial statements under note 27(b) is trade receivables amounting to Kshs.45,245,297 with a provision for doubtful receivables amounting to Kshs.15,081,766 not supported by any policy.

As a result, the accuracy and validity of trade receivables balance of Kshs.45,245,297 could not be confirmed.

5. Going Concern

During the year under review the company made loss of Kshs.4,706,599 as at 30 June 2018 compared to loss of Kshs.4,036,531 in 2016-2017 resulting in accumulated losses to Kshs.32,578,252 as at 30 June 2018. Further, the current liabilities balance of Kshs.86,842,774 exceeded the current assets balance of Kshs.49,809,629 as at 30 June 2018 resulting in a negative working capital balance of Kshs.37,033,145. The Company is therefore technically insolvent. Therefore, the financial statements have been prepared on a going-concern basis, on the assumption that the Company will continue to receive support from the County Government and its creditors.

Late Submission of Financial Statements

During the year under review, Sibio Water and Sanitation Company limited submitted its financial statements for the year ended 30 June 2018 on 21 January, 2019. The accounts were one hundred and thirteen (113) days late after the statutory set date of 30 September 2018.

Consequently, the Company breached the law.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Sibio Water and Sanitation 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 opinion.

Emphasis of Matter

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6. Budget Performance

Included in the statement of comparison of budget and actual amounts for the period ended 30 June 2018 indicated that SIBO Water Company approved budget on water sales of Kshs.93,864,180 while amount received at 52%, Bowser & exhauster sales of Kshs.4,900,800 while amount received at (37%), and grants from the county government of Kshs.43,080,000 while amount received at (22%) resulting in realizing overall revenue budget by 42%. However, the detailed budget report indicating the components of production and distribution cost and grants was not availed for audit review. Details are as shown here below:

Item	Budget Kshs.	Actual Kshs.	Variance Kshs.	Absorption %
Water Sales	93,864, 1 80	49,437,240	44,426,940	52
Bowser & Exhauster Sales	4,900,800	1,804,543	3,096,257	37
Grant from the Government	43,080,000	9,499,917	33,580,083	22
Total Income	141,844,980	60,741,700	81,103,280	43
Administration Costs	45,659,038	34,906,479	10,752,559	76
Production & Distribution Costs	47,216,095	30,052,104	17,163,991	64
Total Expenditure	92,875,132	64,958,583	27,916,550	70

Further, expenditure budget on administration costs was absorbed at 76% whereas production and distribution costs stood at 64%. However, explanations were not provided to explain the variations in the budget performance.

In consequence, the company failed to achieve its goals and objectives.

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. For each matter below, a description of how the audit addressed the matter is provided in that context.

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.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter(s) described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section 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. Irregular Employment

During the year under review, the Company employed three (3) officers in the following position namely, geo information system (G.I.S) officer, information and communication technologist (ICT) and an accounts assistant. However, the Company did not prepare human resource plans based on comprehensive job analysis. Sibco staff establishment requires one ICT officer on Job Group 4 while the company employed an assistant ICT officer on Job group 2 a position that does not exist. The Board of directors did not also consider and approve the job description and job specifications before filling the position. Further, the positions were not competitively filled since the vacancies were not advertised, and the letters of offer of employment specifying the conditions of acceptance and the subsequent acceptance of offers by the employees did not exist.

Consequently, the Company breached the law and appointment of the three officers is irregular and not binding.

2. A Third Rule in Staff Composition

During the year under review, Sibco Water and Sanitation Company limited had Seventy-one (71) staff members out of whom sixty-nine (69) or 97% belong to the same ethnicity leaving only two (2) or 3% from other ethnicities, contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008.

Consequently, the Company breached the law.

3. Irregular Procurement of Security Services

Included in the financial statements under note 11 (a) is administration cost of Kshs.34,906,479 which includes security figure of Kshs.1,490,555 paid to Pride King Services limited for provision of security services. However, the firm's services were not procured competitively following expiry of a previous contract agreement on 30 November 2015. In the event, the services by the security firm was not procured

competitively and we could not ascertain whether the company received value for money.

Consequently, the Company breached the law and value for money could not be confirmed.

4. Irregular Procurement of Fuel

Included in the financial statements under note 12 is production and distribution cost of Kshs.30,052,104 which includes other production and distribution costs figure of Kshs.3,579,834, out of which fuel expenditure totaling Kshs.1,552,471 was paid to Top Oil, and Mass Petroleum Company. However, there were no documentary record availed for audit to confirm how the two (2) suppliers were identified to supply fuel. Also, the company did not keep a fuel register to show how the procured fuel was used. In the event, the irregularly procured fuel remains unaccounted for.

Consequently, the Company breached the law and value for money could not be confirmed.

5. Irregular Procurement of a Water Pump

During the year under review, the company procured a water pump from Ms Sintora Contractors at a cost of Kshs.1,500,000. However, the water pump was not budgeted for and the company indicated that the emergency procurement of the pump was to be installed in a burst water pipe; a situation that was not supported by technical reports, and Board minutes. The procurement process was also not supported by quotations from the supplier, requests for quotations indicating the technical specifications of the required pump were not availed for audit review.

In addition, the payment to supplier was irregularly made from KCB customers deposits account number 1108257674.

Consequently, the Company breached the law.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Lack of Approved Policy Documents

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During the year under review, it was observed that the Company did not have an approved Human Resource Manual, Financial Management Procedures Manual, Risk Management Policy, and an ICT Policy. The Internal Audit Department failed to identify the gap in policies development to ensure a coordinated management of the entity.

Consequently, lack of formally documented policies could lead to no clear direction on the management and operation in place and their related controls.

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 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS BY THE KENYAN COMPANIES ACT, 2015

As required by the Companies Act, 2015 I report based on my 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 the audit;
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and
- iii. The financial statements are in agreement with the accounting records and returns.

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 Public Sector Accounting Standards (Accrual Basis) 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.

In preparing the financial statements, management is responsible for assessing the projects ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the SIBO Water and Sanitation Company Ltd 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

Report of the Auditor-General on the Financial Statements of Sibbo Water and Sanitation Company Ltd for the year ended 30 June 2018

activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public money is applied in an effective manner.

Those charged with governance are responsible for overseeing the SIBO Water and Sanitation Company Ltd 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 review is planned and performed to express a conclusion with limited assurance as to 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 SIBO Water and Sanitation Company Ltd 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 SIBO Water and Sanitation Company Ltd 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 SIBO Water and Sanitation Company Ltd to cease to continue 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 SIBO Water and Sanitation Company Ltd 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

23 August 2019