

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

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## REPORT ON THE FINANCIAL STATEMENTS

### Adverse Opinion

I have audited the accompanying financial statements of Tavevo Water and Sewerage Company Limited set out on pages 9 to 28, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of cash flows, statement of changes in equity and statement of comparison of budgets and actual amounts for the year then ended, and 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 the financial position of Tavevo 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 do not comply with the Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, public money has not been applied lawfully and in an effective way.

### Basis for Adverse Opinion

#### 1.0 Presentation of the Financial Statements

The financial statements presented for audit had page 6 of the financial statements referring to results in page 7-14 instead of 9-17.

In the circumstances, the financial statements presented for the year ended 30 June 2017 do not comply with International Public Sector Accounting Standards No.1 on presentation of financial statements as prescribed by the Public Sector Accounting Standards Board.

#### 2.0 Going Concern

As reported previously, the statement of financial position reflects current liabilities totaling Kshs.385,720,855 while current assets total Kshs.223,017,947, resulting to a negative working capital of Kshs.162,702,908. Further, the company realized a loss of Kshs.35,218,273 (2015/2016-loss of Kshs.19,354,827), resulting to accumulated loss of Kshs.233,912,968 as at 30 June 2017. In addition, the statement of comprehensive income for the year ended 30 June 2017 shows total income of Kshs.242,428,570 against a budget of Kshs.282,466,278, representing 85.8% performance level or under-collection of Kshs.40,037,708 or 14.2%. The management has not provided satisfactory explanation as to why the revenue targets could not be achieved.

Consequently, the Company may not be in a position to meet its financial obligations as and when they may fall due and its continued existence as a going concern depends on continued support from the Government, bankers and creditors.

### **3.0 Directors' Emoluments**

The statement of comprehensive income reflects directors' emoluments totaling Kshs.3,186,099, out of which a sum of Kshs.2,836,099 is in respect to sitting allowances paid to the Directors of the Company. Records presented for audit indicated that during the year under review, there were ten full board meetings. However, this number of meetings contravened Section 4.9.2 of Corporate Governance Guidelines for the water services sector which provides that the committees shall not have more than four sittings in a financial year. Any planned additional meetings and agenda should first be communicated and agreed by the respective Water Services Board. Approval by Coast Water Services Board for the six (6) extra sittings for which Board Members received sitting allowances totaling to Kshs.551,478 was not presented for audit review.

Consequently, the propriety of the additional sitting allowances totaling to Kshs.551,478 paid to Board Members during the year ended 30 June 2017 could not be confirmed.

### **4.0 Property, Plant and Equipment**

As previously reported, note 10 to the financial statements reflects purchase of computers for the year ended 30 June 2016 at an aggregate cost of Kshs.129,880, out of which a sum of Kshs.80,000 is in respect to one laptop computer purchased for the Managing Director. However, the serial number of the laptop was not recorded in the company's asset register. Further, included in furniture and fitting additions for the year ended 30 June 2016 are office equipment additions costing Kshs.1,072,150, out of which expenditure totaling Kshs.300,000 relates to twelve (12) lockable steel cabinets which were, however, not tagged to show their existence and location.

The above information was not availed during the audit.

In the circumstances, ownership by the Company of the laptop and steel cabinets costing Kshs.380,000 as at 30 June 2017 cannot be confirmed.

### **5.0 Trade and Other Receivables**

As previously reported, the statement of financial position as at 30 June 2017 reflects trade and other receivables balance of Kshs.213,699,617 but the respective ageing debtors' schedule was not presented for audit review to assist in assessing recoverability. In addition, the provision for bad and doubtful debtors was not made in respect of the debts.

Further, the supporting schedule presented for audit reflected a balance of Kshs.95,022,083 in respect of the balance thus resulting to a variance of Kshs.118,677,534 which has neither been explained nor reconciled during this audit.

Consequently, the accuracy and recoverability of trade and other receivables balance of Kshs.213,699,617 as at 30 June 2017 could not be confirmed.

## **6.0 Customer Deposits**

As previously reported, the statement of financial position as at 30 June 2017 reflects customer deposits balance of Kshs.9,435,396 out of which only Kshs.408,334 was banked in the deposit account in the Co-operative Bank of Kenya Ltd, thus leaving a balance of Kshs.9,027,062 unbanked and unaccounted for as at 30 June 2017.

Consequently, the validity and completeness of customer deposits balance of Kshs.9,435,396 as at 30 June 2017 could not be confirmed.

## **7.0 Trade and Other Payables**

As reported previously, the statement of financial position as at 30 June 2017 reflects trade and other payables balance of Kshs.385,720,855, as detailed in note 21 to the financial statements. The following observations were made in relation to the balance:

### **7.1 Coast Water Services Board and Payroll Liabilities**

As previously reported, the trade and other payables balance of Kshs.385,720,855 includes Kshs.337,711,817 payable to Coast Water Services Board for supply of bulk water costing Kshs.246,386,064 and lease fees of Kshs.91,325,753. However, the financial statements of Coast Water Service Board availed for audit review reflected Kshs.411,412,349 as the sum receivable from the Company, thus resulting to an unexplained nor reconciled variance of Kshs.73,700,532.

Further, included in the trade and other payables balance of Kshs.385,720,855 are payroll liabilities of Kshs.11,494,554, out of which salary deduction arrears owed to the National Water Conservation and Pipeline Corporation Staff Pension Scheme totaled Kshs.3,025,014 and Pay As You Earn (PAYE) deductions on Board allowances of Kshs.947,627 with both balances outstanding for over one year. The respective interest and penalties due on late payment of PAYE have not been accrued in these financial statements and further, management has not indicated when these long outstanding liabilities will be settled.

Consequently, the accuracy and completeness of trade and other payables balance of Kshs.385,720,855 as at ended 30 June 2017 could not be confirmed.

## **8.0 Long Term Loan from Taita Taveta County Government**

As previously reported, the statement of financial position as at 30 June 2017 reflects a long term loan balance of Kshs.5,983,542 from Taita Taveta County Government. However, records from Taita Taveta County Government indicates that this was an emergency grant given to the water company by the Taita Taveta Emergency Fund to pay a water debt that had led to the disconnection of water supply in the whole County. It

is not clear why the management decided to treat the grant as a long term loan without Board approval for the borrowing.

Consequently, the validity of the long term loan of Kshs.5,983,542 as at 30 June 2017 could not be confirmed.

## **9.0 Capital Reserves**

As previously reported, the fair value adjustment reserve balance of Kshs.97,214,636 reflected in the statement of financial position as at 30 June 2017 represents unsupported assets and liabilities transferred to the Company from the Ministry of Water and Irrigation and National Water Conservation and Pipeline Corporation.

In the circumstances, it has not been possible to confirm the carrying value of the capital reserve balance of Kshs.97,214,636 reflected in these financial statements as at 30 June 2017.

## **10.0 Unaccounted for Water**

Note 1 to the financial statements for the year ended 30 June 2017 reflects water sales valued at Kshs.186,902,030. Records availed for audit review indicated that during the year under review, the Company produced 7,057,954 cubic meters of water, out of which only 2,910,069 cubic meters approximately 41.2% was billed to customers. The unbilled balance of 4,147,885 cubic meters (or approximately 58.8% of the total volume) represented Unaccounted for Water (UFW), which is more than the maximum allowable loss of 25% by the Water Service Regulatory Board. The excess UFW resulted to abnormal, loss of water sales of 2,383,396 cubic meters or Kshs.153,061,691 using the rate of Kshs.64.22 per cubic meter. This eroded the Company's profitability and is a threat to the Company's sustainability.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Tavevo 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 section of my report, I have determined that there are no key audit matters to communicate in my report.

## Other Matter

### 1. Budgetary Control and Performance

#### 1.1 Revenue Budget

The company planned to collect revenue totaling Kshs.282,466,278 during the year under review but managed to collect Kshs.242,428,570 or 85.8%, and thus missed its target by Kshs.40,037,708 or 14.2% as detailed below:

Item	Budgeted Amount (Kshs.)	Actual Amount (Kshs.)	Revenue Under Collection (Kshs.)	%
Water sales	267,819,973	186,902,030	(80,917,943)	<b>(30.2)</b>
Meter Rent	7,129,435	7,956,150	826,715	<b>11.6</b>
WSTF/CRBC Grants		38,839,148	38,839,148	<b>100</b>
Miscellaneous Income	7,516,870	8,731,242	1,214,372	<b>16.2</b>
<b>Total</b>	<b>282,466,278</b>	<b>242,428,570</b>	<b>(40,037,708)</b>	<b>(14.2)</b>

The revenue under collection of Kshs.40,037,708 is an indication that the management may not be keen on collecting revenue from water sales. Therefore, the management should rethink on the strategies to improve on the water sales and billing.

#### 1.2 Expenditure Budget

The Company's budget for the year was Kshs.284,506,204 against actual expenditure of Kshs.277,062,116 or 97%, resulting to net under expenditure of Kshs.7,444,088 or 3% as detailed below:

Item	Budget (Kshs'000)	Actual Expenditure (Kshs'000)	Over Expenditure (Kshs'000)	Under Expenditure (Kshs'000)	%
Cost of sales					
Bulk Water Fees	72,466,728	94,178,260	21,711,534		<b>30</b>
Electricity Pumping	37,040,561	37,407,442	366,881		<b>0.9</b>
Water Treatment	1,596,000	667,741		928,259	<b>58</b>
Abstraction Fees	2,146,896	1,067,734		1,079,162	<b>50.3</b>
<b>Total Cost of Sales</b>	<b>113,250,183</b>	<b>133,321,177</b>	<b>22,078,415</b>	<b>(2,007,421)</b>	<b>17.7</b>
Administration Expenses	17,640,254	17,428,928		211,326	<b>1.2</b>
Operation & Maintenance	16,946,000	11,530,172		5,415,828	<b>32</b>

Professional fees	2,464,000	1,238,880		1,225,120	<b>50</b>
Staff Expenses	82,291,543	72,909,376		9,382,167	<b>11</b>
Directors fees/Expenses	5,783,188	3,186,099		2,597,089	<b>45</b>
Financial Expenses	27,674,941	20,695,790		6,979,151	<b>25</b>
Transport Expenses	18,456,095	16,751,694		1,704,401	<b>9</b>
<b>Total</b>	<b>284,506,204</b>	<b>277,062,116</b>	<b>22,078,415</b>	<b>(29,522,503)</b>	

The overall under expenditure of Kshs.7,444,088 or 3% is an indication that the company did not implement activities planned for the year ended 30 June 2017. The expenditure on the cost of sales exceeded the budget by Kshs.20,070,994. This is an indication that the management has not put controls in cost of sales, especially the bulk water fees.

## 2. Variable Billing

Records availed for audit review indicated that during the year under review, the Company produced 7,057,954 cubic meters of water, out of which only 2,910,069 cubic meters approximately 41.2% was billed to customers. However, audit revealed that the water production and billing in particular areas was not proportional resulting to some areas having high water production but low billing as summarized in the table below:

Town	Produced Water	Billed Water (BW)	BW %	Unaccounted for Water (UFW)	UFW %
Voi	2,116,731	1,444,261	68.2	672,470	31.8
Maungu	776,748	126,035	16.2	650,713	83.8
Makina	1,182,817	335,584	28.4	847,233	71.6
Mbololo	846,202	140,920	16.7	705,282	83.3
Mwatate	293,870	115,802	39.4	178,068	60.6
Wundanyi	277,946	132,350	47.6	145,596	52.4
Taveta	1,563,640	615,117	39.3	948,523	60.7
<b>Total</b>	<b>7,057,954</b>	<b>2,910,069</b>	<b>41.2</b>	<b>4,147,885</b>	<b>58.8</b>

The management has not explained why it produced large volumes of water to areas with very little demand of water.

In the circumstance, the sustainability of the Company's operations depends on the strategies applied by the management in production, billing and improved revenue collection.

### **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 Tavevo Water and Sewerage Company Limited's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate Tavevo Water and Sewerage Company Limited 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 Tavevo Water and Sewerage Company Limited'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. 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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment 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 Tavevo Water and Sewerage Company Limited'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 Tavevo Water and Sewerage Company Limited'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 Tavevo Water and Sewerage Company Limited's to cease as a going concern or 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 the Tavevo 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 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 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 Tavevo Water and Sewerage Company Limited, so far as appears from the examination of those records; and,
- iii. The Tavevo Water and Sewerage Company Limited's financial statements are in agreement with the accounting records and returns.



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

**Nairobi**

**05 July 2018**