

# REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF KERICHO 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 Kericho Water and Sanitation Company Limited (KEWASCO) set out on pages 21 to 26 which comprise the statement of the Statement of Financial Position as at 30 June 2018 and the Profit and 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, 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 as at June 30 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 Companies Act, 2015 and Public Financial Management Act, 2012.

### Basis for Adverse Opinion

#### 1. Misstatement of Financial Statements

##### 1.1. Unexplained Differences on Reported Amounts

The financial statements reported amounts listed in the table that are different from the recomputed figures on a comparable basis, thereby resulting to material misstatements which have not been explained or reconciled.

<b>Particulars</b>	<b>Financial Statement Amounts (Kshs)</b>	<b>Recomputed Amounts (Kshs)</b>	<b>Difference (Kshs)</b>
Water Sales	167,718,939	184,667,390	16,948,451
Non-Current Assets	28,401,742	42,514,717.23	14,112,975.23
Inventories	508,443	1,294,909	786,266
Trade and other payables	83,962,926	114,942,288	30,979,362
Bank and cash Balances	3,287,735	7,827,162	4,539,427

Therefore, the accuracy and completeness of the amounts reported in the financial statements are doubtful.

##### 1.2 Unaccounted for Cash Deposits

The statement of financial position reports customer deposits of Kshs.14,348,050 which differs with customer deposits bank account No.01136053726800 maintained at Co-operative Bank, Kericho, closing balance of Kshs.887,650.15 resulting to unaccounted for deposits amounting to Kshs.13,460,400.

In the circumstances, it was not possible to confirm the accuracy and completeness of the customer deposits balance of Kshs.14,348,050.

### **1.3 Unsupported Deferred Liability**

The statement of financial position reports deferred liabilities of Kshs.17,007,359 as at 30 June 2018 representing creditors inherited from the former Municipal Council of Kericho which are not supported by creditor's analysis or listing and therefore the accuracy and completeness of the amount could not be confirmed. Further, it may never be possible to pay these creditors since their transaction details are not in the company's records.

### **1.4 Incorrect Opening Balance for Cash and Cash Equivalent**

The statement of cash flow reports an opening balance of cash and cash equivalent of Kshs.4,340,189 which differs with the previous year closing balance of Kshs.6,341,859 resulting to a difference of Kshs.2,000,000 which has not been reconciled or explained. Therefore, the accuracy and completeness of the closing cash and cash equivalent amount of Kshs.3,287,735 could not be ascertained.

### **1.5 Overstated Insurance of Plant, Property and Equipment**

The statement of financial position reports property, plant and equipment with a net book value of Kshs.41,377,426 which differs with the valuation of assets of Kshs.103,454,280 used for computation and determination of issuance premiums paid by the company resulting to a difference of Kshs.62,074,854. Therefore, the company incurs higher insurance premium payments thereby resulting to inefficient use of public resources.

## **2.0 Non-Disclosure of Projects Implementation**

### **2.1 Water Sector Trust Fund Project**

The financial statements under Appendix 1 of Project implementation by the entity, the company incurred a total cost of Kshs.6,707,604 on a project funded by the Water Trust Fund which differs with the grant revenue for the year of Kshs.5,223,730 resulting to a difference of Kshs.1,483,874 that has not been reconciled or explained.

In addition, the company also has several donor funded projects that are being implemented on its behalf by Lake Victoria South Water Service Board with a total cost of Kshs.2,379,825,044 that have not been disclosed in the notes to the financial statements and therefore the accuracy and completeness of the projects cost of Kshs.6,707,604 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kericho 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 described in the Basis for Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Loss of Revenues**

##### **1.1 Non - Revenue Water**

In the financial year 2017/2018, the company produced 3,498,091 cubic meters (M<sup>3</sup>) of water out of which 1,716,396 (M<sup>3</sup>) was billed to customers at a cost of Kshs.162,329,474 leaving a balance 1,781,695 cubic meters of water as unaccounted for.

The unaccounted for water of 1,781,695 cubic Meters (M<sup>3</sup>) is approximately fifty one (51%) percent of the total production which is way above the sector limit of 25% recommended by the water Services Regulatory Board guidelines thereby resulting to abnormal loss of twenty six (26%) with an estimated revenue loss of Kshs.122,936,955.

##### **1.2 Duplicate Water Meters**

The company's water meter records revealed that nine hundred and thirty two (932) individual water supply accounts share the same meter numbers with the effect of revenue loss of Kshs.6,056,359.41 as a result of billing one meter only. This may be an indication of a serious fraud.

Further, the company's water meter records revealed that six hundred and fifty-three (653) active individual water accounts are continuously supplied with water on a regular basis but are not issued with monthly bills for the amount of actual water consumed because serialized water meters have not been allocated to them while reasonable stock

of water meters are held in the store. As a result a revenue loss of Kshs.2,460,424.34 was incurred during the year under review.

### **1.3 Unbilled Water Supply Accounts in the Month of June 2018**

The company's water supply database revealed that one thousand and ninety three (1,093) active accounts with regular water supply were not billed in the month of June 2018 without any reasonable justification thereby occasioning a revenue loss of Kshs.6,330,558.80 during that month.

### **1.4 Adjustments of Water Bills without Proper Documentation**

The financial statements reported trade and other receivables amount of Kshs.114,942,288 which includes water sales receivables of Kshs.90,962,960.

However, audit examination of water billing records revealed that several adjustments of Kshs.135,940,747.69 were made on water supply accounts without being supported by relevant accounting documentation and therefore the reduction could not be ascertained.

## **2.0 Idle Motor Cycles Assets**

The statement of financial position reports property, plant and equipment of Kshs.44,133,164 which includes motor vehicles of Kshs.12,347,613 which includes twelve motor cycles with a value of Kshs.1,033,452 which were not being used by the company thereby resulting to wasteful expenditure.

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, because of the significance of the matters discussed in the Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

## **1. Lack of Control Over Projects Implementation**

### **1.1 Donor Funded Projects**

The Service Provision Agreement between Lake Victoria South Water Services Board and Kericho Water and Sanitation Company Limited dated February 2012 under Article 11.2(b)(ii) provides that the board will be responsible for implementing capital works project in full cooperation with Kericho Water and Sanitation Company including providing access to facilities, property, records, drawings and all matters relating to project implementation.

However, it was noted that although donor funded projects with a cost value of Kshs.2,379,825,044 were being undertaken by Lake Victoria South Water Service Board on behalf of KEWASCO, the company had no records, drawings, financing agreements or project implementation status reports showing the total cost incurred as at 30 June 2018.

In addition, it was noted that in the absence of KEWASCO taking an active role in the implementation of these projects, their successful completion may be doubtful due to lack of close supervision and maintenance of vital project records by the beneficiary company.

### **1.2 Lack of Land Ownership Documents**

Kericho County Government initiated the process of acquiring a parcel of land measuring 9.5 acres at Duka Moja in Kericho town from M/s. Unilever Tea Kenya Limited of P.O. Box 20-20200 Kericho, on behalf of KEWASCO at a total cost of Kshs.101,243,700 to facilitate the construction of a new water treatment plant project financed by African Development Fund through the asset developer Lake Victoria South Water Services Board.

As at 30 June 2018, the County Government had already paid Kshs.30,000,000 of the total purchase price leaving unpaid balance of of Kshs.72,256,137. However, no record was produced to show that the land will eventually be transferred to KEWASCO, and this could have a negative impact on the project implementation.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires 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**

As required by section 730 of the Companies Act No.17 of 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 not been kept by the Kericho Water and Sanitation Company Limited, so far as appears from the examination of those records; and,
- iii. The financial statements are not 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 Financial Reporting Standards 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, risk management and governance.

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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is 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.

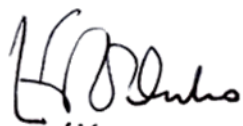
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 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 KEWASCO'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 company to cease to continue as a going concern or 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 company 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**

**15 May 2019**