

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Tililbei Water and Sanitation Company Limited set out on pages 20 to 23 which comprise the statement of financial position as at 30 June 2018 and the statement of 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, 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 as at 30 June 2018 and of its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the companies Act, 2015, and the Public Financial Management Act, 2012.

Basis for Qualified Opinion

1. Financial Statement Misstatements

1.1. Unexplained Differences on Financial Statement Amounts

The financial statements reports 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.

Particulars	Financial Statement Amounts (Kshs)	Recomputed Amounts (Kshs)	Difference (Kshs)
Water Sales	29,226,525	25,278,389	3,948,136
Grants	24,097,393	26,227,473	(2,130,080)
Trade and other Receivables	81,958,813	47,383,256.74	34,575,556.26

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

1.2 Restricted cash and Bank Balances

The financial statements reports cash and bank balances of Kshs.5,836,162 which includes Kshs.5,637,435.79 belonging to Chemosit Water and Sanitation Company Ltd held in various bank accounts maintained in Kenya Commercial bank whose use is restricted because of pending court cases whose outcome is unpredictable.

Therefore, the existence and ownership of the cash and bank balance of Kshs.5,836,162 could not be confirmed.

1.3 Unpaid Share Capital

The financial statements reports share capital of Kshs.100,000 in respect of 5,000 shares Kshs.20 par value each out of which only 13 shares valued at Kshs.760 were allotted to shareholders leaving a balance of 4,987 shares with a nominal value of Kshs.99,740 unallotted and is not in agreement with the reported amount.

In the absence of share allocation records and payment details of share capital, its accuracy and valuation is doubtful.

1.4 Capital Reserves

The financial statements reports capital reserves of Kshs.31,421,989 which represents debtors inherited from the Ministry of Water upon inception of the company that are not supported a schedule of details or analysis.

In the absence of detailed debtors listing showing their identity together with amounts owing the accuracy, completeness and valuation of the capital reserve amount could not be ascertained.

1.5 Statement of Cashflows

The statement of cashflows reports a cash and cash equivalent balance of Kshs.5,840,450 which differs with the bank and cash amount of Kshs.5,836,162 resulting to unreconciled difference of Kshs.4,288.

Therefore the accuracy and completeness of the cash and cash equivalent amount of Kshs.5,840,450 could not be confirmed.

1.6 Unaccounted for Cash Deposits

The statement of financial position as at 30 June 2018 reports Trade and other payable of Kshs.76,585,234 which includes customer deposits of Kshs.8,064,890 which differs with the balance in the Customer Deposits Account No.0530199886572 maintained at Equity Bank of Kshs.3,241.45 resulting to a difference of Kshs.8,061,648.55 which has not been explained or reconciled.

1.7 Irregular Payment of Legal Fees - Kshs.180,000

The Company entered into a legal service provision agreement with a local legal firm on 1 October 2015 on a monthly retainer fees of Kshs.15,000 for a period of one year which expired on 30 September 2016 without being renewed.

However, included the administration costs of Kshs.29,858,794 are payments of legal fees to the lawyer of Kshs.180,000 incurred during the year under review that were not properly authorized or supported by legal cases taken to court.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Tililbei 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 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, 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, based on the audit procedures performed, except for the matters 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. Revenues

1.1 Non Revenue Water

In the year 2017/2018, Tililbei Water and Sanitation Company Ltd produced 1,109,891 cubic meters (M³) of water, but only 552,625 (M³) was billed to customers at a cost of

Kshs. 29,778,432 leaving a balance of 557,266 cubic meters of water as unaccounted for.

The unaccounted for water of 557,266 cubic Meters (M³) is approximately fifty (50%) percent of the total production which is way above the sector limit of twenty five (25%) percent recommended by the Water Services Regulatory Board guidelines thereby resulting to abnormal loss of twenty-five percent (25%) with an estimated revenue loss of 38,451,354 based on the minimum tariff of water sales at the rate of Kshs.69 per cubic meter which has negatively affected the profitability of the company in the year under review.

1.2 Under Billing of Water Sales Due to Stalled Meters – Kshs.1,333,190

The financial statements reports water sales of Kshs.29,226,525 which includes various water customers who were billed at a monthly flat rate of Kshs.200 because of not having water meters or are in possession of stalled meters.

However, it was not clear how the monthly rate of Kshs.200 was arrived at since management was unable to determine whether the various water customers enjoying the rate actually consumed six (6) or less cubic meters of water as a result of lack of meters or having faulty meters. As a result, the company lost revenue totaling to Kshs.1,333,190 in the financial year 2017/2018 because of using a flat rate to measure water consumption irrespective of the actual amount of water used.

1.3 Active Individual Water Accounts without Meter Numbers

The financial statements reports water sales of Kshs.29,226,525 which excludes water consumption from six hundred and sixty five(665) active individual water accounts that were not metered during the year under review resulting to a revenue loss of approximately Kshs.4,110,000.

1.4 Active Water Accounts Not Billed - Kshs.12,298,529

The financial statements reports water income of Kshs.29,226,525 which excludes water consumption from 1,093 active water accounts that were not billed with an estimated revenue loss of Kshs.12,298,529 during the year under review.

1.5 Duplicate Water Meters

The financial statements reports water revenue of Kshs.29,226,525 which excludes water consumption from 32 customers with duplicate water meters with an estimated revenue loss Kshs.192,000.

Further, it was noted that though some of these duplicate water meter accounts are active in the water supply system, only one account is billed for revenue purposes.

1.6 Water Bills Adjusted without Supporting Payments and Documentation

The financial statements reports water sales of Kshs.29,226,525 which excludes water bills adjustments of Kshs.662,778 not supported by payment advices or accounting documentation showing the nature of transactions.

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 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 audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, 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 Tariff Rates

1.1 Operation without a Valid Water Tariff

The company was operating without a valid water tariff approved by the Water Services Board setting the minimum cost of its services to customers during the year under review and no evidence was produced to show that a tariff review request had been forwarded to the board seeking its approval.

Therefore the water charges levied by the company might not have been able to cover both its administrative and operational costs thereby negatively affecting its revenue base and sustainability of its services.

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.

1.2 Non - Disclosure of the Company Take Over

Kericho Water and Sanitation Company Limited (KEWASCO) is in the process of taking over the assets and liabilities including business operations of Tililbei Water and Sanitation Company Ltd, however this fact has not been disclosed in the notes to the financial statements.

In addition, no special resolutions by the County Assembly of Kericho or board approving the takeover of the company by KEWASCO were availed for audit scrutiny and therefore it was not possible to confirm whether due process was followed in accordance with the companies Act 2015 provisions.

Further, the going concern of the company is in doubt as a result of the taking over bid by KEWASCO.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by section 730 of 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 Tililbei Water and Sanitation Company Ltd, 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 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 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 the company'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