

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Wote Water and Sewerage Company Limited set out on pages 14 to 40, which comprise the statement of financial position as at 30 June 2017, and the statement of 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 Wote 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 comply with the County Government Act, 2012 and the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Non – Current Assets

The non-current assets balance of Kshs.17,066,108 as at 30 June 2017 shown in the statement of financial position includes land valued at Kshs.150,000. As reported in 2015/2016, the land measuring 12 by 12 metres purchased in 2016 still do not have ownership documents. The Company did not provide any documentary evidence to show progress made in acquisition of ownership documents.

2. Debtors and Other Receivables

The debtors and other receivables balance of Kshs.13,634,386 as at 30 June 2017 shown in the statement of financial position is net of a provision for bad and doubtful debts of Kshs.25,460. However, debtors amounting to Kshs. 5,179,960 or 38% of the water sales debtors had been outstanding for more than eight months as at 30 June 2017. The provision for bad and doubtful debts of Kshs.25,460 or 0.2% of the water sales debtors appears inadequate. Consequently, the accuracy and full recoverability of the debtors and other receivables balance of Kshs.13,634,346 as at 30 June 2017 cannot be confirmed.

3. Customer Deposits

The statement of financial position reflects customer deposits balance of Kshs.3,075,350 as at 30 June 2017. The amount was supported by two bank account balances at the Equity Bank totalling Kshs.485,220 and the difference of Kshs.2,590,130 represented borrowings made by the Company. Although an approval to borrow dated 23 December 2009 was produced for audit verification, no documentary evidence was provided to show that the management is committed to refunding the borrowed funds. Consequently, the availability of the customer deposits balance of Kshs.3,075,350 as at 30 June 2017 cannot be confirmed.

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance to the audit of the financial statements for the current year. Except for matters described in the Basis for Qualified Opinion and Other Matters sections, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1. Appointment of Board of Directors

The Water Services Regulatory Board's Corporate Governance Guidelines for the Water Services Sector clause 4.2.1 requires that, "the Boards of the Water Service Providers (WSP) shall have a minimum of seven members and a maximum of eleven members with a professional mix of directors appointed from the county government and directors appointed from the stakeholders through a competitive stakeholder participation procedure such that no individual or group of individuals or interests can dominate its decision making and no more than one director shall be appointed from each of the local authorities covered by the WSP (in a clustered system)".

Further, Clause 4.2.5 requires the Water Service Providers to avoid a situation where all board members retire at the same time. In order to avoid this situation, one third of the board members other than those from the county government, are expected to retire from office by rotation every year starting from the third year of operation. The retiring members are to be determined on the basis of those who have served longest and, if they have served for the same period of time, then the retirement is to be determined by lot.

However, the directors of the Company with exception of one were appointed on 29 April 2006 and were still in office on 30 June 2017. In addition, the management did not provide copies of appointment letters for the directors. Consequently, the Company was in contravention of the Water Services Regulatory Board Corporate Governance Guidelines.

2. Budgetary Control and Performance

The Company's approved revenue budget for the year amounted to Kshs.24,850,080 against expenditure budget of Kshs.27,223,000 leading to an unexplained deficit budget of Kshs.2,372,920. The statement of comparison of budget and actual amounts shows that the company incurred total expenditure of Kshs.24,902,220 against the approved budget of Kshs. 27,223,000 resulting in an under expenditure of Kshs.2,320,780, which translates to 9% of the approved budget

It was also observed that the Company did not have a capital budget for the financial year under review despite spending Kshs. 6,353,055 on acquisition of assets during the same period. No plausible explanation has been provided for the overall under-expenditure of Kshs. 2,320,780 and lack of a capital budget.

3. Internal Audit Function and Audit Committee

Section 155 of the Public Finance Management Act, 2012 requires every government entity to establish an internal audit unit for the purpose of carrying out in depth reviews of the internal control and the internal audit process. However, the Company did not have an internal audit function in place during the year under audit.

Section 155 (5) of the Act states that, "a government entity shall establish an audit committee whose composition and functions are to be prescribed by the Public Finance Management regulations". However, the company did not have an audit committee to oversee the implementation of both the internal and external audit reports. Consequently, the reliability of the Company's internal control in place during the year ended 30 June 2017 cannot be confirmed.

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 to me after that date.

My opinion on the financial statements does not cover 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.

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 Company'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 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.

Those charged with governance are responsible for overseeing the Company'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 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.

- 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 Company'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 Company's ability 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 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 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.

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 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 in agreement with books of account; and
- iv. In my opinion the information given in the report of the directors on page 11 and 12, is consistent with the financial statements.



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

Nairobi

05 July 2018