

REPORT OF THE AUDITOR-GENERAL ON AMATSI WATER SERVICES COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Amatsi Water Services Company Limited set out on pages 1 to 38, which comprise of the statement of financial position as at 30 June, 2023, 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, 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 Amatsi Water Services Company Limited as at June 30, 2023, 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 Public Finance Management Act, 2012, Companies Act, 2015 and the Water Act, 2016.

Basis for Adverse Opinion

1. Inaccuracies in the Financial Statements

The statement of financial position reflects an amount of Kshs.15,396,771, Kshs.2,681,509, Kshs.117,950,068 and Kshs.1,669,594 on property plant and equipment, intangible assets, trade and other receivables and cash and bank balances which differs with the amount of Kshs.13,109,223, Kshs.2,255,873, Kshs.99,015,041 and Kshs.1,722,150 reflected in the supporting schedules resulting in unexplained and unreconciled variances of Kshs.2,287,548, Kshs.425,636, Kshs.18,935,027 and Kshs.52,556 respectively. Further, the statement of financial position reflects an amount of Kshs.24,967,154 in respect of retained earnings. This amount was a decrease of Kshs.7,704,267 from the previous year's amount of Kshs.32,671,421. However, the loss for the year amounted to Kshs.10,867,009 resulting to unreconciled and unexplained variance of Kshs.3,162,742.

Further, the statement of cash flows reflects an amount of Kshs.3,162,742 described as prior year adjustment. However, although the amounts have been captured in the statement of changes in equity, the nature of the adjustment has not been disclosed in these financial statements and appear to have been made as a suspense account. The statement of cash flows is not supported with any disclosure notes.

In addition, the depreciation and amortization charges have not been disclosed in the statement of cash flows.

In the circumstances, the completeness and accuracy of the annual report and financial statements could not be confirmed.

2. Misstatement in Operating Income

The statement of financial performance reflects Kshs.60,430,536 in respect to operating revenue generated from the Company's nine (9) schemes and as disclosed in Note 6 to the financial statements. However, an analysis of the customer bill listing generated from the Majisoft System reflected an amount of Kshs.60,002,648 resulting to a variance of Kshs.427,888 which has not been explained or reconciled.

In the circumstances, the accuracy of operating revenue amounting to Kshs.60,430,536 could not be confirmed.

3. Long Outstanding Receivables

The statement of financial position reflects an amount of Kshs.117,950,068 in respect to trade and other receivables and as disclosed in Note 18 to the financial statements. However, no significant efforts have been made to ensure recoveries of the receivables. In addition, the ageing analysis provided reflected a total of Kshs.124,157,965 resulting to a variance of Kshs.6,207,897 which has not been explained or reconciled.

In the circumstances, the accuracy and recoverability of receivables amounting to Kshs.117,950,068 could not be confirmed.

4. Unsupported Customer Deposits

The statement of financial position and Note 23 to the financial statements reflects customer deposits balance of Kshs.13,895,388 which represents an increase in customers deposits of Kshs.660,500 from Kshs.13,234,888 held by the Company as at 30 June, 2022. However, review of the bank statement for deposit account revealed a balance of Kshs.2,249,372 leading to a variance of Kshs.8,736,144 which has not been explained. Further, the reported balance was not supported with a list of customers who made the deposits.

In the circumstances, the accuracy and completeness of customers deposit balance of Kshs.13,895,388 could not be confirmed.

5. Unsupported Prior Year Adjustment

The statement of changes in equity reflects an amount of Kshs.3,162,742 in respect to a prior year adjustment under retained earnings. However, the adjustment were not supported.

In the circumstances, the accuracy of the statement of changes in equity could not be confirmed.

6. Unsupported Cash and Bank Balances

The statement of financial position reflects Kshs.1,699,594 in respect to bank and cash balances and as disclosed in Note 20 to the financial statements. The revenue account for Kenya Commercial Bank (KCB) had a closing balance of (660,212) as at 30 June, 2022. However, no bank reconciliation was provided for the amount.

In the circumstances, the accuracy of the bank and cash balances of Kshs.1,669,594 could not be confirmed.

7. Variances Between Financial Statements and Supporting Schedules

The statement of financial position reflects a balance of Kshs.1,744,318 in respect to provisions-gratuity and leave allowance and as disclosed in Note 22 to the financial statements. However, the supporting schedules provided for audit reflects a balance of

Kshs.1,055,109 resulting to a variance of Kshs.689,209 which has not been explained or reconciled.

In the circumstances, the accuracy of provisions-gratuity and leave allowance of Kshs.1,744,318 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Amatsi Water Services Company Management in accordance with ISSAI 130 on the 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.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget of Kshs.98,399,500 and actual amounts on comparable basis of Kshs.88,357,787 respectively resulting to an under collection of Kshs.10,041,713 or 10% of the budget. Similarly, the Company spent Kshs.110,244,201 against an approved budget of Kshs.78,436,242 resulting to an over-expenditure of Kshs.31,807,959 or 41% of the budget. However, the over expenditure has not been supported with an approval. The under and over expenditure may be an indication that the budgetary process was not properly estimated.

My opinion is not modified in respect of this matter.

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. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Matters

In the previous year, several matters were reported under report on financial statements, report on lawfulness and effectiveness in use of public resources and report on effectiveness of internal controls, risk management and governance. No reason has been provided for failure to address these matters.

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 Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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. Long Outstanding Trade and Other Payables

The statement of financial position reflects a balance of Kshs.83,486,989 in respect to trade and other payables and as disclosed in note 23 to the financial statements. This is an increase of Kshs.16,515,103 or 25% from the previous year's amount of Kshs.66,971,886. Analysis of the trade payables indicated that payables amounting to Kshs.52,082,146 have been outstanding for a long time and no reason has been given as to why they have not been settled.

In the circumstances, the Company risks paying penalties and interest on the long outstanding payables.

2. Unremitted Statutory Deductions

The statement of financial position reflects trade and other payables balance of Kshs.83,486,989 which, as disclosed in Note 23 to the financial statements includes Kshs.3,558,479 and Kshs.2,468,407 in respect to NSSF and PAYE respectively. This balance was outstanding as at 30 June, 2023 and had not been paid as at the time of audit in January, 2024. This was contrary to Section 19(1)(f) of the Employment Act, 2007 which states that an employer may deduct from employees any amount of which is authorised by law and pay the amount deducted in accordance with the time period and other requirements in law.

In the circumstances, Management was in breach of the law.

3. Loss of Revenue due to Non-Revenue Water

Review of records provided for audit revealed that the Company produced a total of 1,747,661 cubic meters of water out of which, 1,015,284 cubic metres was billed to customers resulting to Non-Revenue Water (NRW) of 732,377 cubic meters or 42%. The allowable NRW rate according to Water Service Regulatory Board (WASREB) guidelines is 25%, resulting to NRW of 17%, representing 436,915 cubic meters of water with an estimated loss of revenue of Kshs.9,750,246 at the rate of Kshs.33 per cubic meter.

The significant level of NRW may negatively impact on the Company's profitability and is a risk to the sustainability of its operations.

4. Non-compliance with Law on Acting Appointments

Review of the payroll records revealed that Kshs.582,432 was paid to 16 staff as acting allowance beyond the 6 months and it is not clear why the Company had not filled these posts. This was contrary to Section C.14(1) of the Public Service Commission, Human Resource Policies and Procedures Manual for the Public Service of 2016 C.14 (1) which states that acting allowance will not be payable to an officer for more than six (6) months.

In the circumstances, Management was in breach of the law.

5. Non-Compliance with Law on Ethnic Composition

During the year under review, the total number of employees of the Company was seventy-nine (79) out of which seventy-seven (77) or 97% were members of the dominant ethnic community in the County. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

In the circumstances, Management was in breach of the law.

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 Basis for Adverse Opinion and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections 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 Risk Management Policy

During the audit it was noted that the Company did not have a risk management policy which is a framework for management of risk which makes it difficult to identify, assess and control risk.

In the circumstances, Managements' ability to identify, assess and control risk could not be confirmed.

2. Lack of Fraud Policy

During the year under review, it was noted that the Company had not developed a fraud management policy which may lead to loss of information and have a negative impact on the operations of the Company.

In the circumstances, the security of information of the Company could not be confirmed.

3. Incomplete Fixed Assets Register

The statement of financial position and Note 15 to the financial statements reflects property, plant and equipment balance of Kshs.15,396,771. However, the assets register maintained by the Management did not have details such as tag numbers, invoice numbers, serial numbers and conditions of the assets. In addition, physical verification carried out revealed that the assets had not been tagged/coded.

In the circumstances, the effectiveness of the controls on assets management could not be confirmed.

4. Land Without Ownership Documents

Audit inspection carried out on Jeptulu Water Project revealed that the water tank for the Project is situated in a private land which is not owned by the Company. In addition, no explanations were provided as to why the land transfer process had not been initiated.

In the circumstances, the effectiveness of the controls on assets management could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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 overall 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 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 Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Board of Directors

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 controls 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 controls, 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 applicable basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations.

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.

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how Management 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 controls in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 controls 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 controls 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting method 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 as a going concern.
- 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 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.



FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

14 May, 2024