

REPORT OF THE AUDITOR-GENERAL ON ELDAMA RAVINE WATER AND SEWERAGE 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

Qualified Opinion

I have audited the accompanying financial statements of Eldama Ravine Water and Sewerage Company Limited set out on pages 1 to 29, which comprise the statement of financial position as at 30 June, 2023, and the statement of profit or 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 effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Eldama Ravine Water and Sewerage Company Limited as at 30 June, 2023, 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 Companies Act, 2015, Public Finance Management Act, 2012 and the Water Act, 2016.

Basis for Qualified Opinion

1. Undisclosed Material Uncertainty in Relation to Going Concern

The statement of financial performance reflects a deficit of Kshs.96,465 resulting to accumulated deficit of Kshs.60,793,978 for the year under review. Further, the statement of financial position reflects total current assets and liabilities balances of Kshs.43,452,589 and Kshs.91,155,887 respectively resulting in negative working capital of Kshs.47,703,298. This is an indication of the existence of material uncertainty which casts doubt on the Company's ability to continue as a going concern and to meet its obligations as and when they fall due. However, the material uncertainty in relation to going concern and the mitigation measures put in place to reverse the situation have not been disclosed in the financial statements.

In the circumstances, the continued survival and ability of the Company to continue as a going concern is dependent on continued support from the County Government of Baringo and Creditor's.

2. Unsupported Water Treatment Chemicals

The statement of profit or loss and loss and other comprehensive income and as disclosed in Note 7 to the financial statements reflects goods and services expenditure of Kshs.3,522,918. The amount includes water treatment chemicals of Kshs.3,111,320. However, procurement records such as user requisitions, tender advertisement, tender evaluation and award minutes, professional opinion, letter of offer, delivery notes, counter receipt vouchers, store records in support of the expenditure were not provided for audit.

In the circumstances, the accuracy and propriety of water treatment chemicals expenditure of Kshs.3,111,320 for the year ended 30 June, 2023 could not be confirmed.

3. Unsupported Insurance Costs

The statement of profit or loss and other comprehensive income and as disclosed in Note 10 to the financial statements reflects administrative expenses of Kshs.1,663,758. The amount includes insurance (motor vehicles/cycles) expenditure of Kshs.161,053. However, insurance policy, valuation reports, list of vehicles/motor cycles and premiums paid in respect of each were not provided for audit.

In the circumstances, the accuracy and propriety insurance expenditure of Kshs.161,053 for the year ending 30 June, 2023 could not be confirmed.

4. Unsupported Fuel, Oil and Lubricants

The statement of profit and loss and other comprehensive income and as disclosed in Note 13 to the financial statements reflects general operating cost Kshs.6,104,789. The amount includes fuel, oils and lubricants expenditure of Kshs.1,275,577. However, the detail orders, fuel register, supplier statements and motor vehicle work tickets in support of the expenditure were not provided for audit.

In the circumstances, the accuracy and propriety of fuel, oil and lubricants expenditure of Kshs.1,275,577 for the year ended 30 June, 2023 could not be ascertained.

5. Directors Expenses

The statement of profit or loss and other comprehensive income reflects Directors' expenses of Kshs.181,180 in respect of sitting allowances. However, the allowances were paid to directors who are not indicated in the company's Memorandum and Articles of Association. Further, and as previously reported, the Director's term of office elapsed on 30 September, 2013 and have not been renewed nor fresh appointments made.

In the circumstances, the accuracy and propriety of Directors' expenses of Kshs.181,180 for the year ended 30 June, 2023 could not be confirmed.

6. Accounts Receivables

The statement of financial position reflects accounts receivables balance of Kshs.41,913,012 that varies with the ledger balance of Kshs.42,377,899 resulting to a variance of Kshs.464,887. In addition, the debtors' aging analysis and the movement schedule for the period were not provided for audit. Further, no provision for bad and doubtful debts were made in preparation of the financial statements.

In the circumstances, the accuracy and fair statement of accounts receivables balance of Kshs.41,913,012 as at 30 June, 2023 could not be confirmed.

7. Trade and Other Payables

The statement of financial position and as disclosed in Note 21 to the financial statements reflects accounts payables balance of Kshs.91,155,887. However, the creditors aging analysis and movement schedule was not provided for audit. Further, the balance includes long outstanding levies to regulatory bodies of Kshs.35,538,035 which should be reclassified as non-current liabilities. In addition, the amount includes customer deposits of Kshs.2,149,000 which are not held in a designated bank account.

Included in the balance of Kshs.91,155,887 is unremitted statutory deduction of Kshs.5,819,232 recovered from employees that had not been remitted to various institutions as required by law and thereby exposing the Company to further penalties and interest that is avoidable.

In the circumstances, the accuracy, presentation, disclosure and fair statement of trade and other payables balance of Kshs.91,155,887 as at 30 June, 2023 could not be confirmed.

8. Grant - Inherited Debts

As previously reported, the statement of financial position reflects grant - inherited debts of Kshs.13,209,459 which is part of equity. The debts have remained outstanding since inception of the Company in 2007 and comprise of unpaid water bills and salaries of Kshs.11,592,483 and Kshs.1,616,976 respectively. However, no explanations have been given for the failure to settle the debts.

In the circumstances, the accuracy and fair statement of grant inherited debts of Kshs.13,209,459 as at 30 June, 2023 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Eldama Ravine Water and Sewerage Company Limited Management in accordance with ISSAI 130 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.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.49,720,000 and Kshs.22,995,612 respectively resulting to income shortfall of Kshs.26,724,388 or 54 % of the budget. Similarly, the statement reflects total expenditure of Kshs.23,092,077 against an approved budget of Kshs.49,720,000, resulting to budget under expenditure of Kshs.26,627,923 or 53% of the budget.

The income shortfall and under expenditure may have negatively affected the company's operations and service delivery to the public during the year under review.

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

Prior Year Unresolved Issues

In the report of the previous year, several audit matters were raised under report on the financial statements and report on lawfulness and effectiveness in use of public resources. However, review of the progress on follow up of auditor's recommendations showed that the Management had not resolved the issues or provided satisfactory explanation for the delay in resolving the issues.

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. Non-Revenue Water

During the year under review, the company produced 882,803 m³ of water produced, out of which only 402,580 m³ were billed to customers for Kshs.20,701,471. The balance of 480,223 m³ (or 54%) of the total volume of water produced represented non-revenue water which is above the allowable loss of 25% as per the Water Services Regulatory Authority Board guidelines. The non-revenue water loss resulted in lost sales amounting to Kshs.13,339,482 computed at the rate Kshs.51.4 per cubic meter. Management has not explained the measures which have been put in place to control the losses.

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

2. Lack of Approved Tariffs

The statement of profit or loss and other comprehensive income and as disclosed in Note 6 to the financial statements reflects total income of Kshs.22,995,612 which includes revenue from water sales of Kshs.20,701,155. Included in water sales are 5,085 accounts with total consumption units of 30,246 M³ that were billed at Kshs.1,560,590. However, review of the billings generated revealed constant monthly meter readings for the financial year 2022-2023. Further, the Company was billing customers using tariffs that expired in the year 2008.

Consequently, the lawfulness of the tariffs applied in billing customers and the constant billing of 5,085 accounts could not be confirmed.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs) 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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

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 else 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 Staff Establishment

The Company did not have an approved staff establishment contrary to the requirements of Section B.2(1) of the Public Service Human Resource Manual, 2016 that requires all state departments to prepare Human Resource Plans to support achievement of goals and objectives in their strategic plans.

In the circumstances, it was not possible to confirm whether the company was operating with optimum staff levels.

2. Lack of Internal Audit Function and Audit Committee

The Company does not have an internal audit function to guide and evaluate its internal controls. This is contrary to Section 153(1) of the Public Finance Management (County Government) Regulations, 2015 which requires the internal auditors to review and evaluate budgetary performance, financial management, transparency and accountability mechanisms and processes of the Company. Further, the Company has not established audit committee as stipulated in Regulation 167(1) of Public Finance Management (County Governments) Regulations, 2015.

As a consequence, the effectiveness of the internal controls mechanism to management of the Company could not be confirmed

3. Lack of Risk Management Policy

The Company does not have a risk management policy to guide management in risk evaluation and decision making. In addition, the Company has not implemented effective, efficient and transparent financial management and internal control systems. This was evidenced by lack of a strategic plan, an Information Communication Technology (ICT) policy, a disaster recovery plan or business continuity plan, a code of ethics policy, an Information Technology (IT) strategic committee, an IT steering committee and an IT security policy.

The company has not provided any written assurance that the internal controls systems are in place and no explanation was provided for failure to have the policies in place. This is contrary to Section 158(1) of the Public Finance Management (County Government) Regulations 2015 which requires the accounting officer to develop risk management strategies, which include fraud prevention mechanism and internal control that builds robust business operations.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs) 2315 and 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 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 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 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.

Those charged with governance are 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 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. 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 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 Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

30 April, 2024