

# **REPORT OF THE AUDITOR-GENERAL ON ITEN TAMBACH WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2023**

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## **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 Iten Tambach Water and Sewerage Company Limited set out on pages 1 to 48, 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 Iten Tambach Water and Sewerage Company Limited as at 30 June, 2023, and 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, the Water Act, 2016 and the Public Finance Management Act, 2012.

## **Basis for Qualified Opinion**

### **1. Property, Plant and Equipment**

#### **1.1 Unconfirmed Value and Ownership of Land**

As previously reported, the statement of financial position reflects property, plant, and equipment balance of Kshs.17,745,933 which includes buildings balance of Kshs.1,237,191, as disclosed in Note 14 to the financial statements. However, the value of land on which the buildings stand had not been disclosed in the financial statements. Further, the title deed confirming ownership of the land by the Company was not provided for audit verification.

#### **1.2 Assets with Nil Book Values**

As previously reported, the statement of financial position reflects property, plant and equipment balance of Kshs.17,745,933, as disclosed in Note 14 to the financial statements. However, property, plant and equipment with historical cost of Kshs.3,422,300 had been fully depreciated/amortized but were still in use and were not included in the balance of property, plant and equipment. The assets had neither been revalued nor disposed as at 30 June, 2023.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.17,745,933 and land ownership of could not be confirmed.

### **2. Unsupported Ordinary Share Capital**

The statement of financial position reflects ordinary share capital of Kshs.100,000 in respect of 5000 shares of Kshs.20 par value each, as disclosed in Note 17 to the financial statements. However, Management did not provide the share certificate and share register for audit verification.

In the circumstances, the accuracy of the ordinary share capital balance of Kshs.100,000 could not be confirmed.

### **3. Trade Receivables**

The statement of financial position reflects net trade receivables balance of Kshs.31,538,710, as disclosed in Note 15(a) to the financial statements. However, review of trade receivables ageing analysis and policy document revealed that gross receivables

before provision for bad and doubtful debts amounting to Kshs.35,043,011 had an expired credit period or exceeded the normal credit period of 15 days. This was contrary to Section 12.4 of the Iten Tambach Water and Sewerage Company Limited Finance Regulation and Procedures Manual, 2019 which states that normal credit period shall be 15 days from the date of billing.

In the circumstances, the accuracy and recoverability of trade receivables of Kshs.31,538,710 could not be confirmed.

#### **4. Retained Earnings**

The statement of changes in equity reflects retained earnings balance of Kshs.8,006,986 after prior year adjustment of Kshs.3,745,878. However, the comparative amount was not restated and nature and amount of the prior period error corrected disclosed as required by IPSAS 3 which requires an entity to correct material prior year errors by restating the comparative amounts for the prior periods presented in which the error occurred.

In the circumstances, the accuracy and completeness of the retained earnings balance of Kshs.8,006,986 could not be confirmed.

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

#### **Emphasis of Matter**

##### **Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual amounts on comparable basis of Kshs.40,000,000 and Kshs.34,039,831 respectively, resulting to an under-funding of Kshs.5,960,169, or 15% of the budget. Similarly, the Company expended Kshs.36,285,781 against an approved budget of Kshs.40,000,000, resulting to an under-expenditure of Kshs.3,714,219, or 9% of the budget.

The under-funding and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

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 Audit Issues**

In the report of the previous year, several issues were raised under Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the matters remained unresolved as at 30 June, 2023 and Management did not provide any evidence to support action taken to resolve them contrary to Section 149(2)(l) of the Public Finance Management Act, 2012 which require Accounting Officers designated for county government entities to try to resolve any issues resulting from an audit that remain outstanding.

## **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**

The statement of profit or loss and other comprehensive income reflects operating revenue-water sales of Kshs.30,551,408, as disclosed in Note 6 to the financial statements. Records provided for review indicated that the Company produced total of 724,532 cubic meters (M<sup>3</sup>) of water during the year under review, out of which 494,732 cubic meters (M<sup>3</sup>) of water was billed to customers for Kshs.30,551,408, while the balance of 229,799 cubic meters (M<sup>3</sup>), or approximately 32% of the total volume of water produced represents non-revenue water. This is contrary to WASREB guidelines which sets the acceptable level of non-revenue water at 25% of the total water production. The volume of 50,717 cubic meters (M<sup>3</sup>), or approximately 7% above the allowable loss of 25% prescribed, billed at an average rate of Kshs.61.75 per cubic meter (M<sup>3</sup>) resulted in loss of sales estimated at Kshs.3,131,775.

In the circumstances, the significant level for non-revenue water had a negative impact on the Company's profitability and could affect sustainability of its operations.

## **2. Bank and Cash Balances**

The statement of financial position reflects bank and cash balances of Kshs.1,948,192, as disclosed in Note 16 to the financial statements. However, review of the cash book and bank statements indicated that the KCB revenue account had a negative bank balance of Kshs.122.15, contrary to Section 119(4) of the Public Finance Management Act, 2012 which states that, an accounting officer for a county government entity shall not cause a bank account of the entity to be overdrawn beyond the limit authorized by the County Treasury or a Board of a county government entity.

Further, review of the information and records provided for audit revealed that the Company has a dormant account. No explanation was provided on why Management has continued to maintain a dormant account.

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

## **3. Non-Compliance with the Law on Ethnic Composition**

Review of personnel records provided for audit revealed that the Company had six (6) Board of directors and a total of forty-eight (48) employees serving on permanent, contract and temporary terms. However, all the board of directors and other staff are from the dominant ethnic community, contrary to Section 65(1)(e) of the County Governments Act, 2012 which states that in selecting candidates for appointment, the County Public Service Board shall consider the need to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.

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, 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 statement of profit or loss and other comprehensive income reflect staff costs of Kshs.14,515,335, as disclosed in Note 9 to the financial statements. Review of human resource records revealed that the Company has a total work force of forty-eight (48) staff serving on permanent, contract and temporary terms. However, the Company does not have an approved staff establishment.

In the circumstances, the effectiveness of determining the optimal level of staffing needs and competences could not be confirmed .

### **2. Lack of an Approved Creditors Policy**

The statement of financial position reflects payables, provisions and accruals amount of Kshs.22,233,779, as disclosed in Note 21 to the financial statements. However, the outstanding payables had no aging analysis. Further, an approved creditor's policy document was not provided for audit.

In the circumstances, the Company does not have guidelines on how to handle credit risk and settle outstanding debts.

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 controls, 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 the 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, adequate accounting records have been kept by the Company, so far as appears from the examination of those books; 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 (IFRS) 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 control, risk management and overall 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 sustainability of services 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.

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 based on 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 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 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 Management.
- Conclude on the appropriateness of 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 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**

**21 March, 2024**