

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Tililbei Water and Sanitation Company Limited set out on pages 20 to 51, which comprise the statement of financial position as at 30 June 2017, 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, 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 Tililbei Water and Sanitation Company Limited as at 30 June, 2017 and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and do not comply with the Water Act, 2002 and the Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Understatement of Revenue from Water Sales

The statement of profit and loss and other comprehensive income reflects revenue from water sales of Kshs.33,087,915 while the supporting schedules show a sum of Kshs.34,612,863 thereby resulting in an understatement of Kshs.1,524,948 which has not been explained or reconciled.

In the circumstances, the accuracy and completeness of the statement of comprehensive income could not be confirmed.

2. Grants

The statement of profit and loss and other comprehensive income reflects revenue grants of Kshs.28,391,417 as at 30 June 2017. Included in the amount is Kshs.28,207,417 received from Kericho County Government for payment of electricity bills and bulk water supply.

These grants were received without conditions and obligations as required by International Accounting Standards 20 on Government Grants and the relevant authority to incur expenditure from the county government.

No explanation was given for the departure in complying with the standards and authority to incur expenditure. It was therefore not possible to ascertain whether the revenue grants were lawfully applied for the intended purpose.

3. Other Income

The statement of profit and loss and other comprehensive income reflects revenue of Kshs 2,652,688 under other incomes as at 30 June 2017. The individual transactions making up the amount could not be traced to primary accounting source documents and as such their accuracy and completeness could not be ascertained.

4. Administration Costs

The statement of profit and loss and other comprehensive income reports administration costs of Kshs.29,031,313 as at the close of the financial year. However, the following unsatisfactory matters were noted:

- (i) Included in the amount are staff expenses of Kshs.20,864,343 as disclosed under note 4 to the financial statement which, however, are not in agreement with the payroll amount of Kshs.17,027,985. The resultant overstatement of the expenditure of Kshs.3,836,358 has not been explained or reconciled.

In addition, the amount includes leave allowances and gratuity payments of Kshs.892,264 made without the relevant supporting accounting documentation and approvals and as such their authenticity could not be ascertained.

- (ii) The amount also includes Kshs.1,314,524 in respect of provision for bad and doubtful debts which are not supported by an objective evidence that an impairment loss had been incurred or a default rate was applied to specific debtors in accordance with international financial reporting standards.

In the circumstances, the accuracy and completeness of the administration costs reported could not be ascertained.

5. Operations and Maintenance Costs

The statement of profit and loss and other comprehensive income reports operations and maintenance costs of Kshs.32,958,466. However, the following unsatisfactory matters were noted:-

- (i) Included in the amount is electricity expenditure of Kshs.3,608,639 as disclosed in note 5, which is not in agreement with the actual bills from Kenya Power totaling Kshs.9,535,369. The resulting difference of Kshs.5,926,730 has not been explained or reconciled.

- (ii) Further, water meters procured at a cost of Kshs.625,100 have been treated as expenditure instead of being capitalized into non-current assets contrary to the Company's accounting policy and procedures manual.

In the circumstances, the accuracy and completeness of operations and maintenance costs could not be ascertained.

6. Inventories

The statement of financial position as at 30 June 2017 reflects inventories of Kshs.3,451,442 which are not supported by stores bin cards or a stock take report at the close of the year. As a result, the existence and accuracy of the inventory amount is doubtful.

7. Bank and Cash Balances

The statement of financial position reflects bank and cash balances of Kshs.5,929,696 as at the close of the year. Included in the amount is Kshs.5,635,625 reflected in the bank account as Chemosit Water and Sanitation Company Ltd whose use by the company is restricted due to lack of authority to operate the bank accounts. The amount is broken down as follows:

A/c Name	A/C Number	Bank	Amount (Kshs)
Chemosit Water and Sanitation Company	1108396682	KCB	1,101,766.64
Chemosit Water and Sanitation Company	1104927179	KCB	3,269,367.10
Chemosit Water and Sanitation Company	1104926946	KCB	1,264,984.35
		Total	5,635,625.00

The management did not explain the circumstances under which the bank accounts were opened in different names and how they are operated.

In the absence of the authority to operate the bank accounts, the ownership and existence of bank and cash balances is doubtful.

8. Share Capital

The statement of financial position shows share capital of Kshs.100,000 in respect of 5000 shares with par value Kshs.20 each. According to the memorandum and articles of association of the Company, only 13 shares valued at Kshs.760 were allocated to members leaving a balance of 4,987 shares with a value of Kshs.99,740 unallocated which is inconsistent with the financial statements figure of Kshs.100,000.

In the absence of share allocation records and payment details of Kshs.99,740, the accuracy and valuation of the share capital amount is doubtful.

9. Capital Reserves

The statements of financial position as at 30 June 2017 reflects capital reserves of Kshs.31,421,989 which are represented by debtors inherited from the Ministry of Water upon inception of the Company whose details or analysis were not provided.

In the absence of detailed debtors listing indicating names and amounts owed, the accuracy and completeness of the capital reserve as presented could not be ascertained.

10. Trade and Other Payables

The statement of financial position shows trade and other payables of Kshs.69,507,090 which include Kshs.23,503,722.40 owed to Lake Victoria Water Services Board whose composition has not been supported by verifiable accounting documentation. Consequently, the accuracy and completeness of these liabilities could not be ascertained.

11. Retirement Benefits Obligations

The statement of financial position reflects retirement benefits obligations in respect of both the employee and employer share contributions of Kshs.11,668,868 which have not been remitted to the pension scheme for investment contrary to the provisions of Retirement Benefits Act, 1997.

The company is in breach of the law.

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 adverse 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 Adverse Opinion and Other Matter sections, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Non-Revenue Water (NRW)

During the year under review, the company produced 1,655,596 cubic meters (M³) of water. However, only 645,922 (M³) or 39 % of the total production was billed to customers resulting in revenue totaling Kshs.31,741,641. The balance of 1,009.674 cubic Meters (M³) or approximately sixty one percent (61%) of the total volume represented non-revenue water (NRW). According to the Water Services Regulatory Board guidelines, the NRW quantity was thirty six percent (36 %) above the allowable loss of 25% of total water produced. The abnormal loss of 413,899 M³ of the water produced may have resulted in loss of sales estimated at Kshs.29,788,750 which has adversely affected the profitability of the company for the year under review.

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 (IFRS) 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 sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management intends to cease operations of the Company, 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 of Kenya. 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 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 judgment 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 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.

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 not been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are not in agreement with the accounting records and returns.



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

Nairobi

11 July 2018