

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of the Kyeni Water and Sewerage Company Limited set out on pages 14 to 36, which comprise the statement of financial position as at 30 June 2017, and statement of comprehensive income, statement of changes in equity, statement of cash flows 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 Kyeni 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 do not comply with the Water Act, 2016 and the Kenyan Companies Act, 2015.

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

Basis for Adverse Opinion

1.0 Disclosure, Compliance and Presentation of Financial Statements

The financial statements presented for audit were not signed by chairman and one director as required by the guidelines and financial reporting template issued by the Public Sector Accounting Standards Board (PSASB) and the National Treasury in accordance with the Public Finance Management (PFM) Act 2012. Further, the financial statements did not have a disclosure on new standards as required by International Financial Reporting Standards (IFRS) framework including disclosures on financial risk management as required by IFRS 7 and the key accounting estimates and assumptions as required by International Accounting Standards 1.122.

In the circumstance, the disclosure, compliance and presentation of the financial statements for the year ended 30 June 2017 did not comply with the PSASB reporting template, IFRS and IAS.

2.0 Ownership of Motor Vehicle

The statement of financial position reflects property, plant and equipment of Kshs.7,503,280 and Note 7 to financial statements indicates a balance of Kshs.360,046 in respect of motor vehicles including motor cycles as at 30 June 2017. However, records made available showed the Kshs.360,046 was in respect to the net book value of Motor Vehicle KBN 514E Pick Up. Further, the motor vehicle was jointly owned by the Company and Co-operative Bank of Kenya and no explanation was given for the joint ownership.

Under the circumstance, the security and ownership of the motor vehicle KBN 514E included in net book value of Kshs.360,046 as at 30 June 2017 could not be confirmed.

3.0 Accounts Receivables

The statement of financial position reflects a trade and other receivables balance of Kshs.23,693,006 as at 30 June 2017 built up as follows;

<u>Period</u>	<u>Amount (Kshs.)</u>
2016/17	13,703,270
2015/16	4,406,459
2014/15	1,406,100
Prior Years	<u>6,809,733</u>
Total Debtor	26,325,562
Less 10% provision	<u>2,632,556</u>
Net Debtors	<u>23,693,006</u>

The provision for bad and doubtful debts was set at 10% in the year under review. However, the Company did not have a bad debts policy and no risk management and assessment on the debts was undertaken during the year under review.

In the circumstance, the completeness, accuracy and recoverability of the trade and other receivables balance of Kshs.23,693,006 as at 30 June 2017 could not be confirmed.

4.0 Non-Revenue Water (NRW)

During the year under review, the Company produced 1,039,740 cubic meter (m³) of water. However, only 461,678m³ was billed to customers. The balance of 578,062m³ or approximately 55.6% of the total volume produced represented Non-Revenue Water (NRW) which was over and above the allowable loss of 25% as provided by Schedule E, Section 85 of the Water Service Regulatory Board (WASREB) guidelines. Therefore, although 55.6% of the 1,039,740 cubic meter (m³) total water produced during the year was NRW, only 259,935m³ (25%) with an estimated sale price of Kshs.7,742,424 (Average price /m³ = Kshs.29.786) was an allowable loss while the balance of 318,127m³ (30.6%) with an estimated sale price of Kshs.9,475,731 was a non-allowable

loss. The total NRW of 55.6% may have resulted in a loss of water sales estimated at Kshs.17,218,155.

In the circumstances, the significant high level of NRW negatively impacts on the Company's profitability and its long-term sustainability.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kyeni 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 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 discussed in the Basis for Adverse Opinion section, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

Appointment of the Board of Directors

I draw your attention to the Company's non – compliance with WASREB guidelines in respect to appointments of Board of Directors. The WASREB guidelines require that each Company appoints directors to represent various stakeholders' interest in the Board. Even though, the Company's Directors were duly elected in a competitive process during its Annual General Meeting (AGM) held on 04 April 2017 at Runyenjes Social Hall, Embu County, the appointment letters had not been issued to elected directors at the close of audit exercise on 16 May 2018. Further, there was no evidence that the Embu County Government had nominated her two (2) representatives as required by the Memorandum of Association.

Consequently, the Company was in breach of the Water Service Regulatory Board guidelines.

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 going concern 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 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 been kept by the Company, so far as appears from my 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

02 July 2018