

# REPUBLIC OF KENYA

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## REPORT OF THE AUDITOR-GENERAL ON BOMET WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

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### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Bomet Water and Sanitation Company Limited set out on pages 1 to 38, which comprise the statement of financial position as at 30 June, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the 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 effects 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 Bomet Water and Sanitation Company Limited as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015, the Water Act, 2016 and the Public Finance Management Act, 2012.

#### Basis for Qualified Opinion

##### 1.0 Long Outstanding Trade and Other Receivables

The statement of financial position and Note 15 to the financial statements reflect trade and other receivables of Kshs.219,486,725 (2019 - Kshs.169,084,677) of which Kshs.183,360,072 or 85% had remained uncollected for a period of over one (1) year as at 30 June, 2020. The receivables balance continued to increase over the years and was likely to negatively affect the Company's liquidity. Management did not provide evidence of the measures in place to ensure that the receivables are collected

Further, no provision for bad and doubtful debts was made against the receivables.

In the circumstances, the accuracy and full recoverability of the reported trade and other receivables balances of Kshs.219,486,725 as at 30 June, 2020 could not be confirmed.

In addition, the efficiency of the Company's debt management strategies could not be confirmed.

## 2.0 Trade and Other Payables

The statement of financial position reflects Kshs.92,005,784 for trade and other payables. However, the balance included long outstanding payables amounting to Kshs.38,388,425 owed to other water agencies / bodies as detailed below:

S/No.	Description	Amount (Kshs.)
1	Lake Victoria South Water Works Development Agency	8,241,949
2	Water Resource Management Authority	4,686,671
3	Water Services Regulatory Board	7,201,442
4	Other Payables	18,258,363
	<b>Total</b>	<b>38,388,425</b>

Failure To settle legal obligations may attract penalties and interest and cause reputational damage to the Company.

## 3.0 Unsupported Loan Inherited from Community

The statement of financial position as at 30 June, 2020 reflects non-current liabilities of Kshs.443,373 in respect of Kamureito Water Project Loan. The balance represents a community loan obtained from a bank as per the letter of offer dated 19 December, 2014 and taken over by the Company. However, no documents were provided to clarify the circumstances under which the water company took over the community project loan. Further, the loan was in arrears since the Company stopped remitting repayments in July, 2017. The Management did not provide any reason or explanation for failure to settle the loan which continued to attract interest at the rate of 18.5% per annum.

In the circumstances, the validity and accuracy of the Kamureito Water Project loan balance of Kshs.443,373 as at 30 June, 2020 could not be confirmed.

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

### 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 Matters**

As disclosed under the progress on follow up of auditor recommendations section of the financial statements, some of the prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided satisfactory reasons for the delay in resolving the issues.

### **Other Information**

The Board of Directors is responsible for the other information. The other information comprises the Company's information, corporate governance and the report of Board of Directors as required by the Companies Act, 2015. The other information does not include the financial statements and the auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

In connection with my audit of the Company's financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## **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 matter(s) described in the Basis for Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources Sections 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**

#### **1.0 Unremitted Salary Deductions**

Note 17 to the financial statements reflects staff salaries and staff salaries deductions amounting to Kshs.21,702,761 of which Kshs.18,416,098.50 related to pension deductions dating back to March, 2018 not remitted. This is contrary to Section 19(4) of Employment Act, 2007 which requires an employer who deducts an amount from an employee's remuneration to pay the amount so deducted in accordance with the time period and other requirements specified in the law.

The Company was therefore exposed to the risk of incurring penalties and litigation with the continued delay in remitting the deductions.

## **2.0 Excessive Wage Bill**

The Company incurred an expenditure of Kshs.86,455,624 on staff costs representing fifty nine percent (59%) of the Company's total operational costs of Kshs.146,086,920. This is contrary to paragraph 3.15 of the Model Human Resource Policy and Procedures Manual for Water Service Providers by WASREB which prescribes that in determining the staff establishment, the Water Service Provider shall be guided by WASREB sector benchmarks on personnel expenditures as a percentage of total operation costs. The Management has explained that the high wage bill has been caused by recruitment of more staff during the year under review hence no efforts appear to have been made to check the wage bill.

The Company was therefore, in breach of the regulations.

## **3.0 Management of Water**

### **3.1 Non-Revenue Water**

Available records indicate that the Company produced 5,119,519 cubic meters (M<sup>3</sup>) of water, of which only 2,180,915M<sup>3</sup> were billed to customers leaving out the balance of 2,938,604M<sup>3</sup> unbilled representing 57% of the production as Non-Revenue Water (NRW). The NRW exceeded the set threshold of 25% as approved by the Water Services Regulatory Board (WASREB) guidelines.

The Non-Revenue Water of 2,938,604 cubic meters may have resulted in lost sales estimated at Kshs.161,623,220.00 when computed at the rate of Kshs.55 per cubic meter of water being the minimum tariff for water in accordance with the Water Act, 2016.

Consequently, the NRW may negatively affect the Company's profitability and long-term going concern.

### **3.2 Unmetered Connections**

Billing records for the year ended 30 June, 2020 revealed that an average of seven hundred and fifty-six (756) customers had water connections without meters and were billed on average consumptions. Although Kshs.6,759,255 was realized as revenue from these customers translating to 5% of the total sales, billing of customers without meters could result to possible loss of water hence high percentage of Non-Revenue Water.

## **4.0 Stalled Chebunyo – Siongiroi Water Project**

The statement of financial position reflects a property, plant and equipment balance of Kshs.45,934,173. Included in the balance is Kshs.17,573,015 relating to Chebunyo - Siongiroi Water Project financed by grant from Water Sector Trust Fund during the financial year 2015/2016 for the construction of a water supply extension to connect the Chepalungu area from Moi Girls - Siongorai water distribution point. Payment documents indicate that the total grant of Kshs.17,573,015 had been paid. However, the project failed to take off during the test run on completion due to low water volumes/levels at the in-take.

The feasibility study documents on the Project have not been availed for audit to establish whether the Project was confirmed viable and a site inspection visit carried out in the month of January, 2021 revealed that the site had been abandoned.

In view of the above, the public may not get the benefits of the intended services from the stalled project.

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### Basis for Conclusion

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 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 the 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 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 to 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how the Company 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.

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

01 February, 2022