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REPORT OF THE AUDITOR-GENERAL ON BOMET WATER COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2021

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 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 Bomet Water Company Limited set out on pages 1 to 40, which comprise the statement of financial position as at

30 June, 2021 and the statement of profit or loss and other comprehensive income, statement of cash flows, statement of changes in equity and statements 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 Bomet Water Company Limited as at 30 June, 2021 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Public Finance Management Act, 2012 and the Companies Act, 2015.

Basis for Qualified Opinion

The following balances reflected in the financial statements were not supported with sufficient appropriate records:

1. Customer Deposits Account

The statement of financial position reflects trade and other payables totalling Kshs.125,244,572 which, as disclosed in Note 17 to the financial statements, include customer deposits totalling Kshs.2,692,989. However, the customer deposits bank account as at 30 June, 2021 reflected a balance of Kshs.67,272, resulting in an unexplained variance of Kshs.2,625,717. Management explained that Kshs.2,560,000 was borrowed from the deposits account to finance salaries after approval by the Board of Directors. Thus, out of the variance totalling Kshs.2,692,989, Kshs.65,717 was not accounted for.

In the circumstances, the accuracy and completeness of the customers deposit balance totalling Kshs.2,692,989 could not be confirmed.

2. Trade and Other Receivables

The statement of financial position reflects trade and other receivables totalling Kshs.203,592,386 which include Kshs.175,778,880 that had remained uncollected for more than 120 days as at 30 June, 2021.

In the circumstance, the extent of recoverability of the debt balance totalling Kshs.203,592,386 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 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.

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

The audit report for year ended 30 June, 2020 highlighted several issues in relation to the financial statements, lawfulness and effectiveness in use of resources and effectiveness of internal control, risk management and governance. Management has indicated in the report on progress on following up on Auditor's recommendations appended to the financial statements for the year under review that a few of the issues had been resolved as at 30 June, 2021. However, no explanation has been provided for the delay in resolving most of audit issues and no timeframe has set for their resolution.

Other Information

The Directors are responsible for the other information. The other information comprises the report of directors as required by the Companies Act, 2015, and the statement of directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

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

In connection with the audit of the 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. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is 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 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. Failed Project

Note 12(a) to the financial statements on assets movement schedule reflects capital work in progress balance totalling Kshs.22,582,197 which include Kshs,18,724,875 incurred on extension of water pipeline for Siongiroi–Chebuntyo Water Project co-funded with Water Service Trust Fund (WSTF). The contract was to be executed in nine (9) months, to 22 July, 2016 from the date the contract was signed on 23 October, 2015. However, review of records revealed the following anomalies:

- i. The project was completed in June, 2017, one year behind schedule and a completion certificate was issued. However, as of January, 2022, the project had not been commissioned five years after completion due to insufficient water from the source. The anomaly suggested that no proper feasibility study was done before the project was initiated.
- ii. An audit inspection carried out on 6 January, 2022 revealed that the master meter chamber and washout chamber steel covers at Siongiroi had been vandalized and turned into garbage disposal points. The master meter at Siongoroi had been removed and one of the water kiosks at Chebuntyo had been taken over by a betting company under unclear circumstances. The Company's (BOMWASCO) and WSTF brand colors had been replaced with those of the betting company.

In the circumstances, no value for money was realised from the expenditure totalling Kshs.18,724,875 incurred on the project .

2. Trade and Other Payables

The statement of financial position and as disclosed in Note 17 to the financial statements reflects trade and other payables balance of Kshs.125,244,572. However, the following unsatisfactory matters were noted:

2.1. Delay in Settlement of Trade and Other Payables

Examination of records on trade and other payables indicated the following anomalies:

2.1.1 Long Outstanding Payables

Trade and other payables records reflected a sum of Kshs.5,660,197 which had been outstanding for more than 90 days as at 30 June, 2021, contrary to Clause 5 of the Company's Revised Financial and Procedure Manual, 2016, which requires suppliers of goods or services to be paid promptly for certified supplies. The delay in payment of the debt was not explained.

2.2. High Unpaid Electricity Bills

Payables totalling Kshs.43,444,904 were owed to Kenya Power and Lighting Company as at 30 June, 2021. The balance denoted an increase of Kshs14,223,292 or 49% from

the sum of Kshs.29,221,612 reported at the end of the previous financial year. The steep rise and delayed payment of the electricity bills was not explained.

The failure to pay amounts owed to creditors in due time went against the provisions of the Company's Revised Financial and Procedure Manual, 2016 which requires suppliers of goods or services to be paid promptly for authentic supplies.

3. Unremitted Payroll Deductions

Examination of records on statutory deductions indicated that salaries deductions totalling Kshs.38,459,515. Out of this balance Kshs.30,820,439 related to deductions owed to LAPTRUST for more than three years. This is contrary to Section 19(4) of Employment Act, 2007, which requires an employer to pay the amount deducted in accordance with the time period and other requirements specified in the law.

In the circumstances, Management breached the law and interests and penalties may be charged for failure to remit statutory deductions on due dates.

4. High Volume of Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects sales totalling Kshs.104,725,728 which include receipts totalling Kshs.88,299,174 relating to water sales. The Company produced 4,424,004 cubic meters of water out of which 1,338,543 cubic meters were billed to customers, resulting to an unaccounted for water volume of 3,085,461 cubic meters or 69.7% of the total production against the threshold of twenty-five (25%) set in guidelines issued by the Water Services Regulatory Board. The NRW resulted to a loss of Kshs.89,648,069 at the estimated sales rate of Kshs.65 per cubic meter applied by the Company in the year under review.

The large volume of non-revenue water suggested that the Company's water distribution system was inefficient and may to a great extent explain the operating loss of Kshs.43,413,847 reported by the Company in the year under review.

5. Over Staffing

The Company approved staff establishment provided for one hundred and ninety-five (195) employees. However, the Company had 214 employees during the year under review and was therefore overstaffed by nineteen (19) employees. No explanation was provided for the excess staff.

In the circumstances, the Management was in breach of the provisions of the approved staff establishment and may have caused the Company to use its limited resources in an effective way.

6. Lack of Ethnic Diversity in Staffing

As mentioned the Company had 214 staff members in the year under review out of whom two hundred and twelve (212) or 99% were from the dominant community in the County and only two (2) or 1% were from other communities.

The employees composition contravenes Section 7(1) and Section 7(2) of the National Cohesion and Integration Act which stipulates that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and no public establishment shall have more than one third of its staff from one community.

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 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 the Kenyan 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 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 Board of Directors

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015 and, for maintaining effective internal control as the 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, the 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.

The 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, the 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 ISSAs 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.

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 controls 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 Company's 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 controls 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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

14 September, 2022