

REPUBLIC OF KENYA



*Enhancing Accountability*

CHIEF EXECUTIVE OFFICER  
MANDERA WATER AND SEWERAGE  
COMPANY LIMITED

07 JUN 2023

P. O. Box 341-70300  
MANDERA.

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**MANDERA WATER AND SEWERAGE  
COMPANY LIMITED**

**FOR THE YEAR ENDED  
30 JUNE, 2022**



# REPUBLIC OF KENYA

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## **REPORT OF THE AUDITOR-GENERAL ON MANDERA WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2022**

### **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 Mandera Water and Sewerage Company Limited set out on pages 1 to 27, which comprise of the statement of financial position as at 30 June, 2022, 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 the Mandera Water and Sewerage Company Limited as at 30 June, 2022, 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 Public Finance Management Act, 2012, the Companies Act, 2015 and the Water Act, 2016.

### **Basis for Qualified Opinion**

#### **1. Inaccurate Opening Balances in the Financial Statements**

Comparison of the audited financial statements of 2020/2021 and amounts disclosed as opening balances on various components of 2021/2022 statements of changes in equity revealed variances as detailed below:

<b>Item of the Financial Statement with an Anomaly</b>	<b>Amount Disclosed in Audited 2020/2021 Financial Statement (Kshs)</b>	<b>Amount Disclosed in 2021/2022 Financial Statement (Kshs)</b>	<b>Variance (Kshs)</b>
Ordinary Share Capital	0	61,982,062	61,982,062
Retained Earnings	33,372,791	67,377,627	34,004,836
Capital Grants	445,296,784	285,846,221	159,450,563

Management did not provide explanation for the differences.

In the circumstances, the accuracy of the statements of changes in equity for the year ended 30 June, 2022 could not be confirmed.

#### **2. Inaccuracy of Trade and Other Receivables**

The statement of financial position reflects trade and other receivables balance of Kshs.47,125,619 as disclosed under Note 18 to the financial statements, while the supporting schedules provided for audit review had a balance of Kshs.44,853,791 resulting to a variance of Kshs.2,271,828 which was not explained or reconciled.

During the year ended 30 June, 2022, it was also noted that trade receivables balance increased by Kshs.13,814,234 (41%) from Kshs.33,311,385 in the previous year to Kshs.47,125,619 in the year under review but no provision for bad debts was made.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.47,125,619 could not be confirmed.



### **3. Unsupported Members Equity**

The statements of financial position and as disclosed in Note 20 to the financial position reflects member's equity balance of Kshs.61,982,062 consisting of ordinary share capital of Kshs.100,000 and Government investments of Kshs.61,882,062. Documents to support the two balances were not provided for audit review. Further, the member's equity increased from negative Kshs.42,304,981 to Kshs.61,982,062 while the movement between the two amounts has not been documented or supported.

In the circumstances, the accuracy of the member's equity balance of Kshs.61,982,062 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Mandera Water and Sewerage 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**

##### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts as at 30 June, 2022 reflects revenue budget and actual revenue on comparable basis of Kshs.321,127,794 and Kshs.279,450,020 respectively, resulting to an under-collection of revenue of Kshs.41,677,774 (or 12.9%) of the budget. Similarly, the Company spent Kshs.277,243,048 against the actual receipt of Kshs.321,127,794 resulting to an under-absorption of Kshs.43,884,746 (or 14%) of the budget.

The under-absorption may have negatively impacted on service delivery to the residents of Mandera town and its environs.

##### **2. Unresolved Prior Year Matters**

In the report of the previous year, several issues were raised under the Report of financial statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. No report or recommendations from the Company Management and oversight bodies were submitted for audit verification and clearance. As a result, the issues remain unresolved as at 30 June, 2022.



## **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 the 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 an audit opinion or any form of assurance thereon.

## **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 (NRW)**

During the year under review, the Company estimated its annual production of 543,620 M<sup>3</sup> of water. It was however noted that only Suftu and Neboi production sources had master meters while other four production sources of Handadu, Shafshafey, Haji Kerrow and Boys town have production volume estimates which are arrived at using the pump discharge and monthly pumping hours. It was also noted that the Company had no data on volume billed to customers as all customers were unmetered and thus it was hard to independently establish the volume of non-revenue water and also to know the quantity of non-revenue water and whether it complies with Water Services Regulatory Board (WASREB) guidelines which limits the allowable loss of non-revenue water at 25% of the water produced.

In addition, it was noted that the Company billed its customers at flat rate of Kshs.1,000 per month per connection. However, there was no evidence that the water billing tariffs were approved by Water Services Regulatory Board (WASREB) as required by Section 72(1)(b) of the Water Act, 2016.

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

#### **2. Engagement of Casual Workers for a Prolonged Duration**

Included in the staff costs of Kshs.28,259,111 as disclosed in Note 8 to the financial statements is an expenditure of Kshs.11,652,671 relating to staff costs - temporary employees. Review of casual payrolls revealed that there were fifty-nine (59) casuals that were engaged for more than 3 continuous months contrary to Section 37(1)(a) & (b) of



the Employment Act, 2007 but instead the contracts were renewed after every 6 months instead of engaging them in permanent terms since the services are needed permanently. In addition, there was no Board to hire the casuals and there was no justification for the hire of the casuals.

In the circumstances, Management was in breach of the law and value for money was not confirmed.

### **3. Stalled Construction of Water Project**

During the year under review, the Company entered into a contract on 16 June, 2020 with the local contractor for the construction of Bokolow Bunyole Water Project at a contract sum of Kshs.71,734,023, out of which Kshs.37,953,132 was paid. The water pan was to provide water for the residents of Bokolow, Bunyoley and Koromey areas in Mandera East Sub-County. The Contract consisted of 120,000m<sup>3</sup>, 50m<sup>3</sup> capacity elevated tank, 2 sanitation blocks, 2 cattle troughs, perimeter fence, 2 masonry water kiosks and pumping system (installation of solar powered pump). The contract sum was revised and additional amount of Kshs.3,695,541 was factored in leading to a new contract sum of Kshs.75,428,783 after the works were revised downwards on 21 September, 2021 to 100,000m<sup>3</sup> capacity pan due to the rocks in the area.

The contract agreement between the Company and the contractor signed on 10 November, 2020 was to end on 10 May, 2021 but the contract was extended 3 times and the last one to end on 10 July, 2022. The Company requested the Water Sector Trust Fund (donor) for extension and the donor accepted the extension including the liability defect period up to 11 April, 2023. Although the contractor had been paid Kshs.66,951,857 being 88% of the contract sum via Interim Practical Completion Certificate (IPC-7), the works done was 89% complete as per the IPCs. The project appears to have stalled since the contractor was not on site at the time of audit inspection conducted on 13 February, 2023 and the project was seven months past the expected completion date of 10 July, 2022.

The Company was unable to meet the objective of the project thus value for money amounting to Kshs.66,951,857 could not be confirmed.

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 the internal controls, risk management and overall governance were not effective.

## **Basis for Conclusion**

### **1. Lack of Ownership Documents for the Company's Assets**

The statement of financial position reflects an amount of Kshs.339,655,912 for property, plant and equipment, which includes land valued at Kshs.9,500,000. Review of the records in support of this amount revealed that the Company had three parcels of lands held in various locations as follows:

<b>Location</b>	<b>Standing Structures</b>
Mandera Town	Head Offices
Suftu Intake	Water Intake
Neboi	Water Intake

However, details on date of acquisition, land parcel numbers and ownership documents were not provided for audit verification.

In addition, it was noted that one (1) motor cycle and six (6) motor vehicles of unknown value operated by the Water Company are not registered in the name of the Company as shown below:

<b>Vehicle Details</b>	<b>Condition</b>	<b>Institution in Which the Vehicle Is Registered</b>
ISUZU KDA 123P	Good Condition	Water Works Development Agency (WWDA)
ISUZU KDA 124P	Good Condition	Water Works Development Agency (WWDA)
ISUZU FVR 09CG031A	Good Condition	Mandera County Government
WHITE LAND CRUISER KBS252V	Good Condition	Mandera County Government
ISUZU FVZ 09CG024A	Good Condition	Mandera County Government
ISUZU FVZ KBR 327U	Good Condition	Mandera County Government
HONDA Red 09CG133A	Good Condition	Mandera County Government

In the circumstances, the ownership of the assets is in doubt.

### **2. Disaster Recovery Plan**

During the year under review, the Company operated without an approved IT Continuity Plan and Disaster Recovery Plan, and therefore in the event of disaster the Company may lose data and could not be able to recover from the disaster. Further, the Company did not have an IT steering and risk management committee.



In the circumstances, it was not possible to confirm how the Company achieved its IT strategic objectives.

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 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 my audit;
- ii. In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books; and
- iii. The Company's statement of financial position and statement of comprehensive income are in agreement with books of account.

### **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 (IFRS) 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 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 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 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 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 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

14 April, 2023