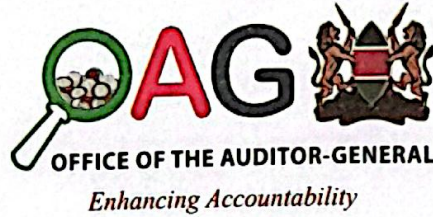


# REPUBLIC OF KENYA

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HEADQUARTERS  
Anniversary Towers  
Monrovia Street  
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NAIROBI

OAG/KRO/TANA WATER/2023/2024(17)

07 January, 2025

Mr. William Jillo Soye  
Ag. Managing Director  
Tana Water and Sanitation Company Ltd  
P.O. Box 90-70101  
HOLA

Dear Mr. Soye

## REPORT OF THE AUDITOR-GENERAL ON TANA WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2024

I transmit the report of the Auditor-General on the examination and audit of the financial statements of Tana Water & Sanitation Company Limited for the year ended 30 June, 2024. The report is submitted in accordance with the provisions of Article 229(7) of the Constitution for the necessary action as required by Article 229(8) of the Constitution.

Yours sincerely

for

Isaac Ngayai  
For: AUDITOR-GENERAL

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*Enhancing Accountability*

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## **REPORT OF THE AUDITOR-GENERAL ON TANA WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2024**

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### **PREAMBLE**

I draw your attention to the contents of my report which is in three parts:

- A. Report on 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 the 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 the 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, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A qualified opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management, and Governance.

The three parts of the report aim to address the Auditor-General's statutory roles and responsibilities 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 Tana Water and Sanitation Company Limited set out on pages 1 to 44, which comprise the statement of financial position as at 30 June, 2024 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 Tana Water and Sanitation Company Limited as at 30 June, 2024 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. Inaccuracies in the Annual Report and Financial Statements

Review of the financial statements revealed that the report of the Managing Director on page xiii disclose that a total of 1,837,389 cubic metres of water was produced in the year while the Company records indicate that 1,038,065 cubic metres of water was produced resulting to a variance of 799,324 cubic metres in respect of water produced. The report in addition disclose that total expenditure incurred in the year 2022-2023 was Kshs.46,188,784 which is inconsistent with the total expenditure in the prior year audited financial statements of Kshs.50,920,405.

In the circumstances, the accuracy of the annual report and financial statements could not be confirmed.

#### 2. Inaccurate Statement of Financial Position

The statement of financial position reflects total current assets balance of Kshs.79,345,935 which when recalculated gives a balance of Kshs.65,579,232 resulting to unexplained variance of Kshs.13,766,703. In addition, the statement reflects total current liabilities balance of Kshs.70,739,983 which when recalculated gives a balance of Kshs.60,682,723 resulting to unexplained variance of Kshs.10,057,260. The recalculated total asset balance is Kshs.72,283,340 while the recalculated total equity and liabilities balance is Kshs.75,992,783 resulting to unexplained variance of Kshs.3,709,443 rendering the statement not to balance.

In the circumstances, the accuracy of the statement of financial position could not be confirmed.

### **3. Inaccurate, Unsupported and Long Outstanding Trade and Other Payables Balance**

The statement of financial position reflects trade and other payables balance of Kshs.46,309,909. However, the corresponding Note 25 to the financial statements reflects a balance of Kshs.10,057,260 resulting to unreconciled variance of Kshs.36,252,649 while the aging analysis of trade and other payables reflects a balance of Kshs.7,487,082 resulting to unexplained variance with the Note balance of Kshs.2,570,178. In addition, the balance includes a balance of Kshs.694,644 owed to five (5) suppliers that was not supported with Local Service Orders/Local Purchase Orders, invoices, goods delivery notes while a balance of Kshs.1,252,244 have been outstanding for periods of between one (1) to over three (3) years.

In the circumstances, the accuracy and validity of trade and other payables balance of Kshs.46,309,909 could not be confirmed.

### **4. Inaccurate Refundable Deposit and Prepayments Balance**

The statement of financial position reflects refundable deposits and prepayments balance of Kshs.606,111. However, the corresponding Note 26 to the financial statement reflects a balance of Kshs.46,309,909 resulting to unreconciled variance of Kshs.45,703,798. In addition, Management does not maintain a separate bank account for deposits.

In the circumstances, the accuracy and existence of refundable deposits and prepayments balance of Kshs.606,111 could not be confirmed.

### **5. Unsupported and Long Outstanding Trade and Other Receivables Balance**

The statement of financial position reflects trade and receivable balance of Kshs.55,066,814 as disclosed in Note 18 to the financial statements. Included in the balance is Kshs.55,459,934 which has been outstanding for over one hundred and twenty (120) days. However, Management did not provide a detailed debtors ledger/ageing report to support the balances reported in the financial statements.

In the circumstances, the accuracy and recoverability of trade and other receivables balance of Kshs.55,066,814 could not be confirmed.

### **6. Unsupported Inventory Balance**

The statement of financial position reflects inventory balance of Kshs.125,900 as disclosed in Note 17 to the financial statements. However, the balance was not supported by inventory stock take report.

In the circumstances, the accuracy of inventory balance of Kshs.125,900 could not be confirmed.

## **7. Inaccurate Taxation Balance**

The statement of financial position reflects taxation balance of Kshs.13,766,703. However, the corresponding Note 27 to the financial statements reflects a balance of Kshs.606,111 resulting to unexplained variance amount of Kshs. 13,160,592.

In the circumstances, the accuracy of taxation balance of Kshs.13,766,703 could not be confirmed.

## **8. Unsupported Adjustment to Share Capital Balance**

Included in the statement of changes in equity is share capital balance as at 1 July, 2023 amounting to Kshs.5,000,000 and a closing balance amounting to Kshs.100,000 as at 30 June, 2024. However, the statement of changes in net assets does not disclose the adjustment made to share capital balance in the year.

In the circumstances, the accuracy of the share capital balance of Kshs.100,000 could not be confirmed.

## **9. Inaccuracies in the Cashflows Statement**

The statement of cashflows reflects net cash used in operating activities amount of Kshs.8,618,619. However, Note 28 to the financial statements reflects net cashflow used in operating activities amounting to Kshs.12,931,214 resulting to unreconciled variance of Kshs.4,312,595.

In the circumstances, the accuracy of the cash used in operating activities could not be confirmed.

The audit was conducted in accordance with International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Tana Water and Sanitation Company Limited Management in accordance with ISSAI 130 on the 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 opinion.

### **Emphasis of Matter**

#### **Budget Control and Performance**

The statement of comparison of budget and actual amounts reflects budgeted revenue budget and actual on comparable amount of Kshs.86,000,000 and Kshs.57,567,192 respectively resulting in under collection of Kshs.28,432,808 or 30% of the budget. The Company spent an amount of Kshs.75,941,045 against actual receipts of Kshs.57,567,192 resulting to an over-expenditure of Kshs.18,373,823 or 31% of the actual receipts.

The underperformance may have negatively impacted on the planned activities of the Company which affected service delivery to the public.

My opinion is not modified in respect of this matter.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

### **Other Matter**

#### **Unresolved Prior Year Matters**

Various prior year audit issues remained unresolved as at 30 June, 2024. Even though Management has indicated some are resolved and others ongoing and partially resolved, the assertion has not been supported. Some issues are disclosed as still un resolved.

### **Other Information**

The Management is responsible for the other information set out on page ii to xx which comprise of Key Entity Information and Management, The Key Management Team, Chairman's Report, Report of the Fund Administrator, Statement of Performance Against Predetermined Objectives, Statement of Corporate Governance, Management Discussion and Analysis, Report of the Board of Directors and Statement of Management Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Tana Water and Sanitation Company Limited 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 my 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 THE USE OF PUBLIC RESOURCES**

#### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effects of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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**

Review of records revealed that the Company produced a total of 1,038,065 cubic meters of water but only 362,512 cubic meters of water was billed to customers resulting to non-revenue water of 675,553 cubic meters or 65% of the total volume of water produced. The non-revenue water was 40 percentage points above the allowable 25%. Had the 675,553 cubic meters of non-revenue water been billed to customers, the Company could have earned revenue amounting to Kshs.23,644,355 using the Company's average selling price of Kshs.35 Per cubic meter.

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

### **2. Un-remitted National Social Security Fund Contributions**

Disclosed in Note 25 to the financial statements is trade and other payables balance of Kshs.10,057,260 which included Kshs.1,396,276 relating to unremitted National Social Security Fund deductions. Failure to remit the deductions is contrary to Section 27(1) of the NSSF Act, 2013 which states that if any contribution for which a contributing employer is required to pay to the Fund is not paid within one (1) month after the end of the month in which the last day of the contribution period to which it falls, a sum equal to five (5) per cent of the amount of that contribution shall be added to the contribution for each month or part of a month that the amount due remains unpaid, and any such additional amount shall be recoverable at the same time and in the same manner as the contribution to which it is added.

In the circumstances, Management was in breach of the law

### **3. Failure to Settlement Pending Bills**

Included in the statement of financial position is trade and other payables balance of Kshs.10,057,260 which in turn includes a balance of Kshs.1,917,209 owed to suppliers which has remained outstanding for over two years. Failure to settle the debts is contrary to Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015 which require that debt service payments shall be a first charge on the County Revenue Fund and the Accounting Officer shall ensure this is done to the extent possible that the County Government does not default on debt obligations.

In the circumstances, Management was in breach of the law

### **4. Lack of Approval Budget and Procurement Plan**

The statement of comparison of budget and actual amounts reflects total revenue and total expenditure budget of Kshs.86,000,000 and Kshs.76,383,395 respectively. However, management did not provide evidence of approval of the budget by the County Executive Member for Finance and the County Assembly as required by 149(2)(j) of the Public Finance Management Act, 2012. In addition, the company did not have in place an

annual procurement plan as required by Section 53 (2) of the Public Procurement and Asset Disposal Act, 2015.

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

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply 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 THE 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 effects of 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 that internal controls, risk management and governance were not effective.

### Basis for Conclusion

#### 1. Inactive Customer Accounts

Review of the customer register of connections revealed that the Company had a total of 7,322 connections. However, Review of the register and revenue billing records revealed a total of two thousand one hundred and twenty (2,120) customers. However, Management did not provide reconciliations of customers billing against revenue collections in the year under review.

In the circumstances, the effectiveness of internal controls and governance could not be confirmed.

#### 2. Lack of Audit Committee and Functional Internal Audit

The Company did not have an internal Audit Unit and the Board had not established an audit committee as required by the corporate governance guidelines for the Water Services Sector 2018 clause 3.7 (2) which stipulates that the audit committee, technical services committee and finance human resource and administration committee are mandatory.

In the circumstances, the effectiveness of internal controls, risk management and governance could not be confirmed.

### **3. Lack of Information Communication Technology Policy and Disaster Recovery Plan**

The company does not have an ICT Policy, Data Recovery Plan (DRP) and IT security policy which are vital ineffective and efficient management of the entity's IT resources. Further, the company does not have an IT steering committee, which is important in performing the oversight function and formulation of policies to ensure that IT department functions are properly in place to assist in the achievement of company's objectives in an efficient, economic and effective manner.

In the circumstances, the effectiveness of internal controls, risk management and governance could not be confirmed.

### **4. Lack of Risk Management Policy and Strategy**

As reported in the previous year, the Company did not have a risk management policy, strategies, and risk register to mitigate against risk. It was, therefore not clear how the Management managed risk exposures. Also, there was no evidence that the three (3) mandatory committees, Audit Committee, Technical Services Committee and Finance Human Resource and Administration Committee held any meeting during the year under review.

In the circumstances, the effectiveness of internal controls, risk management and governance could not be confirmed.

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 Companies Act, 2015, except for the effects of the matters described in the Basis for Qualified Opinion section of my report. 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 , so far as appears from the examination of those records.
- iii. The financial statements are not in agreement with the accounting records and returns.

### **Responsibilities of Management and those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and

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for maintaining effective internal controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the company's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention 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 comply with the authorities which govern them and that public resources are applied in an effective way.

Those charged with governance are 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**

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards for Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.

  
FCPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

31 December, 2024