REPORT OF THE AUDITOR-GENERAL ON KITUI WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kitui Water and Sanitation Company Limited set out on pages 19 to 51 which comprise the statement of financial position as at 30 June 2018, the statement of profit and 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, 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 Kitui Water and Sanitation Company Limited as at 30 June 2018 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 Companies Act of 2015.

Basis for Opinion

1.0 Accuracy of the Financial Statements

1.1 Accuracy of the Comparative 2016/2017 Balances

The financial statements for the year ended 30 June 2018 reflects Kshs.105,520,459 in respect to 2016/2017 comparative balances of eight (8) items while the audited 2016/2017 financial statements reflects Kshs.53,489,519 resulting to unexplained net variance of Kshs.52,030,940 as shown below:

Item	Note	Opening Balances in the 2017/2018 Financial Statements (Kshs.)	Closing Balances as per Audited 2016/2017 Financial Statement (Kshs.)	Variance (Kshs.)
Trade and other receivables	11	89,693,992	84,617,571	5,076,421
Payables and accruals - 9% Lease fee Tanathi WSB	14	1,342,527	13,425,227	(12,082,700)
Prior year adjustments - Reinstatement of correct closing balance-petty cash	16	4,052	(4,052)	8,104
Deferred Tax Asset – Balance Brought forward	17	(8,387,553)	(13,374,622)	4,987,069
Deferred Tax Asset – (Charge)/ Credit for the year	17	(120,868)	(8,370,810)	8,249,942
Capital Risk Management - Capital reserve	Page 50 item (iv)	(453,887)	(8,106,675)	7,652,788

Item	Note	Opening Balances in the 2017/2018 Financial Statements (Kshs.)	Closing Balances as per Audited 2016/2017 Financial Statement (Kshs.)	Variance (Kshs.)
Capital Risk Management Retained earnings	Page 50 item (iv)	11,845,658	(14,697,120)	26,542,778
Capital Risk Management Prior year	Page 50 item (iv)	11,596,538	-	11,596,538
Total		**105,520,459**	**53,489,519**	**52,030,940**

In the circumstances, the accuracy of the financial statements balances for the year ended 30 June 2018 could not be ascertained.

1.2 Balances with Errors

The financial statements for the year ended 30 June 2018 reflects Kshs.249,603,441 in respect to opening balances of four (4) items while the re- casted balances is Kshs.249,622,854 resulting to unexplained net variance of Kshs.19,413 as shown below:

Item	Note	Balance in Financial Statement (Kshs)	Financial Statements Re-Casted Balances (Kshs.)	Variances (Kshs.)
Administrative expenses	3	37,145,893	37,145,890	(3)
Operating expenses	6	95,697,038	95,697,039	1
Depreciation charge for the year	9	548,480	543,481	(4,999)
Trade and other Receivables	11	116,212,030	116,236,444	24,414
Total		**249,603,441**	**249,622,854**	**19,413**

In the circumstances, the accuracy of the financial statements balances for the year ended 30 June 2018 could not be confirmed.

1.3 Variances Between Balances in the Financial Statements and the General Ledger

The financial statements for the year ended 30 June 2018 reflects a balance of Kshs.322,293,959 on nine (9) items while the respective general ledgers reflects a balance of Kshs.289,651,934 on the same items resulting to unexplained net variance of Kshs.32,642,025 as shown below:

Variances between Balances in the Notes to the Financial Statements and the Ledger				
		Notes to the Financial Statements Balances	Ledger Balances	

Items	Financial Statements	(Kshs)	(Kshs)	Variances (Kshs)
Depreciation	Note 6	543,480	543,481	(1)
Bank charges	Note 7	512,348	429,315	83,033
Deferred tax asset note Balance brought forward	Note 11	9,691,001	(22,928,014)	32,619,015
Payables and Accruals	Note 14	97,414,994	97,558,048	(143,054)
Sub-Total		**108,161,823**	**75,602,830**	**32,558,993**
	Statement of Comparison of Budget and Actual Amount	**statement of Comparison of Budget and Actual Amount Balances**		
Transfer from County/National Government		79,587,243	79,587,242	1
Other Income		1,189,612	1,189,618	(6)
Admin Expenses		37,145,893	37,145,890	3
Use of Goods &Services		95,697,040	95,697,039	1
Finance Costs		512,348	429,315	83,033
Sub-Total		**214,132,136**	**214,049,104**	**83,032**
Grand Total		**322,293,959**	**289,651,934**	**32,642,025**

In the circumstances, the accuracy of the financial statements balances for the year ended 30 June 2018 could not be confirmed.

1.4 Inaccuracies in the Statement of Changes in Equity

The statement of changes in equity for the year ended 30 June 2018 reflect Kshs.22,040,407 in respect to prior year adjustments whose details were not availed for audit verification and which could be a balancing figure in the financial statements.

In the circumstances, the accuracy of the financial statements balances for the year ended 30 June 2018 could not be confirmed.

1.5 Inaccuracies in the Statement of Cash Flows

The statement of cash flow for the year ended 30 June 2018 reflects Kshs.22,364,157 in respect to prior year adjustments whose details were not vailed for audit verification and which could be a balancing figure in the financial statements.

In the circumstances, the accuracy of the financial statements balances for the year ended 30 June 2018 could not be confirmed.

2.0 Bank and Cash Balances

Note 12 to the financial statements as at 30 June 2018 reflects Kshs.14, 988,400 in respect to bank and cash balances. However, bank confirmation for Post Office bank account with balance of Kshs.1,909,892 was not availed for audit review. Further, the cash in hand is reflected as Kshs.91,336 while the cash survey certificate reflects Kshs.9,335 resulting to unexplained variance of Kshs.82,001. In addition, the Kenya Commercial bank (KCB) – expenditure account cash book was overdrawn by Kshs.2,493,505 and the amount was offset in cash and cash equivalent balance contrary to IAS 32 which over rules offsetting of assets.

In the circumstances, the accuracy of Kshs.14, 988,400 in respect to bank and cash balances as at 30 June 2018 could not be confirmed. In addition, the Company is in breach of the accounting standards.

3.0 Bank Charges

Note 7 to the financial statements for the year ended 30 June 2018 reflects Kshs.512,348 in respect to bank charges. However, the Company operates an Mpesa paybill number which had a balance of Kshs.329,441 as at 30 June 2018 but the respective bank charges could not be confirmed since the mpesa statement was not availed for audit review. In addition, no documents were made available to show that these bank charges have been included in the financial statements for the year under review.

In the circumstances, the accuracy of Kshs.512,348 in respect to bank charges for the year ended 30 June 2018 could not be ascertained.

4.0 Board of Directors Allowances and Expenses

Note 8 to the financial statements for the year ended 30 June 2018 reflects Kshs.1,410,000 in respect to board of director's allowances and expenses. However, included in the expenditure is an amount of Kshs.655,000 which was not supported by the relevant committee meeting minutes as shown below:

Date	Cheque/No.	Amount (Kshs.)	Name of the Committee
20-09-17	5986	24,000	Finance Meeting
25-09-17	5990	6,000	Sitting Allowance (Committee not indicated)
18-10-17	6150	27,000	Technical Meeting
23-10-17	6155	60,000	Strategic Plan Validation (Full Board)
31-10-17	3	60,000	Technical and Finance Committee
02-11-17	9	27,000	Human Resource Committee
18-12-18	6036	18,000	Sitting Allowance (Committee not indicated)
22-01-18	6203	42,000	Subsistence Allowance (Committee not indicated)
05-02-18		12,000	Subsistence Allowance (Committee not indicated)

Date	Cheque/No.	Amount (Kshs.)	Name of the Committee
15-02-18	6322	175,000	Full Board
16-02-18	6327	66,000	Full Board
19-02-18	6334	12,000	Sitting Allowance (Committee not indicated)
27-02-18	6378	54,000	Subsistence Allowance (Committee not indicated)
06-03-18	6381	51,000	Special Full Board
23-03-18	6421	6,000	Sitting Allowance (Committee not indicated)
29-03-18	6436	15,000	Sitting Allowance (Committee not indicated)
Total		**655,000**	

In the circumstances, the propriety, accuracy and value for money of the Kshs.655,000 in respect to board of directors' allowances for the year under review could not be ascertained.

5.0 Undisclosed Deferred Tax

Note 17 to the financial statements for the year ended 30 June 2018 reflects Kshs.9,691,001 in respect to a deferred tax. However, as reported in the previous financial year, the differed tax was not recognized as a liability in the statement of financial position as required by International Accounting Standards (IAS) number 12.

Consequently, the accuracy and completeness of the balances reflected in the statement of financial position as at 30 June 2018 could not be confirmed.

6.0 Unremitted Tax and Other Statutory Deductions

Note 3 to the financial statements for the year ended 30 June 2018 reflects a balance of Kshs.37,145,893 in respect to administrative expenses which include Kshs.299,994 in respect to taxes, penalties, and interest. However, records availed for audit review indicated that the Company incurred Kshs.660,228 due to non-remittance of Pay As You Earn (PAYE) to Kenya Revenue Authority (KRA) contrary to Section 37(1) of Income Tax Act, 1974 which states that an employer paying emoluments to an employee shall deduct therefrom, and account for tax thereon, to such extent and in such manner as may be prescribed. In addition, the Kshs.660,228 is not included in the Kshs.299,994 in the accounts payable and hence understating the taxes, penalties, and interest balance with the same amount.

In the circumstances, the Company is in breach of the law thereby incurring cost which should have been avoided. In addition, the accuracy of Kshs.299, 994 in respect to taxes, penalties, and interest for the year ended 30 June 2018 could not be confirmed.

7.0 Purchase of Water-Drought Mitigation

Note 6 to the financial statements for the year ended 30 June 2018 reflects a balance of Kshs.95,697,038 in respect of operating expenses which includes Kshs.999,865 in respect to purchase of water-draught mitigation which was meant for provision of water to areas severely affected by draught. However, a list of the beneficiaries, delivery notes and invoices to support this expenditure were not availed for audit verification.

In the circumstances, it has not been possible to confirm the validity and value for money for the Kshs.999,865 in respect to purchase of water-draught mitigation for the year ended 30 June 2018.

8.0 Presentation of the Financial Statements

The Company's financial statements for the year ended 30 June 2018 did not include project implemented by the entity, inter- entity transfers and recording of transfer from other government entities.as stipulated by the Public Sector Accounting Standards Board (PSASB). Further, the Board stipulates that the statement of comparison of budget and actual amounts should have totals and should be shown after the statement of cash flow and before notes to the financial statements. However, the Company' statement of comparison of budget and actual amounts is shown as part of the notes to the financial statements and it has no expenditure totals and hence incomplete. In addition, the statement of Director's responsibility should be dated and signed by three (3) directors. However, the statement of Director's responsibility is signed by the Managing Director and the chairman.

Further, PSASB stipulates that the head of finance should be one of the signatories of the statement of financial position of the Company and he should also indicate his/her name and Institute of Certified Public Accountant (ICPAK) membership number. However, the head of finance and his details are omitted in the financial statements for the year ended 30 June 2018. In addition, PSASB stipulates that the financial statements should include the Board of Directors' and management teams' passport – size, names and key professional/academic qualifications. However, these details are not included in the financial statements for the year under review in respect to two (2) directors and one management team member. In addition, the Other Incomes and Administrative Expenses are both referenced as note 3 to the financial statements and therefore the financial statements are not accurate.

In the circumstances, the presentation of the financial statements was therefore not in accordance with the recommended PSASB format.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kitui Water and Sanitation 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 described in the Basis for Adverse Opinion section, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1.0 Budget Control and Performance

1.1 Receipt Analysis

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflects budgeted revenue of Kshs.188,070,590 and actual revenue of Kshs.168,533,553 resulting to an under- realized revenue budget by Kshs.41,524,284 on two items and over- realized revenue budget by Kshs.21,987,243 on one revenue item as shown below:

Item/Component	Budget (Kshs)	Actual (Kshs)	Over (Kshs)	Under (Kshs)	Percentage
Sale of Goods	125,694,590	87,756,694		37,937,896	30%
Transfer from County/ National Govt	57,600,000	79,587,243	21,987,243		38%
Other Income	4,776,000	1,189,612		3,586,388	75%
Totals	**188,070,590**	**168,533,553**	**21,987,243**	**41,524,284**	

The excess collection of Kshs.21,987,243 (12%) over the budgeted revenue may be a pointer to very low set targets hence there is need for the management to review its budgeting mechanism with a view to coming up with a more realistic revenue budget to achieve higher revenue growth.

The Company failed to actualize its budget by Kshs.41,524,284 or 22% an indication that some of the programmes and activities that had been planned were not implemented. There is need therefore for management to review its budget making process with a view to formulating a realistic budget that would be actualized for service delivery to the water consumers.

Further, the under collection of Kshs.41, 524,284 may be a pointer of revenue leakages hence there is need to institute effective control measures.

1.2 Expenditure Analysis

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflected a budgeted expenditure of Kshs.188,070,590 and actual expenditure of Kshs.168,537,110 resulting to an under-expenditure of Kshs.23,790,947 in three (3) items and over-expenditure of Kshs.4,257,466 in three (3) items of the Budget as follows;

Item/Component	Budget (Kshs)	Actual (Kshs)	Overs (Kshs)	Under (Kshs)	%
Compensation of Employees	34,186,932	33,281,673		905,259	3%
Admin Expenses	33,250,931	37,145,893	3,894,962		12%
Use of Goods and Services	116,492,728	95,697,040		20,795,688	18%
Advertisement	340,000	490,156	150,156		44%
Finance Costs	300,000	512,348	212,348		71%
BOD	3,500,000	1,410,000		2,090,000	60%
Total	**188,070,591**	**168,537,110**	**4,257,466**	**23,790,947**	

The under expenditure of Kshs.22,885,688 translates to an equivalent expected but denied services to Water Company customers. There is need therefore for the management to re-look at its budgeting mechanism with a view to focusing on areas which will improve service delivery to the Company's water consumers.

In addition, the over absorption of Kshs.4, 257,466 is an indicator of the Company's improper budget planning process. Further, there was no evidence of a supplementary budget for the over-expenditure of Kshs.4, 257,466 contrary to Section 43 (2) of the Public Finance Management (County Governments) Regulations 2015 which states that County government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan with the exception of unforeseen and unavoidable spending dealt with through Emergency Fund, or supplementary estimates.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Expiry of Appointment of Directors

Note 8 to the financial statements reflects an expenditure of Kshs.1,410,000 in respect to board of director's allowances and expenses.

However, the Company did not have a substantive Board of Directors during the year under review and even at the time of this audit in February 2019 since the term of the Board of Directors in place had expired as detailed below:

Name of Director	Position held in the Board	Date of Appointment	Expiry Date
Rev. Joseph Simba	Chairman	26.2.2006	25.2.2009
Everlyn Mutia	Director	18.5.2010	17.5.2013
Hadijah Mohamed	Director	7.7.2011	6.7.2014
Patrick Kiusya	Director	2.5.2008	1.5.2011
Saida A.Mwikaa	Director	26.2.2006	25.2.2009

The Company is therefore in contravention of Section 34 of its Articles of Association which states that there shall be a board which shall consist of a chairman and such other number of directors as the board may from time determine. Further, the Company is also in contravention of Section 132. (1) of the Company Act, 2015 which state that a public company shall ensure that at a general meeting of the company a motion for the appointment of two or more persons as directors of the company by a single resolution is moved only if a resolution that it should be so moved has first been agreed to by the meeting without any vote being cast against it

In the circumstances, the Company is in breach of the law and its Articles of Association.

2.0 Payables and Accruals

Note 14 to the financial statements as at 30 June 2018 reflects a balance of Kshs.97,414,994 in respect to payables and accruals. However, as reported in the previous financial year, the payables and accruals increased by Kshs.1,666,551 from Kshs.95,748,443 as at 30 June 2017 to Kshs.97,414,994 as at 30 June 2018. Included in the Kshs.97,414,994 was Kshs.16,871,187 in respect to Kenya Revenue Authority (KRA) Taxes which decreased by Kshs.1,325,006 from Kshs.18,196,193 as at 30 June 2017 to Kshs.16,871,187 as at 30 June 2018.The unpaid KRA taxes may attract huge interest and penalties and also attachment of the Company's properties which may result to legal actions that are avoidable should the Company comply with KRA rules and regulations.

In the circumstances, it has not been possible to ascertain that the management had instituted proper financial management systems to enable settling of debts as and when they fall due.

3.0 Non-Revenue Water (NRW)

Note 1 to the financial statements reflects Kshs.87,756,694 in respect to sale of water for the year ended 30 June 2018. Records made available showed that the Company produced a total of 2,723,427 cubic meters (m^3) of water during the year under review. However, only 968,098 cubic meters was billed to customers. The balance of 1,755,329 cubic meters (approximately 64%) of the total water produced, with a sale price of Kshs.149,202,965 (at Kshs.85 per cubic meter) represents Non-Revenue

Water(NRW) which is over and above the allowable loss of 25% as provided by schedule E of the Water Service Regulatory Board (WASREB) guidelines.

In the circumstances, the Company significantly exceeded the allowable NRW loss of 25% by 39% or approximately 1,074,472 cubic meter with a sale price of approximately Kshs.91, 330,120 which if not addressed will negatively impact on the Company's profitability and its long- term sustainability.

4.0 Doubtful Rate on the Provision for Bad and Doubtful Debts

Note 11 to the financial statements reflects Kshs.116,212,030 in respect to trade and other receivables which includes Kshs.13,406,792 in respect to 15% provision for bad and doubtful debts. However, and as reported in the previous financial year, the rate of 15% was not supported by a Board resolution as required by the Code of Governance for State Corporations, Chapter 1 Section 1.2(i)(c) issued by the Public Service Commission and State Corporation Advisory Committee in January 2015 which stipulates that the Board should set and oversee the overall strategy and approve significant policies of the organization.

In the circumstances, the management is in breach of the Code of Governance.

5.0 Audit Fees

Note 14 to the financial statements reflects Kshs.97,414,994 in respect to trade payables and accruals which includes Kshs.896,000 in respect to outstanding audit fees since 2013/2014 which is payable to the Office of Auditor- General. However, this is contrary to Section 41 (1)(c) of the Public Audit Act, 2015 which states that the funds of the Office of the Auditor-General shall consist of audit fees charged at the rates prescribed by the Auditor-General.

In the circumstances, the nonpayment of audit fees constrains the operations of the Office of the Auditor-General and the Water Company is also in breach of law.

6.0 Progress on Follow up of Auditor's Recommendations

The financial statements for the year under review at page 50 and 51 reflects a progress on follow up of Auditors recommendations showing that three (3) issues/observations raised in the 2016/2017 Auditor-General's report have been implemented while the implementation of one (1) was ongoing. However, this progress on follow up of Auditors recommendations is incomplete as the issues reflected therein relates to only four (4) out of eight (8) issues raised in 2016/2017 Auditor-General's report. In addition, no documentary evidence was made available to show any action being taken by management towards resolving the audit issues.

In the circumstances, the issues raised in the 2016/2017 Auditor-General's report has remained unresolved as at 30 June 2018 thereby defeating the whole purpose of including the progress report in the financial statements.

7.0 Ethnic Diversity in Employment

The Company staff establishment at the time of the audit revealed a total of 103 staff, out of which 95 (92%) were from one community contrary to Section 65 (1) (e) of the County Government Act, 2012 which requires that at least 30% of vacant post at entry level to be filled by candidates who are not from the dominant community.

In the circumstances, Kitui Water and Sanitation Company was in breach of law.

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, because of the significance of the matters discussed in the Basis for Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Value Added Tax (VAT) Recoverable from Kenya Revenue Authority (KRA)

Note 11 to the Financial statements reflect Kshs.116,212,030 in respect to trade and other receivables which includes Kshs.30,469,204 in respect to Value Added Tax (VAT) recoverable from KRA and which was not supported by documentary evidence on how it was computed. Further, there was no evidence on the progress made by management to recover the Kshs.30,469,204 from Kenya Revenue Authority contrary to Chapter 1 Section 1.2(i)(c) of the Code of Governance for State Corporations, issued by the Public Service Commission and State Corporation Advisory Committee in January 2015 which states that the Board should set and oversee the overall strategy and approve significant policies of the organization.

In the circumstances, the Board was in breach of its governance responsibility.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires 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 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 not been kept by the company, so far as appears from my examination of those books; and

iii. The company's 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 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 Kitui Water and Sanitation Company Limited ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable 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.

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.

Those charged with governance are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how the entity 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 noncompliance. 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' ability to continue as a going concern or to sustain its services. 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 or to sustain its services.
- 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's 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.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

29 April 2019