

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Malindi Water and Sewerage Company Limited set out on pages 15 to 44, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, 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 Malindi Water and Sewerage 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 (IFRS) and comply with the Water Act, 2016 and the Companies Act, 2015.

Basis for Qualified Opinion

1.0 Going-Concern

The statement of financial performance for the year ended 30 June 2018 reflects a net loss of Kshs.59,161,428. This results to a cumulative retained deficit of Kshs.348,749,649. In addition, the statement of financial position reflects total current liabilities of Kshs.609,976,353 which exceeds the total current assets balance of Kshs.247,997,967, resulting to a negative working capital of Kshs.361,978,386, an indication that the Company may be experiencing financial difficulties in settling financial obligations as and when they may fall due. The Company's financial statements have therefore been prepared on the going-concern basis which assumes continued financial support from the Government and creditors.

2.0 Property Plant and Equipment

2.1 Leased Assets

As previously reported, the statement of financial position as at 30 June 2018 reflects property, plant and equipment balance of Kshs.83,892,692. However, included in the

balance is an amount of Kshs.31,861,567 representing leased assets from Coast Water Service Board. The same is reflected as unvalued and undisclosed assets in the audit report of the Coast water Services Board. The Company neither availed ownership documents for these assets or professional valuation reports to support the values assigned to these assets.

Consequently, it has not been possible to ascertain the accuracy, valuation and ownership of property, plant and equipment balance of Kshs.31,861,567.

2.2 Unreconciled Variance in Property, Plant and Equipment

The statement of financial position reflects Property, Plant and Equipment figure of Kshs.83,892,692. However, the supporting schedule availed for audit reflects a balance of Kshs.85,246,491 resulting to an unreconciled balance of Kshs.1,353,798. Further, the Property, Plant and Equipment movement schedule reflects an addition balance of Kshs.26,698,821 yet the supporting schedule amounts to Kshs.25,017,825 again resulting to a variance of Kshs.1,680,996.

Consequently, the validity, accuracy and completeness of Property, plant and equipment balance of Kshs.83,892,692 as at 30 June 2018 could not be ascertained.

3.0 Non-Current Receivables

As reported previously, note 7 to the financial statements reflects non-current receivables balance of Kshs.57,134,125 as at 30 June 2018. This is in respect of debtors' balances inherited from Coast water Services Board at the inception of the Company. Note 18 to the financial statements indicates non-current payables of the same amount as the debt balance inherited by the Company from Coast Water Services Board at the inception of the Company. However, no documentary evidence was availed for audit review in support of this figure.

As a result, the completeness and recoverability of non-current receivable amounting to Kshs.57,134,125 could not be confirmed.

4.0 Share Capital Receivable

As previously reported and disclosed in Note 10 to the financial statements for the year ended 30 June 2018, the Company's authorized share capital stood at Kshs.5,000,000 divided into 5,000 shares of Kshs.1,000 each, all issued to County Government of Kilifi but which had not been paid for as at 30 June 2018. During this audit, the same remains outstanding.

In the circumstances, it was not possible to confirm whether or not the subscribers are desirous of having the Company meet its objectives as outlined in the Memorandum and Articles of Association of the Company.

5.0 Delegated Works

Report of the Auditor-General on the Financial Statements of Malindi Water and Sewerage Company Limited for the year ended 30 June 2018

As previously reported, the statement of financial position as at 30 June 2018 reflects a balance of Kshs.18,313,354 in respect of delegated works carried out at various sites by the Company on behalf of Malindi Water and Sewerage Company Limited. However, records available from the Board do not reflect these debts. Any provision that would have been necessary in relation to this uncertainty has not been incorporated in these financial statements to date.

Consequently, the accuracy and validity of Kshs.18,313,354 in respect of delegated works carried out could not be ascertained.

6.0 Customer Deposit Receivable

As previously reported, Note 11 to the financial statements for the year ended 30 June 2018 reflects customer deposit receivable amount of Kshs.8,443,600. These were deposits for the existing customers which were taken over from Malindi Water and Sewerage Company Limited when the company was incorporated. However, no schedule was availed for audit review to support this figure during the audit.

Consequently, the accuracy and validity of customer deposit receivable amount of Kshs.8,443,600 could not be ascertained.

7.0 Trade and Other Payables

Note 19 to the financial statements for the year ended 30 June 2018 reflects trade and other payable balance of Kshs.509,225,336. Included in this figure is trade payables amount of Kshs.505,490,473 which has an amount of Kshs.457,323,252 due to Coast Water Services Board. However, records and financial statements for Coast Water Services Board (CWSB) as at 30 June 2018 reflect an amount of Kshs.501,326,555 as due from the Company resulting to an unreconciled or explained variance of Kshs.44,003,303. In addition, records availed for audit by Coast Water Services Board indicated that Kshs.141,654,999 was received from Malindi Water and Sewerage Company Limited (MAWASCO) for the financial year ended 30 June 2018 whereas the records from the Company indicated that it had paid Kshs.138,166,003 to CWSB, again resulting to an unreconciled variance of Kshs.3,488,996.

Further, schedule to support tax payable balance of Kshs.3,734,863 was not availed for audit verification.

Consequently, the accuracy and validity of trade and other payables balance of Kshs.509,225,336 could not be confirmed.

8.0 Bank and Cash Balances

8.1 Kenya Commercial Bank – Revenue Account

The statement of financial position as at 30 June 2018 reflects bank and cash balances of Kshs.11,133,574. However, the bank reconciliation statement as at 30 June 2018 for this account did not disclose a list of un-presented cheques. Further, cash book balances of Kshs.1,855,191.57 were not used in these financial statements, contrary to the Generally Accepted Accounting Practice (GAAP).

As a result, the accuracy of the cash and bank balance of Kshs.11,133,574 as at 30 June 2018 could not be confirmed.

8.2 Kenya Commercial Bank – Operations Account

The bank reconciliation statement as at 30 June 2018 for operations account reflects payments in cash book not reflected in bank statement (un-presented cheques) of Kshs.9,126,222. However, the dates when these reconciling items were subsequently cleared were not provided for audit review. Further, an overdrawn cash book balances of Kshs.7,595,496 which is against International Financial Reporting Standards No.1 that prohibits netting off of assets against liabilities, were not used in these financial statements, contrary to the Generally Accepted Accounting Practice (GAAP). In addition, there was no evidence that the management obtained authority from the National Treasury for an overdraft facility with the bank.

As a result, the accuracy of the cash and bank balance of Kshs.11,133,574 as at 30 June 2018 could not be confirmed.

8.3 Kenya Commercial Bank Ltd - Deposit Account

The statement of financial position as at 30 June 2018 reflects bank and cash balances of Kshs.11,133,574. However, the bank reconciliation statement as at 30 June 2018 for this account reflects negative cash book balance of Kshs.7,595,496.39, which is against International Financial Reporting Standards No.1 which prohibits netting off of assets against liabilities. Further, there was no evidence that the management obtained authority from the National Treasury for an overdraft facility with the bank.

As a result, the accuracy of the cash and bank balance of Kshs.11,133,574 as at 30 June 2018 could not be confirmed.

8.4 Kenya Commercial Bank Ltd - Savings Account

The statement of financial position as at 30 June 2018 reflects bank and cash balances of Kshs.11,133,574. However, included in this balance is a bank overdraft of Kshs.35,050.80. This resulted to netting off of assets and liabilities which is prohibited by the IPSAS 1. Further, there was no evidence that the management obtained authority from the National Treasury for an overdraft facility with the bank.

As a result, the accuracy of the cash and bank balance of Kshs.11,133,574 as at 30 June 2018 could not be confirmed.

8.5 Post Bank Collection Account

Report of the Auditor-General on the Financial Statements of Malindi Water and Sewerage Company Limited for the year ended 30 June 2018

The statement of financial position as at 30 June 2018 reflects cash and bank balances of Kshs.11,133,574. However, bank certificate to support the amount of Kshs.1,389,021 reflected in the bank statement as at 30 June 2018 was not availed for audit verification.

In the circumstances, the accuracy of the cash and bank balance of Kshs.11,133,574 as at 30 June 2018 could not be confirmed.

8.6 Safaricom Mpesa Account

The statement of financial position as at 30 June 2018 reflects cash and bank balances of Kshs.11,133,574. However, no Mpesa statement and confirmation certificate were availed for audit review to confirm the Mpesa balance of Kshs.884,813.

Consequently, the accuracy of the cash and bank balance of Kshs.11,133,574 as at 30 June 2018 could not be confirmed.

8.7 Stale Cheques

The statement of financial position as at 30 June 2018 reflects cash and bank balances of Kshs.11,133,574. However, excluded from this are stale cheques amounting to Kshs1,276,659 some dating as far back as 30 September 2016. There was no documentary evidence availed for audit review to confirm that the same had been reversed in the cash book as at the time of this audit. The management has not provided an explanation why the same had not been written back to the cash book. As a result, the accuracy of the cash and bank balance of Kshs.11,133,574 as at 30 June 2018 could not be confirmed.

9.0 Non-Revenue Water

During the year under review, the company produced a total of 6,677,094 cubic meters of water. However, a total of 4,583,399 cubic meters was billed to customers resulting to Non-Revenue Water (NRW) of 2,093,695 cubic meters or 31%. The allowable NRW rate according to Water Service Regulatory Board (WASREB) guidelines is 25% resulting to 6% over and above the allowable rate. Therefore, the unallowable 6% or 400,626 cubic meters of water may have resulted to the Non-Revenue Water (NRW) loss of water sales estimated at Kshs.29,353,867 at a rate of Kshs.73.27 per cubic metre.

This significant level of NRW may negatively impact on the Company's profitability and is a risk to sustainability of its operations.

10.0 Operating Costs

10.1 Directors Emoluments

The statement of financial performance reflects operating costs of Kshs.115,503,974 as detailed in note 5a to the financial statements. Included in this figure is directors' emoluments of Kshs.5,661,378 which includes Kshs.2,957,985 paid as committee sitting allowance. Analysis of sitting allowance payment register and vouchers availed for audit indicated that four (4) directors whose term of office had lapsed were irregularly paid Kshs.2,527,304 as sitting allowance for attending board meetings. According to the Memorandum and Articles of Association of the Company, Section 58(1) (i) and (ii), one third of the directors are supposed to retire in every annual general meeting and new directors appointed. The four (4) directors had served the Company for more than two (2) terms and as such, they were in the office illegally.

Further, two (2) directors appointed by the County Government of Kilifi to the Board were irregularly paid Kshs.498,807 as sitting allowance for attending board meetings since they were employees of the County Government.

In addition, the payments were being paid in cash with the main cashier withdrawing funds for the directors to sign cash payment schedules instead of using cheque or bank transfer.

Consequently, the propriety and validity of directors' emoluments of Kshs.5,661,378 for the year ended 30 June 2018 could not be ascertained.

10.2 Hospitality Supplies & Services

Note 5(a) to the financial statements for the year ended 30 June 2018 reflects hospitality supplies and services balance of Kshs.5,466,696. Included in this expenditure is an amount of Kshs.260,585 paid to various local hotel facilities for provision of conference facilities. However, records availed did not include attendance lists of participants, purpose of conference or authorized requisition by user.

In the circumstances, the propriety of hospitality, supplies and services expenditure of Kshs.260,585 for the year ended 30 June 2018 could not be ascertained.

10.3 Transportation, Travelling and Subsistence

Note 5(a) to the financial statements for the year ended 30th June 2018 reflects transport, travelling, and subsistence amount of Kshs.14,339,463. Included in this balance is an amount of Kshs.2,126,252 paid as per-diem to the Company staff as night out allowances, taxi charges, and air fare charges. Payment of these allowances were not supported by imprest warrants and were not posted to the imprest ledger as amount recoverable from the staff. In addition, work tickets, bus tickets, and boarding were not availed for audit review.

In the circumstances, the accuracy, validity and completeness of transportation, travelling and subsistence balance of Kshs.2,126,252 for the year ended 30 June 2018 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Malindi Water and Sewerage 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 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 matter described in the Basis for Qualified Opinion and other Matter sections, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1.0. Budgetary Control and Performance

1.1. Revenue Budget

During the year under review, the Company's revenue budget amounted to Kshs.531,150,039 against actual collections of Kshs.422,577,802 (80%), thus resulting to net under collection of Kshs.108,572,237 or 20% as detailed below:

Details	Budgeted Amount Kshs.	Actual Amount Kshs.	Over Collection Kshs.	Under Collection in Kshs.	% Over/Under Collection
Revenue					
Water Sales	484,915,053	396,473,232		88,441,821	18
Meter Rent	31,927,752	13,126,700		18,801,052	59
Donation in Kind	-	4,240,560	4,240,560		-100
Sale of tender documents	-	-			
Miscellaneous Receipts	14,307,234	8,737,310		5,569,924	39
Total income	531,150,039	422,577,802	4,240,560	112,812,797	20

From the table above, Water sales and meter rent failed to meet revenue target by Kshs.108,572,237 or 20%. These two revenue streams are the main source of the revenue for the Company. Compared to the previous year, revenue collection has improved by Kshs.47,111,653 or 12%. However, there is need for the Company to

devise strategies of improving efficiency in the production of water and to exert more pressure in the collection of revenue.

1.2. Expenditure Budget

During the year under review, the Company had budgeted to spend a total of Kshs.512,611,688 on its various programs and activities. However, the Company spent Kshs.321,301,310, resulting to an overall underutilization of Kshs.191,3 or 37% as summarized below:

Details	Budgeted Amount Kshs.	Actual Amount Kshs.	Over Absorption Kshs.	Under Absorption Kshs.	Over/Under Absorption %
Advertising, printing, stationery and photocopying	5,064,150	4,699,619		364,531	8
Auditors' remuneration	1,050,000	638,000		412,000	39
Bank charges and commissions	795,722	1,521,073	725,351		-91
Communication services and supplies	4,051,688	7,449,469	3,397,781		-84
Consultancy fees	892,500	19,700		872,800	98
Corporate Social Responsibility	1,050,000	630,000		420,000	40
Directors' emoluments	6,503,825	5,661,378		842,447	13
Electricity and water	2,100,000	7,924,092	5,824,092		-277
Hospitality supplies and services	2,835,000	5,466,696	2,631,696		-93
Insurance costs	4,283,213	1,793,045		2,490,168	58
Legal fees	1,050,000	1,065,518	15,518		-1
Minor works improvements	-	3,111,584	3,111,584		-100
Office and general supplies and services	5,677,875	19,789,599	14,111,724		-249
Other operating expenses Incl Cost of water, levy	205,822,691	30,892,595		174,930,096	85
Rent expenses	-	542,494	542,494		-100
Repairs, Maintenance & Minor works improvements	21,198,665	7,168,819		14,029,846	66

Details	Budgeted Amount Kshs.	Actual Amount Kshs.	Over Absorption Kshs.	Under Absorption Kshs.	Over/Under Absorption %
Staff costs	161,166,300	178,098,592	16,932,292		-11
Staff training expenses	6,475,431	2,790,830		3,684,601	57
Transportation, travelling and subsistence	4,862,025	14,339,463	9,477,438		-195
Inpatient Cover	2,100,000	-		2,100,000	100
Occupational Safety and Health(OSH)	1,890,000			1,890,000	100
Buildings and civil works	9,079,200	82,150		8,997,050	99
Plant and Machinery	36,593,450	13,612,572		22,980,878	63
Motor vehicles including motor cycles	420,000	868,981	448,981		-107
Computers and related equipment	1,000,000	738,061		261,939	26
Office equipment furniture and fittings	529,200	11,397,057	10,867,857		-2,054
Debt Repayment Per Annum	26,120,753	1,000,000		25,120,753	96
Total	512,611,688	321,301,387	68,086,808	259,397,109	37

From the analysis the Company had budgeted to spend Kshs.183,487,810 on twelve (12) activities and programs but ended up actually spending Kshs.251,574,618 resulting to an over absorption of Kshs.68,086,808 or 37%. Out of this over expenditure, two (2) items were not budgeted at all and yet incurred expenditure totalling to Kshs.3,654,078, and four (4) items had more than doubled their budget allocation.

The company has not provided a revised budget for approval of the over expenditure of Kshs.68,086,808 or 37%. The over expenditure is an indication of poor planning and lack of oversight in budget implementation.

Also, the table indicates that the Company had budgeted to spend Kshs.329,123,878 on its various activities and programs but actually spent Kshs.69,726,769, resulting to an under absorption of Kshs.259,397,109 or 79%. Out of this under expenditure, two (2) items that were budgeted for did not incur any expenditure. Failure to spend on budgeted activities and programs is an indication of poor planning and poor implementation of budgeted activities and programs which may lead to unfinished projects and activities to the detriment of the citizens of the Malindi Sub County and other stakeholders.

The management needs to take budgeting process and implementation seriously if it wants to achieve its provision of water and sanitation services for the welfare of the Malindi Sub County residents.

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

1.0 Imprests

Note 9 of the financial statements reflects staff receivables of Kshs.1,702,443. Included in this figure is imprest amount of Kshs.602,162. Review of Imprest register revealed that two (2) officers were issued with more than one imprest totalling to Kshs.405,000 without surrendering the earlier issued imprest. This is in contravention of Section 92(8) Public Finance Management (County Government) Regulations which requires an accounting officer to ensure that no second imprest is issued to any officer before the first imprest is surrendered or recovered in full from his or her salary.

The management was therefore in breach of the law.

2.0 Operating Costs

Note 5(a) to the financial statements for the year ended 30 June 2018 reflects operating costs of Kshs.115,503,974. The following anomalies were noted during the audit:

2.1 Repairs and Maintenance

Included in operating costs of Kshs.115,503,974 and as disclosed in note 5(a) to the financial statements for the year ended 30 June 2018 is repairs and maintenance amount of Kshs.7,168,819. Examination of sampled payment vouchers and bills shows goods and services received were not inspected and tested. This is contrary to Section 48 (3) of the Public Procurement and Disposals Act, 2015, which states: the inspection and acceptance committee shall immediately after the delivery of the goods, works or services— (a) inspect and where necessary, test the goods received; (b) inspect and review the goods, works or services in order to ensure compliance with the terms and specifications of the contract; and (c) accept or reject, on behalf of the procuring entity, the delivered goods, works or services.

Furthermore, no memo was availed for audit review to indicate that an ad hoc committee was established.

The management was therefore in breach of the law and value for money on the expenditure of Kshs.7,168,819 on repairs and maintenance for the year ended 30 June 2018 could not be ascertained.

2.2 Staff Training Expenses

Note 5 to the financial statements reflect staff training expense amount of Kshs.2,790,830. Review of payment vouchers revealed reimbursement of 50% tuition fees to company staff made vide cheques number 11841 and 11972 of Kshs.40,000 each made under the authority of paragraph 6.2.5 of the Human Resources Policies and Procedures Manual (March 2006) This is in contravention of Human Resources Development Policy for Public Service (June 2015) paragraph 2.4.4 which states: the government institution shall not sponsor serving officers for undergraduate programmes. Where there is need for skills at this level, the government institution will procure the same from the labour market.

The Company has not reviewed its human resource manual to reflect change of government policy. In addition, there is no competence-based training programme developed following training needs assessment and competency review.

The Company was therefore in breach of the law and propriety of the expenditure of Kshs.80,000 on staff training for the year ended 30 June 2018 could not be confirmed.

3.0 Salary Advance

Note 9 to the financial statements for the year ended 30 June 2018 reflects staff receivables of Kshs.1,702,443. Included in this balance is salary advance of Kshs.591,569. Review staff advances ledger revealed payment of Kshs.325,000 which was made to three officers beyond the one-month basic salary. This is in contravention of Company's Human Resources Policy and Procedures Manual dated March, 2006, paragraph 5.6 that requires salary advances to be made only on exceptional circumstances in which case it will be issued up to a maximum of one-month basic salary and payable within one year.

The management was therefore in breach.

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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the procedures performed, except for the matter described in the Conclusion on Effectiveness of Internal Controls section of my report, 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

1.0. Insurance Costs

Included in the operations costs of Kshs.115,503,975 and as disclosed in Note 5(a) to the financial statements for the year ended 30 June 2018 is insurance costs of Kshs.1,793,045. However, records and schedules availed for audit review indicated that no amount was incurred for fidelity guarantee cover. The Company's accounting and finance procedures and policies manual states that fidelity guarantee must be taken in respect of pecuniary loss as a result of infidelity of employees occupying declared positions in finance. It is not clear why the Company failed to procure this insurance cover especially after suffering an estimated loss of Kshs.148,659 water revenue as a result of fraudulent transactions by its cashiers between June and December 2017 as per internal memo Ref. no IA/km/C002/01/2018 dated 24 January 2018.

This portrays poor controls and effectiveness in the management of the Company's affairs.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the companies Act, 2015, I report based on 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, proper books of accounts have been kept by the company, so far as appears from my examination of those books and,

- iii. The Company's statements of financial position and statement of financial performance are in agreement with the books of account.

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 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.

In preparing the financial statements, management is responsible for assessing the Malindi Water and Sewerage Company Limited ability to continue as a going concern disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Malindi Water and Sewerage Company Limited 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Malindi Water and Sewerage Company Limited 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 Company's financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the Company's financial statements and review 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 Malindi Water and Sewerage Company Limited policies and procedures may deteriorate.

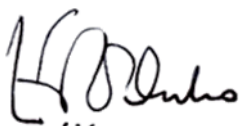
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 Malindi Water and Sewerage Company Limited 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 Malindi Water and Sewerage Company Limited 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 Malindi Water and Sewerage Company Limited 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

09 May 2019