

# **REPORT OF THE AUDITOR-GENERAL ON MATUNGULU KANGUNDO WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Matungulu Kangundo Water and Sewerage Company Limited set out on pages 13 to 30, which comprise the statement of financial position as at 30 June 2017, and the statement of 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 effects 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 Matungulu Kangundo Water and Sewerage Company Limited as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the County Government Act, 2012 and the Public Finance Management Act, 2012 .

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, except for the matter described I in the Basis for Qualified Opinion and Other Matter sections of my report, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### **Basis for Qualified Opinion**

#### **1. Opening Balances**

The statement of financial position reflects total assets and total equities and liabilities of Kshs. 27,656,343, respectively as at 30 June 2017. However, and as reported in 2015/2016, the financial statements for 2013/2014 which were audited by private auditors, and records to confirm the accuracy of the opening balances have to date not been provided for audit scrutiny. Consequently, the validity of the opening balances of the assets and liabilities disclosed in these financial statements can still not be confirmed.

#### **2. Staff Costs**

The statement of comprehensive income reflects comparative staff costs of Kshs.5,408,898. However, the respective Note 6 to the financial statements reflects a comparative figure of Kshs.4,655,066 resulting in unexplained difference of Kshs.753,832. Further, the comparative Note cast to Kshs.5,393,618 and not

Kshs.4,655,066 as indicated resulting in a casting error of Kshs. 738,552. No explanation has been provided for these anomalies.

### **3. Property, Plant and Equipment**

The statement of financial position reflects property, plant and equipment balance of Kshs.18,530,026 as at 30 June 2017. However, no fixed assets register has been provided for audit verification. Further, title deed for land valued at Kshs.2,350,000 has similarly not been made available for audit verification. Consequently, the accuracy and ownership of property, plant and equipment balance of Kshs. 18,530,026 as at 30 June 2016 cannot be confirmed.

### **4. Trade and Other Payables**

As disclosed at Note 13 to the financial statements, included in trade and other payables balance of Kshs.8,064,078 are customers amounting to Kshs.2,743,660. However, the customers' deposits bank account reflects a balance of Kshs.1,454,508 as at 30 June 2017. The resulting difference of Kshs.1,289,152 has not been reconciled or explained. In the circumstance, the accuracy of trade and other payable balance of Kshs. 8,064,078 as at 30 June 2017 cannot be confirmed.

### **5. Un-accounted for Revenue**

Available records indicate that in 2016/2017 financial year, the Company produced 166,109 cubic meters (m3) of water, out of which 95,499 m3 or about 57% of the total volume produced was billed to customers. The balance of 70,610 m3 or approximately 43% of the total amount was not billed. During the year under review, the average price of each cubic meter of water produced was Kshs.140 hence the estimated loss that resulted from unaccounted for water was Kshs. 9,885,400. The allowable loss limit for the industry set by the Water Services Regulatory Board is 25% of production hence the abnormal loss incurred by the Company from unbilled production amounted to Kshs.1,779,372. The significant level of unaccounted for water (UFW) impacts negatively on the Company's profitability as evident by operating loss of Kshs.2,325,714 for the year ended 30 June 2017 (2016 – an operating loss of Kshs.1,140,635) and its long-term sustainability.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Matungulu Kangundo Water and Sewerage Company Limited management 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 qualified audit 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 Qualified Opinion and Other Matter sections, I have determined that there are no key audit matters to communicate in my report.

## **Other Matter**

### **Board of Directors**

The current Board of the Company is composed of five directors. However, as stipulated in the terms of their appointment pursuant to the Company's articles and memorandum of association, the term of five directors expired in 2013 having served for three years from February 2010. The five directors are therefore in the office irregularly. Consequently, any actions or decisions taken by the Board on behalf of the Company may not be legally binding. No explanation has been provided for this omission.

### **Other Information**

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

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

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report if, I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### **Responsibilities of the Board of Directors and Those Charged with Governance for the Financial Statements**

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as the directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the applicable basis of accounting unless the directors either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to cease as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company's to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the directors 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 the directors 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.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015 I report based on the audit, that:

- I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- The Company's statement of financial position and Statement of profit or loss and other comprehensive income are in agreement with books of account; and
- In my opinion the information given in the report of the directors on pages 11 and 12, is consistent with the financial statements.



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

**Nairobi**

**20 August 2018**