

REPORT OF THE AUDITOR-GENERAL ON MIGORI COUNTY WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the Migori County Water and Sanitation Company Limited set out on pages 16 to 52, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of cash flows and summary 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 discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects the financial position of Migori County Water and Sanitation 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.

Further, as required by Article 229 (6) of the Constitution, based on the procedures performed, except for the matters described in Qualified Opinion and Other Matter sections of my report, nothing else 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. Trade and Other Receivables

- i. Included in trade and other receivables balance of Kshs.22,894,482 are water sales receivables amounting to Kshs.20,499,635 whose ages have however not been disclosed and which, for most part, relate to dormant, disconnected or vacated customer accounts.
- ii. The water sales receivables balance of Kshs.20,499,635 reflected under Note 14 to the financial statements differs with the supporting schedules that show Kshs.16,762,938 leading to an unreconciled difference of Kshs.3,736,697.
- iii. The Company does not maintain general ledger accounts and therefore, it is not possible to confirm the correct trade receivables balances at the end of each financial year.

In view of these anomalies, it has not been possible to confirm that the trade and other receivables balance of Kshs.22,894,482 as at 30 June 2017 is fairly stated.

2. Trade and Other Payables

Included in the balance of trade payables of Kshs.16,472,181 is Kshs.8,339,117 being statutory deductions not remitted in respect of Pay As You Earn (PAYE) of Kshs.1,819,315, long standing payables to Water Resources Management

Authority(WARMA) of Kshs.2,166,601, electric power costs owed to Kenya Power and Lighting Company (KPLC) of Kshs.1,993,201 and audit fees of Kshs.2,360,000 owed to its auditors. The Company risks penalties, interest as well as litigations from creditors due to its failure to meet its contractual and statutory obligations. No satisfactory explanation has been provided for non-payment of these obligations.

3. Share Capital

The share capital of Kshs.100,000 divided into 5,000 shares of Kshs.20 each previously issued to the defunct local authorities taken over by the Migori County Government had, as at 30 June 2017, not been paid for. The share capital is yet to be formally transferred to the County Government of Migori and thus remains under the names of the defunct local authority's names.

In the circumstance, it has not been possible to confirm whether the County Government still desires to meet its objectives for establishing the Company as outlined in the Company's Memorandum and Articles of Association.

4. Capital Reserves

The capital reserves balance of Kshs.63,544,286 reflected under Note 17 to the financial statements has not been supported with ledgers showing movement of balances over the years.

Consequently, the accuracy and validity of the capital reserves balance of Kshs.63,544,286 as at 30 June 2017 could not be confirmed.

5. Agency Account

Included in the agency fees balance of Kshs.6,524,180 are amounts of Kshs.5,871,762 and Kshs.652,418 owed to Lake Victoria South Water Services Company and the Water Services Regulation Board (WASREB) respectively. The Company is required to meet the cost of audit services and remit all levies due in time to avoid penalties. Management have not disclosed the plan they have in place to clear these long outstanding balances.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Migori County 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 qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statement, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no key Audit Matters to communicate in my report.

Other Matter

1. Revenue Performance

The Company projected an income of Kshs.68,537,900 for the year under review but realized Kshs.35,629,894 only during the year. The unrealized balance of Kshs.33,524,006 translates to 52% of the total revenue projected. Failure to realize income budgeted for constrained the capacity of the Company to deliver services to the public.

Unaccounted for Water (UFW)

During the year under review, the Company produced 623,244 cubic meters of water out of which only 300,346M³ was billed to customers. The balance of 322,898M³ or approximately 52% of the total volume represent unaccounted for water was 27% percentage points above the allowable loss of 25% prescribed in Water Services Regulatory Board guidelines.

2. Information Technology Controls

The Company lacks an approved information security policy. There is no clear direction on maintenance of information security across the organization and proper safeguards for the organization's assets are lacking. The majority of operational systems are manual as most modules of the Company's Enterprise Resource Planning (ERP) system have not been activated. Therefore, the entity has not leveraged on technology to make its operations efficient and effective.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern accounting assumption unless the management has knowledge of the intention liquidate the Company or cease its operations.

Management is also responsible for 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 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 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. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities 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.

REPORT ON OTHER MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015

As required by the 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 the audit;
- In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records;
- The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the accounting records; and
- In my opinion, the information given in the report of the directors is consistent with the financial statements.



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

Nairobi

26 July 2018