

REPORT OF THE AUDITOR-GENERAL ON ATHI WATER SERVICES BOARD FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Athi Water Services Board set out on pages 1 to 36, 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 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 Athi Water Services Board as at 30 June, 2018, and of its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Water Act, 2002.

Basis for Qualified Opinion

1. Cash and Bank Balances

The cash and bank balance reflects Kshs.1,217,997,568 as at 30 June 2018, as disclosed in note 18. Included in this amount is a current account number 01136084618500 maintained by the Board in Co-operative Bank of Kenya, which is mainly used for its recurrent activities. It was however observed that the Board does not maintain a separate bank account for its development activities but instead the government funds received by the Board for various capital projects, together with related transactions on the projects during the year under review, were transacted through the recurrent account, as detailed in the table below:

Capital Project	Transfers from the Ministry (Kshs)
Nairobi Water Distribution Network	75,000,000
Nairobi Satellite Towns Water & Sanitation	130,000,000
Northern collector(extension of Nairobi water supply)	250,000,000
Ithanga Water supply	17,000,000
Water & Sanitation Services Improvement Project	186,000,000
Rehab Water Supply & Sewarage- Olotokitok Town	33,000,000

Capital Project	Transfers from the Ministry (Kshs)
Kajiado Rural Water Supply	22,000,000
Kiserian Sewerage	116,000,000
Kenya Towns sustainable water supply and sanitation	12,000,000
Nairobi metro area bulk water sources Ruiru II dam	8,000,000
Nairobi city and sewerage support services interventions	106,000,000
Karimenu II dam	803,000,000
Nairobi metropolitan services improvement project	250,000,000

No separate cashbooks were therefore maintained for the recurrent activities and the various capital project fund. Similarly, there were no separate bank reconciliation statements, to facilitate performance of the necessary bank reconciliation audit procedures. Under the circumstances, it was not possible to confirm the balance as per bank records and balance as per cashbook, for the various capital project funds, which are included in the cash and bank balance.

2. Property, Plant and Equipment

2.1 Fully Depreciated Assets

The property, plant and equipment balance reflects Kshs.31,093,890,875, as disclosed in note 16. Included in these assets are fully depreciated assets whose original cost is Kshs.213,150,059. These assets are still in good working conditions and were being utilized by the Board, during the year under review. It was observed that management has not revalued the above assets and recognized them in the books at the revaluation amounts, contrary to the requirements of IPSAS 17 paragraph 44. Further, management did not review the useful economic life of the above assets before they were fully depreciated.

2.2 Inherited Assets

As previously reported, the Board inherited non-current assets of undetermined value previously held by the Ministry of Water and Irrigation and National Water Conservation and Pipeline Corporation in respect of water infrastructure, which have not been incorporated in the financial statements.

In view of the foregoing, it has not been possible to confirm the accuracy, valuation and completeness of the property, plant and equipment balance of Kshs.31,093,890,875 as at 30 June 2018.

3. Un-serviced Loan

The financial statements of the Board reflect loans amounting to Kshs.29,160,609,808, as disclosed in note 27. Included in these is an AFD loan with a book balance of Kshs.2,931,382,826, (original amount: Kshs.3,850,000,000) on-lent to the Board by the National Treasury in two parts of Kshs.1,870,000,000 and Kshs.1,980,000,000 in 2006 and 2009 , respectively, and repayable in 15 years at interest rate of 2.9 %, among other terms. According to the provisions of the subsidiary agreement between the Board and the National Treasury, the former is required make semi-annual payments to the latter, comprising both the principal and interest on the loan, as they fall due. However, during the year under review, the Board did not make the due payments amounting to Kshs.77,081,224, in relation to the 2017/2018 financial year. Further, the above outstanding payable has not been included in the payables figure of Kshs.1,043,490,578, reflected under note 23. Under the circumstances, it was not possible to confirm that the Board met its obligations as and when they fell due.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Athi Water Services Board 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 the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters which, 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 section, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matters

1. Long Outstanding Receivables

The exchange transactions reflects Kshs.4, 491,863,884, as disclosed in note 19. Included in these is Kshs.3,246,511,671 owed by Nairobi County Water and Sewerage Company, which has been outstanding for periods beyond the financial year under review. The financial statements further reflect receivables from non-exchange transactions amounting to Kshs.7,402,772,343, as disclosed in note 20. These include other receivables of Kshs.680,114,599, which further include Kshs.7,092,497 due from a High Court of Kenya, which arose in 2014/2015.

Consequently, it has not been possible to confirm the recoverability of the receivables from exchange and non-exchange transactions of Kshs.3,253,604,168 as at 30 June 2018, which have been long outstanding.

2. Non Compliance with Legal Notice No. 101 of August 2006 -Transfer Plan

According to the transfer plan under the Water Act 2002, which was operationalized vide legal Notice No. 101 of August 2005, Water Services Boards ought to have taken over the assets, staff and other water infrastructure inherited from the Ministry of Water and Irrigation, the National Water Conservation and Pipeline Corporation. Although, Athi Water Services Board, the Ministry of Water and Irrigation and the National Water Conservation and Pipeline Corporation had finalized the revaluation of the assets, Athi Water Services Board had not taken over the Assets as at 30 June 2018. The Board is therefore in contravention of legal Notice No. 101 of August 2005 and the Water Act 2002.

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, I confirm that, nothing 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

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 on whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities which 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, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance, were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 1315 and 1330. The standards require that I plan and perform the audit to obtain assurance on 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.

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 Public Sector Accounting Standards (Accrual

Basis), and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of the internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the management is either aware of any intention to cease operations of the Board, 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 Board's financial reporting process, reviewing the effectiveness of management's systems for monitoring 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 which 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 review is planned and performed to express a conclusion on whether, in all material respects, 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, 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 which 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 which 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 Board'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 which 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 which may cast significant doubt on the Board's 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 Board 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 which achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Board 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 which are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters which may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

8 September 2021