

REPORT OF THE AUDITOR-GENERAL ON COAST 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 Coast Water Services Board set out on pages 32 to 54, which comprise the statement of financial position at 30 June 2018 and the statement of financial performance, statement of cash flows, statement of changes in net assets 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 Coast Water Services Board as at 30 June 2018, and of its financial performance and its 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. Property, Plant and Equipment

As previously reported, the property, plant and equipment balance of Kshs.2,702,182,126 as at 30 June 2018 (2016/2017-Kshs.2,862,504,166) excludes assets of undetermined value transferred to the Board from the Ministry of Water and Irrigation, and National Water Conservation and Pipeline Corporation pursuant to Legal Notice No.101 of 12th August, 2005. Further, the land and office buildings acquired while undertaking various Water and Sanitation Services Improvement Project (WaSSIP) and institutional projects such as Mkanda Dam of at least 53.79 hectares and acquired at a cost of Kshs.10,832,423 have been excluded in these financial statements and have also not been updated in the fixed assets register. In addition, the scrutiny of land status report revealed that approximately more than one third of Coast Water Services Board land has been encroached by private developers, including 22 acres of land occupied by staff houses in Shanzu, Mombasa. The land has been apportioned into 42 title deeds and issued to private developers. This is an indicative that the management has not played its custodial role and the Board's assets have not been properly safeguarded in accordance with Section 72(1)(a)(b) of Public Finance Management Act, 2012 which states that the Accounting Officer for National Government entity shall be responsible for the management of the entity's assets and liabilities and manage those assets in a way which ensures that the national entity achieves value for money in acquiring, using and disposing of those assets.

In the circumstances it has not been possible to ascertain the accuracy, validity and completeness of the property, plant and equipment balance Kshs.2,702,182,126 as at 30 June 2018.

2. World Bank Loan

As previously reported, included in the statement of financial position is an amount of Kshs.11,464,257,010 as at 30 June 2018 (2016/2017 – Kshs.9,191,715,426) in respect of World Bank Loan as reported in note 22 to the financial statements. Although the financial statements disclose a balance of Kshs.11,464,257,010, confirmation letter from the National Treasury dated 15 September 2018 reflects a balance of Kshs.12,241,117,290, resulting to unexplained nor reconciled variance of Kshs.776,860,280.

Further, in the year 2008, the Government of Kenya entered into a financing agreement with the World Bank to finance water and sanitation services in Coast Province through Coast Water Services Board and agreed to disburse Kshs.4,570,199,584.27 (USD.45,203,760) at an interest rate of 1.5 per cent per annum. The repayment period was given as thirteen (13) years with effect from 30 March 2013, with an annual repayment being USD.4,906,636 for which the principal amount was USD.3,168,030 and interest USD.1,738,606. Records confirming repayment of the loan were not provided for audit verification. The amount was also not disclosed separately as other current liabilities as required under paragraph 82 of IPSAS (accrual) 1 which states that current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables must be disclosed separately as other current liabilities. In addition, it was also observed that the loan under IDA-4376-KE credit was denominated in foreign currency. International Public Sector Accounting Standards (IPSAS) 4 paragraph 27 requires foreign currency monetary items to be translated using the closing rate. However, the loan balance was translated on transaction date rate hence foreign exchange gain/loss was not determined. Further, the accounting policy on translation of foreign denominated transactions and balances was not disclosed in the notes to the financial statements in line with accounting standards.

Consequently, it has not been possible to confirm whether the management is in conformity with the terms of the loan and the accuracy and completeness of the loan balance of Kshs.11,464,257,010 as at 30 June 2018 could not be confirmed.

3. Trade and Other Receivables

As previously reported, the trade and other receivables balance of Kshs.3,369,025,039 as at 30 June 2018 (2016/2017 – Kshs.3,100,800,147) includes Kshs.3,355,255,859 relating to amounts from Water Service Providers. However, the Water Service Providers balances reflected in the Board's financial statements as at 30 June 2018 differ by Kshs.626,724,828 from the books of the respective water service providers as detailed in the table below:

	Water Service Provider	Balance as Per Board Kshs	Balance as Per Water Company Kshs	Difference Kshs
1.	Mombasa Water and Sewerage company	1,359,401,344	1,134,686,884	224,714,460
2.	Malindi Water and Sewerage company	501,326,555	509,225,336	-7,898,781
3.	Kilifi-Mariakani Water and sewerage company	585,294,551	513,826,013	71,468,538
4.	Kwale Water and Sewerage company	417,589,376	161,048,211	256,541,165
5.	Taita/Taveta Water and Sewerage Company	479,722,304	401,974,377	77,747,927
6.	Lamu Water and Sewerage Company	11,057,729	7,770,210	3,287,519
7.	Tana River Water and Sewerage Company	864,000		864,000
Total		3,355,255,859	2,728,531,031	626,724,828

The total variances amounting to Kshs.626,724,828 has not been reconciled or explained. In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs.3,369,025,039 as at 30 June 2018 could not be ascertained.

4. 0. Finance Costs

Included in statement of financial performance and as disclosed in Note 13 to the financial statements is finance cost of Kshs.72,169,028. Review of documents availed for audit that the finance costs consist of interest incurred on three loans as per interest amortization schedule availed to support the expenditure. Two of the loans were from World Bank-IDA and one from AFD. However only two loan amortization schedules for loans obtained from World Bank-IDA were availed.

Comparison of the loan amortization schedule and finance costs schedule supporting financial statements for the loans revealed a variance of Kshs.(37,618,420) between interest as per loan amortization schedule and as disclosed in financial statements as per table below.

	Amount as Per Financial Statements	Interest as Per Loan Amortization Schedule	Variance
WaSSIP I - IDA 4367	17,132,810	44,994,578	-27,861,769
WaSSIP-AF - IDA 5103	9,110,616	18,867,267	-9,756,652
Total	26,243,426	63,861,846	-37,618,420

In the circumstances, the accuracy and completeness of finance cost of Kshs.72,169,028 for the year ended 30 June 2018 could not be ascertained.

5.0. Administrative Expenses

Note 14 to the financial statement for the year ended 30 June 2018 reflects depreciation charge of Kshs.170,143,747. However, audit recalculation of depreciation charge for the year amounted to Kshs.110,278,473 resulting to unreconciled nor explained variance of Kshs.59,865,274.

In the circumstances, the accuracy of the depreciation charge of Kshs.170,143,747 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 Coast 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 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. Budgetary Control and Performance

1.1. Revenue Budget

During the year under review, the Board's revenue budget was Kshs.1,533,650,775 against actual collections of Kshs.1,580,223,750 (103%), thus resulting to net over collection of Kshs.46,572,975 or 3% as detailed below:

Detail	Actual	Budget	Over Collection	Under Collection	% Over Collection
Bulk Water Sales	715,296,860	970,379,957		255,083,097	(26)
Administration Fees	176,637,529	196,398,298		19,760,769	(10)
Grants from GoK Development	677,070,037	362,000,000	315,070,037		87
Tender Sales	36,000	470,768		434,768	(98)

Rent Income	2,172,000	1,536,334	635,666		57
Donations	2,702,000	0	2,702,000		100
Community water Receipts	1,153,400	0	1,153,400		100
Miscellaneous Income	4,969,924	2,760,680	2,209,244		80
Laboratory Income	186,000	104,738	81,262		78
Total	1,580,223,750	1,533,650,775	321,851,609	275,278,624	

From the above table, grants received from the Government exceeded the budgeted amount by Kshs.315,070,037 or 87%. Also, total other incomes was more than double the budgeted amount by Kshs.6,781,572 or 154%. This could point to lack of proper budgeting. There is a need, therefore, to review the budgeting process to ensure that it is as realistic as possible.

Conversely, revenue earned from bulk water sales and administration fees were below the budgeted amounts by Kshs.255,083,097 or 26% and Kshs.19,760,769 or 10% respectively. The drop in revenue from bulk water sales could be explained by Unaccounted for Water, which was 8% above the required global standard of 5%.

1.2. Expenditure Budget

During the year under review, the Board had budgeted to spend a total of Kshs.1,692,553,878 on its various programs and activities. However, the Board spent Kshs.1,603,880,071, resulting to an overall underutilization of Kshs.88,673,807 or 5% as summarized below.

Item	Actual Amounts (Kshs)	Budgeted Amounts (Kshs)	Over Absorption (Kshs)	Over Absorption (%)	Under Absorption (Kshs)	Under Absorption (%)
Overtime Allowance	1,436,273	0	1,436,273	100		
Telephone, Fax, Internet, Courier and email	1,919,569	3,000,000			1,080,431	36
Travelling and accommodation	29,359,570	30,000,000			640,430	2
Subscription to newspaper	68,623	130,878			62,255	48
Advertising & publicity	4,933,274	5,000,000			66,726	1
Trade show & exhibitions	3,752,533	4,700,000			947,467	20
World Water Day	4,891,099	0	4,891,099	100		
World Bank operations	0	5,000,000			5,000,000	100

Item	Actual Amounts (Kshs)	Budgeted Amounts (Kshs)	Over Absorption (Kshs)	Over Absorption (%)	Under Absorption (Kshs)	Under Absorption (%)
Hire of transport, equipment & machinery	288,050	780,000			491,950	63
General office supplies	5,393,028	7,113,792			1,720,764	24
Laboratory expenses	952,645	1,000,000			47,355	5
Hospitality	1,653,138	4,124,134			2,470,996	60
Fuel & lubricants	6,534,615	8,099,588			1,564,973	19
Donations	0	100,000			100,000	100
Legal fees & related expenses	16,960,732	20,588,733			3,628,001	18
Contracted professional services	76,228,421	80,000,000			3,771,579	5
Audit fees	0	1,563,680			1,563,680	100
Maintenance expenses-vehicles	4,090,843	6,169,379			2,078,536	34
Maintenance of office furniture & equipment	451,711	964,540			512,829	54
Maintenance of buildings & stations	1,506,155	1,500,000	6,155	.4		
Baricho clinic expenses	517,283	750,000			232,717	31
Stationery office	2,451,804	2,819,654			367,850	13
Depreciation of Motor Vehicles	47,284,770	47,284,770	0			
Depreciation of Furniture	692,890	692,890	0			
Depreciation of Office Equipment	4,092,051	4,092,051	0			
Depreciation of Plant and Machinery	17,360,125	17,360,125	0			
Depreciation of Computers	1,098,987	1,098,987	0			
Depreciation expense for pipelines	67,621,329	67,621,329	0			
Depreciation of Pumps	2,385,996	2,385,996	0			
Depreciation of Bulk Meters	24,478,599	24,478,599	0			

Item	Actual Amounts (Kshs)	Budgeted Amounts (Kshs)	Over Absorption (Kshs)	Over Absorption (%)	Under Absorption (Kshs)	Under Absorption (%)
Depreciation of Water Tanks	5,129,000	5,129,000	0			
Board expenses	15,449,173	20,164,526			4,715,353	23
Honoraria	0	522,000			522,000	100
Basic Salary	107,962,343	137,847,210			29,884,867	22
Medical Allowance	6,058,950	7,427,933			1,368,983	18
Commuter Allowance	13,659,867	16,665,552			3,005,685	18
Top up Allowances	797,556	920,257			122,701	13
Leave Allowance	2,358,865	3,168,182			809,317	26
Hardship Allowance	4,877,400	5,990,133			1,112,733	19
Acting Allowance	452,554	593,780			141,226	24
Airtime Allowance	2,256,000	2,780,666			524,666	19
Training expenses	3,572,875	4,709,258			1,136,383	24
World Bank staff Training	16,002,433	30,000,000			13,997,567	47
Transfer Allowance	186,862	249,149			62,287	25
Special Duty Allowance	66,835	561,220			494,385	88
Employer NSSF Contributions	491,800	561,220			69,420	12
Employer Pension Contributions	3,733,590	15,000,000			11,266,410	75
Employer WSIP Pension	9,087,846	0	9,087,846	100		
Medical Cover	9,397,997	11,000,000			1,602,003	15
Gratuity	5,796,453	5,986,950			190,497	3
Membership Fees, subscription	500,280	500,000	280			
House Allowance	38,433,533	40,000,000			1,566,467	4
Staff Uniform	1,078,660	1,500,000			421,340	28
Pc cross cutting	716,000	3,500,000			2,784,000	80
Office electricity	775,580	622,702	152,878	25		
Motor Vehicle Insurance	2,945,082	3,069,211			124,129	4
Resettlement Compensation	21,718,254	25,000,000			3,281,746	13

Item	Actual Amounts (Kshs)	Budgeted Amounts (Kshs)	Over Absorption (Kshs)	Over Absorption (%)	Under Absorption (Kshs)	Under Absorption (%)
Security expenses	12,790,797	14,149,390			1,358,593	10
Electricity – Operations	390,799,365	400,362,556			9,563,191	2
Chemicals & other related	18,285,720	19,592,348			1,306,628	7
Bank interest	72,169,209	72,169,209	0			
Maintenance of water assets	65,511,464	55,028,495	10,482,969	19		
Water user charges	17,285,524	13,941,073	3,344,451	24		
Lamu Projects	207,875	207,875	0			
Priority Project	27,625,980	27,625,980	0			
Mkanda Dam	151,109,424	151,109,424	0			
Drought mitigation expenses	132,825,455	132,825,455	0			
Equalization Projects	3,024,400	3,024,400	0			
Taita Projects	3,950,846	3,950,846	0			
Kwale Projects	31,534,279	31,534,279	0			
Finance Charge	72,169,209	72,169,209	0			
Small dams and pans	1,475,265	1,475,265	0			
Bank charges & commissions	1,205,358	1,500,000			249,642	17
TOTAL	1,603,880,071	1,692,553,878	29,401,951		118,075,758	

From the analysis the Board had budgeted to spend Kshs.313,905,226 on eighteen (18) activities and programs but ended up actually spending Kshs.343,307,177, resulting to an over absorption of Kshs.29,401,951 or 2%. Out of this over expenditure, three (3) items were not budgeted at all and yet incurred expenditure totalling to Kshs.15,415,218.

The Board has not provided a revised budget for approval of the over expenditure of Kshs.29,401,951 or 2%. The over expenditure is an indication of poor planning and lack of oversight in budget implementation.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Conclusion on Compliance and Effectiveness section of my report, I confirm that, 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 Conclusion

1. Board Expenses

Included in statement of financial performance for the year ended 30 June 2018 is Board expenses of Kshs.15,449,173. Review of the payment vouchers and support schedules availed for audit revealed payments of sitting allowances to persons not gazetted and listed as directors of the Board amounting to Kshs.300,000. The persons were from parent Ministry and were in attendance on behalf of the alternate to principal Secretary, Ministry of Water and Sanitation.

In the circumstances, the regularity of the payments amounting to Kshs.300,000 as directors' emoluments for the year ended 30 June 2018 could not be ascertained.

2. Non-Revenue Water

The statement of financial performance for the year ended 30 June 2018 reflects operational income of Kshs.891,934,400. Included in this amount is bulk water sales amount of Kshs.715,296,860 as detailed in note 6 to the financial statements. The report of the Chief Executive Officer indicated water production was 40,527,356 cubic meters out of which 35,056,960M³ was billed to customers. The balance of 5,470,396 M³ approximately 13.52% of the water produced represents loss of water which is 8.5% over and above the allowable loss of 5% in accordance with the global standard. The abnormal loss or Unaccounted For Water (UFW) is 3,444,028 cubic metres may have resulted to loss of water estimated at Kshs.68,880,564 given the fact that the charge per cubic metre is a standard rate of Kshs.20 as per the approved tariff charged to the Water Service Providers.

The significant level of UFW may negatively impact the company and long term sustainability.

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 INTERNAL CONTROLS EFFECTIVENESS, 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.

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.

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 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 Coast Water Services Board 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 Coast Water Services Board 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 Coast Water Services Board 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 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 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 Coast Water Services Board 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 Coast Water Services Board 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 Coast Water Services Board 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 Coast Water Services 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 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