

# **REPORT OF THE AUDITOR-GENERAL ON KENYA WATER INSTITUTE FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Water Institute set out on pages 1 to 32, which comprise the statement of financial position as at 30 June, 2019, 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 Kenya Water Institute as at 30 June, 2019, 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 Kenya Water Institute Act, 2001 (Revised 2012) and the State Corporations Act, Cap 446 of the Laws of Kenya.

### **Basis for Qualified Opinion**

#### **1. Land Without Ownership Documents**

The statement of financial position reflects property, plant and equipment with a net book value of Kshs.1,519,149,762, as disclosed in Note 20A. Included in the balance are three plots of land in Nairobi, Kitui and Embu with an aggregate book value of Kshs.1,044,642,000. The Institute has Allotment Letters for the plots but has not obtained title documents to secure its legal ownership of the plots.

The records on the Institute's assets further indicated that Management does not maintain a fixed assets register to provide disclosure on the costs, valuations locations and other relevant information on the Institute's fixed assets as required in International Public Sector Accounting Standards and the reporting framework prescribed by the Public Sector Accounting Standards Board.

In the circumstance, it has not been possible to confirm the valuation, completeness and ownership of the property, plant and equipment balance totalling Kshs.1,519,149,762 as at 30 June, 2019.

#### **2. Long Outstanding Receivables**

The financial statements reflect gross trade receivables from exchange transactions totalling Kshs.102,175,726 as disclosed in Note 18A. The balance includes long outstanding student fees debts totalling Kshs.59,000,000 and trade debtors totalling

Kshs.27,000,000. Management has not explained the reason why the debts have remained unpaid for long periods and especially those due from students who, according to Management, were sponsored by the parent Ministry.

In addition, although Management provided for bad and doubtful debts equivalent to 30% of the total debts, the provision may not be sufficient as there is no evidence of previous recoveries of the debts.

Further, the Institute does not have an approved debt management policy to provide guidance on how the debts may be recovered.

In the circumstances, it has not been possible to confirm the recoverability of the net receivables from exchange transactions balance totalling Kshs.74,346,049 as at 30 June, 2019.

### **3. Unconfirmed Allowance Payments**

Note 12 to the financial statements reflects expenses on remuneration of Governing Council Members totalling Kshs.5,706,063. Included in the balance are other allowances totalling Kshs.4,763,236 which in turn include sitting allowances totalling Kshs.1,160,000. However, the latter expenditure was not supported by minutes and signed registers of meetings attended by the Members.

In the absence of appropriate evidence, the occurrence, validity and measurement of sitting allowance expenses totalling Kshs.1,160,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Water Institute Management in accordance with ISSAI 130 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 which, in my professional judgment, are of most significance in the audit of the financial statements. I have determined that there were no key audit matters to report in the year under review.

### **Other Matter**

#### **Delayed Completion of Project**

Records on projects under implementation reflected work-in progress valued at Kshs.236,324,873 as at 30 June, 2019. Included in the balance were construction works for Chiakariga Campus in Tharaka Nithi County contracted at a cost of Kshs.19,903,802. The works commenced on 27 September, 2017 and were due for completion in 42 weeks to August, 2018 but were not completed. There were no records of any expenditure on the project during the year under review.

In the circumstance, the project has not achieved its objectives.

## 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. Uneconomical Drilling Activities

As similarly reported in the previous year, the Institute did not earn any revenue from water drilling activities during the year under review, as disclosed in Note 8 to the financial statements. However, Note 16 to the financial statements reflects drilling activities expenses totalling Kshs.29,087,705. As the data confirms, the Institute continues to incur significant expenses on drilling activities that do not realize any revenue. In the circumstance, the commercial viability of the activities, and which the Management Report accompanying the financial statements indicates have been up-scaled, is doubtful.

#### 2. Staff Receivables

Examination of imprest records indicated imprests totalling Kshs.41,960,492 due for surrender were outstanding as at 30 June, 2019. There was no indication that Management had sought to recover the long outstanding imprests from the respective staff. Further, the imprest register revealed that, contrary to Section 93(8) of the Public Finance Management Act, 2012, Legal Notice No.35, 20 staff members were issued with additional imprests totalling Kshs.10,037,884 before accounting for previous ones.

Management was therefore in breach of the regulations on control of imprest expenditures.

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, 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 overall governance were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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 assessment of the effectiveness of the internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Institute'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 aware of the intention liquidate the Institute or cease operations.

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 Institute'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 Institute'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 Institute'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 Institute 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 Institute 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**19 July, 2021**