

# **REPORT OF THE AUDITOR-GENERAL ON KENYA WATER TOWERS AGENCY 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 Kenya Water Towers Agency set out on pages 21 to 46, which comprise the statement of financial position as at 30 June 2017, 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 Towers Agency as at 30 June 2017, 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 State Corporations Act Cap. 446 of the laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that 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. Unsupported Expenditure**

Included in the development expenditure balance of Kshs.42,379,730 as at 30 June 2017 are expenditures totaling Kshs.3,145,300 on Implementation of CDA Plan-Lerroghi, Finance Board Allowances, M&E Natural regeneration, and Sondu Miriu Enosupukia projects which have no documentary evidence.

Consequently, the accuracy, validity and completeness of the development expenditure of Kshs.42,379,730 as at 30 June 2017 could not be ascertained.

#### **2. Salary Advance**

During the year under review, the Agency had a balance of Kshs.3,997,800 on staff salary advance (Note 16) as at 30 June 2017. However, the agency gave a total of Kshs.1,790,000 as salary advance to officers who already had other outstanding salary advances totaling

Kshs.917,000 contrary to Section 71 of the Public Finance Management Act, 2012 and PSC HR policies (2016) Section C.6(4)

Consequently, it has not been possible to confirm the accuracy and recoverability of salary advance balance of Kshs.3,997,800 as at 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Water Towers Agency 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 and internal control 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, were 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 of my report, I have determined that there are no other Key Audit Matters to communicate in my report.

### **Other Matter**

#### **1. Budgetary Control and Performance**

The Agency spent on three expenditure items (Community Development Action Plan, Monitoring & Evaluation, Coordination of Projects Implementation in Water Towers and Water Towers Status Report) Kshs.30,350,740 against an approved budget provisions of Kshs.22,500,000 leading to unauthorized over-expenditure of Kshs.7,850,740. The over expenditure was not approved by the Board or the National Treasury as required under Section 12 of the State Corporations Act Cap 446.

Further, the agency spent Kshs.4,068,316 on EU projects which had a budgetary allocation of Kshs.9,616,100 resulting in an under-expenditure of Kshs.5,547,784, therefore the targeted performance and project objectives under this item may not have been achieved.

Consequently, the propriety of the expenditure of Kshs.7,850,740 and under expenditure of Kshs.5,547,784 could not be ascertained. The agency was therefore in breach of the law.

#### **2. Late Submission of the Financial Statements**

The Agency submitted its financial statements on 27 November 2017 almost three months after the set deadline of 30 September as per the PFM Act Section 81(4a). No explanation was given for the delay. The Agency therefore, was in breach of the law.

### **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 Public Sector Accounting Standards (Accrual Basis) 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 Corporation's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to going concern/ sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Corporation's 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.

Those charged with governance are responsible for overseeing the Corporation'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 Corporation'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 Corporation'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 Agency 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 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 LEGAL AND REGULATORY REQUIREMENTS

As required by State Corporations Act Cap.446 of the Laws of Kenya, I report based on my audit, that:

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by the Agency so far as appears from the examination of those records; and,
- iii. The Agency's financial statements are in agreement with the accounting records and returns.



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

**Nairobi**

**15 August 2018**