

# **REPORT OF THE AUDITOR-GENERAL ON LAKE VICTORIA SOUTH WATER SERVICES BOARD FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of Lake Victoria South Water Services Board set out on pages 22 to 68, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of Lake Victoria South Water Services Board 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 do not comply with the Water Act, 2002.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters discussed in the Basis for Adverse Opinion section, I confirm that public money has not been applied lawfully and in an effective way.

### **Basis of Adverse Opinion**

#### **1. Inaccuracies in Financial Statements**

During the year under review, the management, through various journal entries, made adjustments with an aggregate value of Kshs.38,556,884 to the Board's financial records purportedly to correct errors and adjust transactions. However, the corrections and adjustments were not authorized by the accounting officer or an officer designated by him, and no documentation was provided to facilitate accounting for the changes as required by Section 103(1) and (2) of the Public Finance Management Regulations 2015. Therefore, the validity of the corrections and adjustments could not be confirmed. Consequently, the accuracy of balances reflected in financial statements for the year under review cannot be confirmed.

#### **2. Project Verification**

##### **2.1 Chuboit Water Supply**

The construction of Chuboit Water Supply Project works was awarded to a local company at Kshs.3,880,367. However, the following anomalies were noted in relation to the project:

- (i) A masonry tank was installed instead of a reinforced concrete tank.
- (ii) The intake pipe was poorly constructed and inlet chamber was not covered.
- (iii) The Platform/ chemical house was built using weak timber pillars that may not last for long.
- (iv) The project was not in use at the time of the audit as it had not been handed over.

## 2.2 Okwanyoyo Dam

The contract for construction of Okwanyoyo dam in Rarieda valued at Kshs.3,525,700 was awarded to a local company. Audit verification revealed the following issues:

- (i) The inlet was not made of concrete as per the contract and the soil laid was steadily being washed away by the rains.
- (ii) There was no fence and gate as per the bills of quantities.
- (iii) No silt trap was constructed at the dam side as per the Bills of Quantities.
- (iv) Culverts specified in the bills of quantities were not built.
- (v) The three-door ventilated improved pit latrines had been pulled down.
- (vi) The cattle trap had cracks which may lead to the risk of losing water.

## 2.3 Chebirir Dam

Construction of Chebirir Dam at Kshs.1,058,150 was awarded to a local Company. The following anomalies were noted in relation to the works:

- (i) The cattle trough specified in the bills of quantities was not constructed.
- (ii) The ventilated pit latrine did not have three (3) door as specified in the bills of quantity.
- (iii) Gates to the site of the project were missing.
- (iv) The dam was leaking. Therefore it may lose all its waters and endanger lives.

## 2.4 Rangwe Water Project

A local company was awarded a contract to construct three (3) water tanks at a contract sum of Kshs.4,267,768 under Rangwe Water Project as shown below:

Description	Contract Amount Kshs.	Current Valuation Kshs.
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100m <sup>3</sup> Storage Tank at Namba Nyokal	2,467,074	886,489
25m <sup>3</sup> Masonry Reservoir Tank at Ndiru	711,254	171,165
50 m <sup>3</sup> Masonry tank at Ndiru Market	1,089,440	311,935
<b>Total</b>	<b>4,267,768</b>	<b>1,369,589</b>

However, project verification done on 15 March 2018 revealed the following unsatisfactory issues:

- (i) Works on the three (3) water tanks had stalled and the project abandoned with the contractor having left the construction site.
- (ii) The contract period was six (6) months, start date being 12 April 2017 and no extension was given.
- (iii) The incomplete works were revalued and a fresh bid floated for completion of the works all valued at Kshs.1,369,589 during the year 2017/18.  
The Board did not have in its possession title deeds for the land on which the tanks were to be located.

## 2.5 Kegati and Kajulu Water Projects

A field visit to Kegati and Kajulu water supply revealed the following unsatisfactory issues:

- (i) A local company was awarded a tender for construction of treatment works at Kegati at a contract sum of Kshs.68,383,494.05. The contract period being nine months from 3 August 2011 to 13 May 2012. However, the works were abandoned after the contracted company was paid Kshs.65,109,295 being 80% of the work done. The company went into receivership soon thereafter.
- (ii) Four water treatment chambers were due for construction under Kajulu Water Supply Project but only three (3) were completed thus leaving the fourth one incomplete.
- (iii) No bill of quantities (BQs) for walls were availed for audit verification.

In view of these anomalies, the propriety and validity of expenditure of Kshs.77,841,280 in respect of these five (5) projects could not be confirmed.

## 3. Receivables from Exchange Transactions

The receivables from exchange transactions balance of Kshs.195,366,286 as at 30 June 2017 includes the following unsatisfactory issues:

- (i) Although, all the ten (10) Water Service Providers (WSPs) had outstanding receivables from exchange balances totaling Kshs.195,179,886 as reflected in Note 17 to the financial statements, debtors' circularization of receivables to

the water companies was not done and as a result, it is not possible to confirm that the balances shown as owed to the Board are the correct.

- (ii) As in the previous year, the management did not provide for bad and doubtful debts in the year under review. Therefore recovery of the whole debtors balance cannot be confirmed.
- (iii) Note 17 to the financial statements reflects Kshs.4,632,698 and Kshs.3,186,748 balances due from Nyanas Water and Sanitation Company Limited and Gulf Water Service Company Limited respectively. However, the financial statements for the two companies from the years 2012 to 2017 were not prepared and submitted to the Auditor-General for audit as required and therefore it is not possible to confirm that the balances included in the financial statements in respect to the two companies are correct.

Consequently, the accuracy and validity of the receivables from exchange transactions balance of Kshs.195,366,286 as at 30 June 2017 cannot be confirmed.

#### **4. Payables from Exchange Transactions**

Note 18 to the financial statements reflects payables from exchange transactions balance of Kshs.107,898,456 as at 30 June 2017 which however contains the following anomalies:

- (i) Creditors balance of Kshs.5,848,865 has been outstanding for a long period. The Board appears not to have formulated an aging creditors policy.
- (ii) The trend analysis indicated that payables have been increasing consistently for a period of three (3) years from Kshs.32,057,977 to Kshs.107,898,456 in the year under review. The rise in the payables balance over the years denotes slowed payment of expenses and casts aspersions on the capacity of the Board to meet its expenses in good time.

#### **5. Unsupported Expenditure**

Included in the administrative and establishment expenses balance of Kshs.120,516,021 are payments of Kshs.701,922 under travelling, accommodation and subsistence which however are not supported with relevant documents such as bus and work tickets and further, the purposes for the safaris reported to have been made have not been disclosed.

Consequently, the propriety and validity of the expenditure totaling Kshs.701,922 incurred on administrative expenses during the year under review cannot be confirmed.

#### **6. Unsupported Long Term Loan Balance**

Included in long term loans balance of Kshs.4,843,082,266 is a sum of Kshs.922,362,631 which is not supported with payment schedules.

Consequently, the propriety and validity of the Kshs.4,843,082,266 long term loans balance cannot be confirmed.

## 7. Non-Submission of Financial Statements for Donor Funded Projects

Note 21 to the financial statements reflects expenditure totaling Kshs.46,692,418 incurred under Trilateral grant, a Fund established in August 2017 to foster reduction of poverty, economic growth and conservation of the eco system through a joint partnership with a German organization Frankfurt am Main (KFW) under a financing agreement signed on 28 September 2015 for a sum of EUR 700,000. Although, Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015 requires each accounting officer to prepare and submit for audit for each financial year, financial statements for all the donor funds, the Board did not prepare and submit for audit financial statements for Trilateral for the year under review

In the circumstance, the Board has breached the law.

## 8. Budgetary Control

### 8.1 Counter-part Funding of Pending Bills

Note 25 to the financial statements reflects counterpart funding pending bills amounting Kshs.277,684,219 accrued from the Government of Kenya for water projects under Kisumu Long Term Action Plan (LTAP), Lake Victoria Water and Sanitation II (LWATSAN), Small Towns and Water Services Board Support Programme (LVSBSBSP). Failure to settle pending bills adversely affects funding for subsequent year programmes and activities

Further, in relation to these bills, supporting documents including bills of quantities and payment certificates were not provided for audit scrutiny. Consequently, the validity and completeness of the pending bills for the year ended 30 June 2017 cannot be confirmed.

### 8.2 Re-allocation of Funds

During the year under review, a total of Kshs.484,608.55 was charged to the project planning, feasibility study and design vote instead of board of directors and motor vehicle expenses without approval for re-allocation as indicated below:

No	Description	Amount in Kshs.	Correct Vote Head
1	Joshn Koech – meeting with IEBC	109,600.00	Board of Directors expenses
2	Johncele Insurance	48,109.55	Motor vehicle expenses
3.	Johncele Insurance	53,149.86	Motor vehicle expenses

4.	Kenya Coach Industries	22,814.57	Motor vehicle expenses
5.	DT Dobie	204,000	Motor vehicle expenses
6.	John Koech	47,534.57	Board of Directors Expenses
	<b>Total</b>	<b>484,608.57</b>	

No explanation was provided for re-allocation of the funds. Therefore, the Board breached regulations on management of the budget.

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

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of financial statements. Except for the matters discussed in the Basis for Adverse Opinion section, I have determined that there are no Key Audit Matters to communicate in my report.

### **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 Board's ability to continue as a sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern accounting assumption unless the management are aware of the intention to liquidate the Board or cease its 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.

Those charged with governance are responsible for overseeing the Board'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 Board'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 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 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 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**

**30 July 2018**