

# **REPORT OF THE AUDITOR-GENERAL ON LAKE VICTORIA SOUTH WATER SERVICES BOARD FOR THE YEAR ENDED 30 JUNE 2018**

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## **REPORT ON FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Lake Victoria South Water Services Board set out on pages 1 to 37 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 matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of 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 2012,State corporation Act chapter 446 and Public Finance Management Act ,2012.

### **Basis for Qualified Opinion**

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

##### **1.1 Misstatement of and Unsupported Cash and Cash Equivalents Balance**

The Statement of financial position for the year ended 30 June 2018 reflects a cash and cash equivalents balance of Kshs.176,402,974. However as included in the Note 33, the board operates two development accounts with the same bank account number with different closing balances of Kshs.64,509,211 and Kshs.69,082,376 as at 30 June 2018. From the bank statements provided, only the balance of Kshs.64,509,211 could be confirmed living the balance of Kshs.69,082,376 unsupported.

Under the circumstance, the accuracy and completeness of the cash and cash equivalents balance of Kshs.176,402,974 as at 30 June 2018 could not be ascertained.

##### **1.2 Misstatement of Receivables from Exchange Transactions**

Included in the Statement of financial position reported Kshs.201,699,655 from receivables from exchange transactions as at 30 June 2018. However, it was noted that these are monthly levy fees from water service providers (WSPs) which have been carried forward from previous years. The age analysis of these debtors were not provided for audit scrutiny. Further, from the annual returns of water service providers (WSPs) made available for audit review, the computed outstanding debtors was Kshs.207,391,660 after the provision of

doubtful debtors. This resulted in a difference of Kshs.5,692,005 from the financial figure of Kshs.201,699,655 as at 30 June 2018.

In the circumstance the accuracy, propriety and validity of the account balance on receivables from exchange transactions of Kshs.201,699,655 as at 30 June 2018 could not be confirmed.

### 1.3 Misstatement of Revenue from Exchange Transactions-Water Service Providers (WSPs)

Statement of financial performance under Note 20 to the financial statements for the year ended 30 June 2018 reflect Kshs.46,640,846 revenues from exchange transactions which in turn include eight (8) Water Service Providers (WSPs) figure of Kshs.46,640,846. However, analysis of annual revenue returns from the Water Service Providers reported total revenue of Kshs.48, 311,642 that differed with the reported revenue of Kshs.46,640,846 by Kshs.1,670,796.

Consequently, the accuracy and completeness of the total revenue from water service providers of Kshs.46,640,846 as at 30 June 2018 could not be ascertained.

### 1.4 Financial Statements and Notes Differences

The statements reflected the following errors:

Item	Financial Statements Kshs.	Notes to Financial Statements Kshs.	Cash Flow Statement Kshs.	Difference Kshs.
Other Incomes	6,319,736	6,564,783	-	(245,047)
Administration and Establishment Expenses	59,203,245	35,924,829	-	23,278,416
Remuneration of Directors	-	23,278,416	-	(23,278,416)
Provision for Depreciation, Amortization and Bad Debts	98,452,852	98,049,113	-	403,739
Inventories	5,026,377	5,028,395	-	(2,018)
Statement of Changes in Net Assets	6,447,451,190	6,447,741,550	-	(290,360)
Goods and Services-Statement of Financial	106,772,520	-	106,482,165	290,355

<b>Item</b>	<b>Financial Statements Kshs.</b>	<b>Notes to Financial Statements Kshs.</b>	<b>Cash Flow Statement Kshs.</b>	<b>Difference Kshs.</b>
Performance Notes( 21-24)-				

The differences were not explained nor supported. In addition, the statement of net assets figure casting results to a total of Kshs.6,447,451,190 instead of Kshs.6,447,741,550 shown. Consequently, the accuracy of the financial statements could not be confirmed for the year ended 30 June 2018.

## **2. Undisclosed Contingent Liability**

The available financial records indicated that a law firm is claiming Kshs.31,756,800 from the Board in respect to a case that relates to the year 2008. The Board in response confirmed that as at 30 October 2008 the legal fee was Kshs.31,756,800. It was not clear why the amount was not disclosed in the financial statements as at 30 June 2018. No explanation was given by management for this omission.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of 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 qualified opinion.

### **Emphasis of Matter**

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

##### **1.1. Under Absorption**

Analysis of the Approved Budget revealed that the original budget was Kshs.490,000,000. However, the final budget indicated receipts of Kshs.379,377,500 against expenditure of Kshs.379,377,500 after an adjustment figure of Kshs.110,622,500, raising doubt on ability of the Board to deliver its mandate due to income reduction by a net figure of Kshs.110,622,500. The Board also underspent on two key items, that is operation and maintenance Kshs.6,517,504 and water supplies development and capital projects Kshs.106,459,877. The under absorption means that the citizens did not get the expected value for money.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, are of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

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(s) described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

## 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 matter(s) described in the Basis for [Conclusion on Lawfulness and Effectiveness in Use of Public Resources/ Qualified Opinion] 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**

#### **1.0 Project Verifications**

#### **1.1 Incomplete Works**

A local company was awarded contract to equip Tingare and Sikalame Boreholes at a contract sum of Kshs.4,813,974. However, physical verification carried out on 7 February 2019 revealed the following anomalies in relation to the works.

#### **a) Sikalame Bore Hole**

- i. The BQ (under bill No 6.01), indicated construction of 2 No water Kiosks which should be painted in three coats with Logos and names of Lake Victoria South Water Services Board at Kshs.180,000. However physical verification revealed that this was not done.

- ii. One water kiosk under Sikalame bore hole did not have the overhead tank (5000 litres)
- iii. Further, examination of BQ (under bill No. 5.04.03) revealed that, the contractor had not done the fencing amounting to Kshs.25,000 as per the BQ.
- iv. Bill No. 6.1 was for the construction of a power house size 4m by 3m amounting to Kshs.150,000. However, an inspection carried out indicated that there was no value for money as the power house verified was approximately 3m by 2m and not as per the BQs measurements of 4m by 3m. It was also difficult to ascertain the costs of the pump house as the project in the BQ was a block item instead of being itemized.
- v. There was water at the two water kiosks(points).
- vi. The projects were (water point tanks – 2 No tanks) not labeled and thus difficult to know the financier, contractor and the financial year which the project was done.

**b) Tingare Bore Hole**

- i. The project is situated at Tingare Police post.
- ii. Verification at Tingare water borehole indicated the works were done, project was labelled with Water Board Logo, however no financial year was indicated when the project was done, thus difficult to ascertain the financial year done.
- iii. The power house couples as pump house which is very risk to the operator.
- iv. Examination of the BQ under (Bill No. 3.1) showed a power house as an item amounting to Kshs.150,000, which was a block figure and not itemized thus difficulty to compare the works done versus the BQ.

In view of these anomalies, the propriety and validity of the expenditure of Kshs.4,813,974 in respect to the two projects could not be confirmed.

**2. Kaptumeiyo Taunet Water Pipeline Extension**

A local company was awarded contract for the Construction of Kaptumeiyo Taunet water pipeline extension at contract sum of Kshs.19,318,165. Total contract value executed to date amounted to Kshs.16,891,645. However, audit verification revealed the following anomalies in relation to the works:

- i. There was no inspection and acceptance report availed for audit review to show works were inspected before payment was done.
- ii. An examination of the BQ indicated a provisional sum of Kshs.600,000 in respect of acquisition of way leaves for dam site and water kiosk locations. However, visitation

on the ground revealed no payment had been done to the respective owners of the land.

- iii. No sale agreements or title deeds were availed for audit review. Thus the owners of the land were complaining as evidenced by our interaction by one, where the dam is located.
- iv. We noted water testing was done at MEA Fertilizers as evidenced by water analysis report dated 11 December 2017, a firm dealing with production of fertilizers. In addition, physical verification carried out on 21 February 2019 revealed the following observations:
  - Water kiosks were done and verified, however no water present, thus no value for money as the intended purpose was to supply water to the locals. Further, the water kiosks were not labelled with the name of the financier and year the project was done.
  - At the dam site, it was not fenced as the cattle were drinking water directly from the dam as the cattle trough was not operational, an indication that the water may not be safe as the animals foul the water with dung and urine.
  - Various water meters and valve chambers were poorly done as they were detached from their respective man holes, an indicator of poor workmanship and lack of supervision of the project by the board.
  - Some PVC pipes at Kaploa Primary school were destroyed as they had not been laid deep as required in the BQ (1metre deep).
  - The project has not been handed over to the community. Further, the community around were not allocated at least one water point to serve them, which may result them not embracing the project.

In view of these anomalies, the propriety and validity of the expenditure in respect to the project could not be confirmed.

### 3. Rangwe Water Supply II

The construction of Rangwe Water Supply Phase II to construct three water tanks was awarded to a local company as detailed below:

Item	Description	Contract Amount Kshs.	Current Valuation Kshs.
D	100m <sup>3</sup> Storage tank at Namba Nyokal	2,467,074	886,489
E	25m <sup>3</sup> Masonry Reservior tank at Ndiru	711,254	171,165
F	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>
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However, project verification done on 14 February 2019 revealed the following unsatisfactory issues:

- i. Contractor was not on site
- ii. There were no title deeds availed in order to ascertain ownership of land on which the tanks are located.
- iii. No sale agreements of the land were availed for audit review.
- iv. It was noted that the 100m<sup>3</sup> capacity tank at Nyokal has stalled and abandoned as there was no contractor on site.
- v. The contract period was to take 6 months, start date being 12 April, 2017. No extension of the contract was given. No site meeting minutes were availed to enable us ascertain progress of works upto abandonment time.
- vi. No valuation report was availed to ascertain the current status and reasons as to why no action has been taken to accomplish the project.
- vii. The project was incomplete at the time of audit verification.

In view of these anomalies, the propriety and validity of the expenditure in respect to the projects could not be confirmed.

#### **4. Tulwap Kipsigis Water Project**

A local company was awarded contract for the construction Tulwap Kipsigis water supply project at contract sum of Kshs.7,697,850. Total contract value executed to date amounted to Kshs.4,641,566. However, audit verification revealed the following anomalies in relation to the works:

- i. Audit verification of the project revealed that it was incomplete.
- ii. 50M<sup>3</sup> masonry tank amounting to Kshs.569,700 constructed was poorly done. It had not been plastered and the tank indicated signs of leakage.
- iii. At one water kiosk point, a raised water tank was missing.

In view of these anomalies, the propriety and validity of the expenditure in respect to the projects could not be confirmed.

#### **5. Keriba Bore Hole and Equipping**

A local company was awarded contract for the Construction Keriba bore hole supply project at contract sum of Kshs.2,110,200. Total contract value executed to date amounted to Kshs.2,034,300. However, audit verification revealed the following anomalies in relation to the works:

- i. The project was located on private land belonging to Edwin Borusei ID No.12553823, phone No. 0723418697 (Kiriba-sub-location, Kongasis-Location, Siongiroi Division, Chepalungu- Sub-Location), the owner was not compensated.
- ii. No sale agreement was availed for audit review.
- iii. The water kiosk at Keriba on the private owner's land had a cracked flow as a result of poor workmanship.
- iv. The project was not labelled indicating the financier and the year the project was done.
- v. The project is complete and not in use, no value for money as water is not connected and reaching the intended users.

In view of these anomalies, the propriety and validity of the expenditure in respect to the projects could not be confirmed.

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 audit procedures performed, except for the matter(s) described in the Basis for [Conclusion on Effectiveness of Internal Controls, Risk Management and Governance/Qualified Opinion] 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.

### **Basis for Conclusion**

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 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, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Lake Victoria South Water Services Board 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 either intends to liquidate the Lake Victoria South 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 resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Lake Victoria South 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 audit is planned and performed to express a conclusion about 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 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 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 Lake Victoria South Water Services Board policies and procedures may deteriorate.

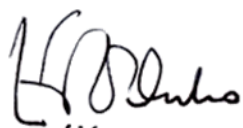
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- 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 Lake Victoria South 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 Lake Victoria South 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 Lake Victoria South 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**

**19 June 2019**