REPORT OF THE AUDITOR-GENERAL ON NATIONAL WATER CONSERVATION AND PIPELINE CORPORATION (NWCPC) FOR THE YEAR ENDED 30JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Water Conservation and Pipeline Corporation set out on pages 1 to 32, 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. 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 described in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of National Water Conservation and Pipeline Corporation 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 (revised 2012) and the State Corporations Act, Cap 446 of the laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, based on the Basis for Adverse Opinion and Other Matter described in this report, public money may not have been applied lawfully and effectively.

Basis for Adverse Opinion

1. Financial Statements - Presentation and Disclosure

The financial statements have not been prepared to comply with the guidelines and reporting template provided by the Public Sector Accounting Standards Board. The management discussion and analysis report was not included; Corporate Social Responsibility statement was not included; the types of bank accounts have not been disclosed; the financial statements have not been owned by the head of finance (General Manager – Finance and Administration); there is no disclosure on the adoption or otherwise of new and revised standards; no note on taxation; related party disclosure is incomplete as the ministry has not been disclosed as a related party.

Further, the statement of financial performance reflects a deficit for the period of Kshs.(152,871,107) while the statement of comparison of budget and actual reflect a deficit of Kshs.154,084,490 resulting to unreconciled difference of Kshs.1,213,383.

In view of the foregoing, it has not been possible to confirm the accuracy and completeness of the financial statement for the year ended 30 June 2017.

2. Property, Plant and Equipment

2.1 Transfers to Water Service Boards

As was previously reported, the property, plant and equipment balance of Kshs.744,807,630 as at 30 June 2017, excludes various assets valued at Kshs.16,781,832 earmarked for transfer to various Water Service Boards but not yet formalized. Although the Corporation confirmed that indeed the assets been transferred to the Boards, no formal documentation has been produced to support the transfer. Thus the property, plant and equipment are understated by the value of the excluded and transferred assets.

2.2 Fixed Assets Register

The Corporation's fixed assets register does not have details of assets including description of the asset; date of acquisition and cost; tag number**.** where applicable; class and category of asset; general and specific location; condition of the asset and documents of ownership where applicable. As a result, it was not possible to confirm the existence, location, cost and valuation of the assets reflected in the financial statements as at 30 June 2017.

Further, a report by M/s Elrons Ltd, the consultant who developed the fixed assets register, noted the following shortcomings and recommended action to be taken by the Corporation to update records but there is no evidence of action having been taken:

a) Some assets were physically verified but not included in the fixed assets register

b) A number of assets recorded were not found in particular places they were recorded to be.

c) Some assets were verified but could not be traced to particular users/department

d) Some assets were not tagged

In consequence, it has not been possible to confirm the accuracy and completeness of the property, plant and equipment balance of Kshs.744,807,630 as at 30 June 2017.

3. Capital Work in Progress

The Corporation awarded a contract for construction of its headquarters to a firm at a contract sum of Kshs.485,400,820. However, the firm abandoned the project after being paid a total of Kshs.80,660,480. The Corporation thereafter procured another firm for the same project and by the end of the financial year 2016/2017, a total of Kshs.835,771,287 had been incurred on the building, more than the original contract sum by Kshs.350,370,467 (approximately 72% more) and the building had not been completed. The Corporation has explained that the cost escalation was mainly as a result of change in prices between 2008 and 2011. This explanation has not been supported appropriately with quantities and figures. Consequently, the true value of the building and whether public money has been utilized well could not be ascertained.

In the circumstances, it has not been possible to confirm the accuracy and completeness of work in progress balance of Kshs.17,155,197,005 as at 30 June 2017.

4. Inventories

Included in the inventory balance of Kshs.33,174,049 as at 30 June 2017, is obsolete stock valued at Kshs.6,714,110, occasioning an unnecessary loss of public funds. The financial statements also do not reflect the treatment of these stocks as obsolete thereby overstating the inventories figure as summarized below:

Stock	**Unit**	**Value(Kshs)**	**Status**
Cement	260 bags	187,200	obsolete
Pentonite	30	792,000	obsolete
Duten Blue paint	1257 Ltrs	3,142,500	expired
Brilliant White paint	884 Ltrs	2,404,480	expired
Red oxide paint	133 Ltrs	160,930	expired
Auto paint 0.8 Ltrs	27 Ltrs	27,000	expired
Grand Total		**6,714,110**	

Further, the method of valuation of the stock value reflected in the financial statements is not clear given the inclusion of the obsolete stock in the valuation.

Consequently, it has not been possible to confirm the accuracy and completeness of inventory balance of Kshs.33,174,049 as at 30 June 2017.

5. Un-vouched Expenditure

During the year under review, the Corporation spent Kshs.47,158,114 on rendering of service. However, payment vouchers amounting to Kshs.14,597,385 were not availed for audit review.

As a result, it was not possible to confirm the correctness and accuracy of rendering of service balance of Kshs.47,158,114 as at 30 June 2017.

6. Trade and Other Payables from Exchange Transaction

6.1 Long Period Outstanding Creditors

Trade and other payable from exchange transaction (note 21) analyzed in the schedule provided includes creditors who are a mixture of debit and credit balances resulting in the net amount of Kshs.484,070,555. This distorts the correct position of trade payables to the Corporation. Further, a net amount of Kshs.23,165,066.71 is reflected as outstanding for a period of over 60 days without explanation as to why they are still outstanding. Among these creditors are debit balance of Kshs.509,952,112.46 while those with credit balances amount to Ksh.486,787,045.64. The net off effect is distorting the correct value of long period outstanding creditors.

6.2 Third Party Payments

Third party creditors amounting to Kshs.18,728,313.62 as per note 21, includes creditors outstanding from February 2018 to 30 June 2018 and which are amounts due to various institutions including Saccos. No reason has been provided for failure to remit these amounts.

In view of the foregoing, it has not been possible to confirm the accuracy and completeness of trade and other payables from exchange transaction balance of Kshs.844,798,061 as at 30 June 2017.

7 Trade and Other Payables from Non-Exchange Transaction

During the year under review, the trade and 0ther payables from non-exchange transaction balance of staff Kshs.2,499,422 as at 30 June 2017, includes creditors outstanding for over 90 days which are a mixture of creditors with debit and credit balances. The amount is explained as monies payable to employees for services rendered including allowances for safaris. Among these are creditors with debit balances who are over 90 days old amounting to Kshs.1,423,375.60, while those with credit balances within the same period amounted to Kshs.1,656,002.50. The net effect is Kshs.232,627.

Consequently, it has not been possible to confirm the accuracy and completeness of trade and other payable balance of Kshs.2,499,422 as at 30 June 2017.

8 Deferred Income

The financial statements show that the deferred income for project funds is as follows;

No.	Details	Amount
1	Balance brought forward	14,941,755,500
2	Grants received from GOK during the year	2,429,684,048
3	Small Dams expensed	(58,197,659)
	TOTAL	**17,313,241,889**

This total amount of Kshs.17,313,241,889 is the amount that was carried forward to be spent on projects during the following financial year. However, it was explained that this amount has already been spent on the projects and since the projects are not owned by the Corporation, the amount is populated as work in progress until a project is finalized and handed over to the user entity. The financial statements do not disclose this fact.

In the circumstances, it has not been possible to confirm the accuracy and completeness of deferred income balance of Kshs.17,313,241,889 as at 30 June 2017.

9 Cash and Cash Equivalents

Included in cash and cash equivalents balance of Kshs.187,472,477 as at 30 June 2017, is unposted items of Kshs.5,056,009 and Kshs.24,671,142 to Recurrent Account and Development Account respectively, which has not been explained.

Further, included in cash and cash equivalents balance of Kshs.187,472,477 is reconciling items of Kshs.1,958,998, Kshs.20,787,451 and Kshs.2,133,281 relating to Recurrent Account, Development Account and Special Account respectively dated 30 June 2006. Again, it has not been explained what the reconciling items represent.

Consequently, it has not been possible to confirm the accuracy and completeness of cash and cash equivalents balance of Kshs.187,472,477 as at 30 June 2017.

10 Employees Seconded from the Ministry of Water and Irrigation

As reported previously, the Corporation received 423 employees of various cadre seconded from the Ministry of Water and Irrigation in various core operations they include drilling, electro mechanical, land survey and water technicians. Although the management explained that the officers were seconded when the Ministry ceased to implement technical projects attached to the Water Service Board, it is not clear as to why the management has not absorbed them as they continue to draw their salaries from the Ministry.

Under the circumstances, it has not been possible to confirm the accuracy and completeness of employees cost of Kshs.299,907,819 as at 30 June 2017.

11 Receivables from Exchange Transactions

11.1 Water Service Board Debts

As similarly reported in previous years, the receivables from exchange transactions balance of Kshs.813,477,535 as at 30 June 2017 exclude water supply debts of Kshs.1,377,265,028 and payments totalling to Kshs.754,400 transferred to Water Service Boards under various agreements signed between the Corporation and the Water Service Boards in the year 2005/2006. These agreements have not been formalized and therefore the legal status of the debts is uncertain.

As a result, the receivables of the Corporation are understated by the exclusion of the water supply debts.

11.2 Long Outstanding Receivables

The statement of financial position reflects receivables from exchange transactions of Kshs.813,477,535 as at 30 June 2017. This includes long outstanding business debtors (over 90 days) of Kshs.60,080,772.50 which the ,management has not been able to collect in the period they have been outstanding. Though management has made a provision of Kshs.4,335,884, the provision appears inadequate, and as reported in 2015/2016, the provision is on Government institutions and a former MP. Further, the Finance Manual is also not clear as to what rate is used when providing for the bad debts. The management appears not to have made any effort to collect the outstanding debts. This therefore raises doubt as to whether these debts will eventually be paid.

In the circumstances, it has not been possible to confirm the correctness and recoverability of the receivables balance of Kshs.813,477,535 as at 30 June 2017.

12 Receivables from Non-Exchange Transactions - Long Outstanding Balance

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.154,143,484 as at 30 June 2017 (Kshs.67,028,109 for 2015/2016), an increase of 130%. This includes a long outstanding debt (over 90 days) of Kshs.120,173,233.48 and Kshs.906,629.00 relating to temporary imprest and salary advance respectively, which the Management has not been able to collect in the period it has been outstanding.

The analyses provided for staff advances and receivables from temporary imprest do not indicate when the amounts were taken and when they were due for full recovery or surrender. As such it is not possible to ascertain whether the outstanding amounts are within the rules and regulations or not. The management has made a provision for bad debts of Kshs.20,965,420 on outstanding imprest, meaning that as per the Finance Manual, such imprest must have been outstanding for more than 12 months. Details of the efforts made to recover the amounts from the imprest-holders have not been disclosed.

Further, the Finance Manual is also not clear as to what rate is used when providing for the bad debts. The management appears not to have made any effort to collect the outstanding debts. This therefore raises doubt as to whether these debts will eventually be paid.

In the circumstances, it has not been possible to confirm the correctness and recoverability of the receivables from non-exchange transactions balance of Kshs.154,143,484 as at 30 June 2017.

13 Long Outstanding Loan

As previously reported, the Corporation has not included in its financial statements loan balance for various loans amounting to Kshs.2,460,874,897. however, although the loan repayments are due but the Corporation has not made any repayment nor has it recognized in the books the interest due together with the arrears. Though management explained that the loans were supposed to have been passed over to the Water Service Boards who took over the facilities constructed using the loans, and which were supposed to generate the revenue to repay the loans, no formal documentation was availed to support this position. In fact, the lenders have been demanding for payment from the Corporation. The Corporation has indicated that it has no capacity to pay without financial support from the National Treasury. The loans continue to attract interest and penalties which may become costly. The lenders may also invoke the terms of the lending to the disadvantage of the Corporation, Water Service Boards or the National Treasury.

14 General Expenses

14.1 Professional Consultancy Expenses

Baseline Survey on Drug Abuse

During the year under review, the Corporation spent Kshs.4,492,400 on professional consultancies (note12). However, Kshs.1,500,000 was paid to Ripe Consultancy being professional consultancies on baseline survey on drug abuse vide invoice number . 0253 of 24 June 2016 and payment Voucher number PV-16-17;0424 paid on 21 November 2016. The purchase requisition dated 18 August 2015 is not signed and does not indicate details of the work to be done. The LPO was given on 22 June 2016 and the invoice was dated 24 June 2016 meaning that the Survey was done in 2 days. The report was done by the department of human resources of National Water Conservation and Pipeline

Corporation and not the quoted company. The report is indicated to be for June 2016. The nature and format of how the information was gathered to compile the report is not indicated.

Baseline Survey on HIV Aids

Further, the Corporation paid Kshs.1,496,400 to LOKO Consultancy Agency being professional consultancies on baseline survey on HIV Aids vide invoice number. LCA 023 of 30 June 2016 and payment Voucher number PV-16-17; 0251 paid on 14 October 2016. The purchase requisition dated 19 May 2016 is not signed and does not indicate details of the work to be done. The LPO was given on 29 June 2016 and the invoice was dated 30 June 2016 meaning that the survey was done in one day. The report is indicated to be for June 2016. The nature and format of how the information was gathered to compile the report is not indicated. The report is not signed and there are no minutes to indicate that the report was adopted by the NWCPC. The report's implementation is also not indicated therefore raising concern as to whether the report was necessary.

In view of the foregoing, it has not been possible to confirm the accuracy of professional consultancies balance of Kshs.4,492,400 as at 30 June 2017.

15 Work in Progress

15.1 Umaa Dam Construction

The Management paid Draft & Develop Engineers Ltd an amount of Kshs.536,464,311 being final exit payment in respect of construction of Umaa dam situated at Kitui County. According to documents available the payment was made after a lengthy process of Court dispute which was then referred for arbitration by a tribunal. According to documents available the dispute started when the Contractor asked for extension of time and was awarded 10 weeks. He objected saying that the extended period was too short to complete the project. He abandoned the project and went to court to complain so that the contract should not be terminated for breach of contract. The Corporation and the Contractor then negotiated and arrived at an 'Amicable Settlement Agreement' for a sum of Kshs.536,464,310.56, which was tabled before the Tribunal. The Tribunal declined to adopt the consent agreement because by then a third party had lodged a Constitutional Petition No. 14 of 2014 in the High Court challenging the settlement.

The Corporation then sought and obtained advice from the Office of the Attorney-General on 02 June 2017 (referenced AG/CONF/16/6 VOL. V) that the two parties were at liberty to terminate the arbitral proceedings and execute the consent reached. The Corporation then, apparently acting on directives from the Principal Secretary – State Department for Water Services as evidenced in the minutes, summoned an ad-hoc Board meeting on 12 June 2017 whose only agenda was to adopt the AG's advice. The Board adopted the advice and on 13 June 2017, the consent sum was paid to the Contractor.

Considering that the contractor had earlier been paid Ksh.575,666,042.36, the total amount paid of Kshs.1,112,130,352.94 exceeded the contract sum of Kshs.824,457,120.49 by Kshs.287,673,232.45. Further, in the report on the amicable agreement, the Corporation observes that it will require another estimated Kshs.1,200,000,000 to complete the outstanding works on the dam. If the estimated amount was to be paid, it would have costed the tax payer a total of

Kshs.2,312,130,352.94 to construct the dam, an increase of Kshs.1,487,673,232.45 (approximately 180%) from the initial contract sum. There is no evidence of valid contract variations to warrant the amounts paid and that estimated to be incurred to complete the project.

From the foregoing, the Corporation did not manage this contract prudently and the contractor did not merit to be paid the amount paid to him considering that he is the one who breached the contract by not completing within the contract period and abandoning the project.

15.2 Badasa Dam Construction

The Management paid MIDROC Water Drilling Company Ltd. an amount of Kshs.194,219,651 under certificate number 24B being final exit payment in respect of construction of Badasa dam situated at Marsabit County. According to documents available the initial contract price was Kshs.1,742,361,764. Later as the project underwent variations from 1st up to the 6th variation, the estimated revised cost was put as Kshs.2,769,676,807.50. The documentation necessitating the variations together with the procedure and validation of these variations have not been provided for audit review.

This payment was made after a lengthy process which went up to the Court of law. The Court referred the dispute for amicable agreement between the contractor and National Water Conservation and Pipeline Corporation. The two parties were told to file a joint agreement in Court.

According to documents available the dispute started when the contractor asked for extension of time when there was some variation of work and contract cost. He was awarded an extension of 6 weeks to complete by 9 June 2012.

The contractor then requested for more time and was given another extension of 6 months to complete the project by 9 December 2012. He objected saying that the extended period was too short. He abandoned the project and went to court to complain so that the contract should not be terminated for breach of contract and that he should not be asked to pay liquidated damages.

The two parties came together and agreed that the NWCPC pay the contractor a final exit payment amounting to Kshs.194,219,651 and the contractor to hand over the site and materials to NWCPC. The total amount incurred on the dam including previous payments is Kshs.2,050,877,486.24. There is no evidence that the Corporation has realized value on this expenditure on the project.

As at the time of the final exit payment, only an estimated 57% of the works had been reported complete at the amount paid. The report estimated a further Kshs.1,500,000,000 to complete the outstanding works, which would bring the total cost of the dam to Kshs.3,550,877,486.24 from the initial contract sum Kshs.1,742,361,764 resulting into a cost overrun of Kshs.1,808,515,722.24 or approximately 104%. It would appear that the project has metamorphosed itself into two projects awarded under the same contract contrary to the provisions of the Public Procurement and Assets Disposal Act, 2005.

15.3 Nzoia Dam

As previously reported, the Corporation engaged East African Consulting Engineers to review the designs of Nzoia dam site 34B, supervise the construction and draft a dam development plan for the Nzoia River Basin at a cost of Kshs.153,631,760 over a period of 54 months. However, initial designs had earlier been developed by M/s Runji Consulting Engineers at a cost of Kshs.40,000,000 but the project could not kick off as the community rejected it. Likewise, M/s East African Consulting Engineers could not carry out the review of the design and supervision of the construction as the conflict with the community had not been resolved. Thus the firm could only undertake the third task in the contract – draft dam development plan for the Nzoia River Basin at a cost of Kshs.40,246,400.

The management of the Corporation has not explained how this dam development plan will be implemented without resolving the conflict with the community. As a result, value for money may not be achieved from the total amount of Kshs.80,246,400 spent of feasibility studies, dam designs and dam development plan.

15.4 Siyoi – Muruny Dam

It was observed that the National Water Conservation and Pipeline Corporation spent Kshs.1,706,546,387.52 in respect of Siyoi-Muruny Dam project in the financial year 2016/2017. The Dam is situated in West Pokot County. The Project is divided into two categories (Lots); - Dam Construction (Lot 1) and Water Supply (Lot 2). Lot 1 contract between the Corporation and M/s China Jiangxi International Kenya Limited (Contract No. NWC/RFP/07/2014-15) was for thirty-six (36) months from 30 March 2015 to 30 March 2018. The date of completion was revised to 20 July 2018 and later to 19 August 2018. However, as per the latest progress report presented for audit, the project was at 45% completion stage by 31 May 2018, two months after the lapse of the original contract period. The delay in progress is attributed to some components of the project being re-designed, failure to acquire land on time and delay in honoring interim payment certificates. The report indicates that the Contractor fully suspended works between 19 September 2016 and 31 October 2016 and has only resumed partially to-date due to non-payment. As a consequence, the delivery of the project on time is in doubt and the cost is likely to escalate significantly beyond the contract cost of Kshs.5,056,182,763.02 as the Contractor charges for idle time and interest on unpaid certificates.

As for Lot 2 the contract (No. NWC/TR/003/2014-15) was also for 36 months from 30 March 2015 to 29 March 2018 at a contract value of Kshs.4,149,828,304.73. The contract period also extended by five (5) months to 29 August 2018 on contractual claim by the Contractor M/s Toddy Civil Engineering Co. Ltd with associated contract extension costs of Kshs.233,583,344.25. Again by the time of the contract period extension the latest progress report of June 2018 indicated that the works were only 52% complete 3 months after the lapse of the original project period. Going by this, delivery of the project in time is also in doubt and the final project cost may significantly overrun the contract price.

In addition, site visit minutes, engineers' works measurements, new project delivery projections/plans and the steps taken to ensure the project is completed promptly and value for money spent obtained have not been explained or appropriate documentation provided.

In the circumstances, it has not been possible to confirm the accuracy, value and completeness of work in progress balance of Kshs.17,155,197,005 as at 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Water Conservation and Pipeline Corporation 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 the audit evidence 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 judgement, were 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 of the financial statements 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.

No.	Key Audit Matter	How the Audit Addressed the Key Audit Matter
1	**Capital Work in Progress**	
	Capita Work in Progress arises out expenditure on capital projects undertaken by the Corporation, mainly construction of dams, dykes and pipelines, which are then handed over to the beneficiary Government entity. Before the hand over the cost of the construction is carried in the books of the Corporation as Work in Progress. During the year, Kshs.2,608,622,833 was spent on capital projects in addition to the value for the previous periods. The amount of capital work in progress is material compared to the total assets of the Corporation and there is need for adequate	The following audit procedures were performed: • Checked the amount in the statements to the ledger, supporting schedules and expenditure documents for the period • Reviewed documentation regarding the major dam projects constituting the most of the value; including contract documents, progress reports, certificates, site meeting minutes and feasibility reports. • Reviewed the budget to establish the provision for the various projects • Confirmed amounts received to ministry disbursements

	disclosure of the nature and treatment of the amount.	• Considered adequacy of disclosure in the financial statements • Discussion with management on the progress of the projects Two major dams have been bedeviled by contract disputes emanating from contract variations. The disputes resulted in settlements between the Corporation and contractors who then left the sites before completing the projects. This is likely to escalate the project costs and increase the work in progress.
2	**Deferred Income**	
	This relates to funds earmarked and used for implementation of capital projects but which have not been completed (capital work in progress). The funds are accumulated here until a project is complete. When the project is handed over, the cost is transferred to this account from the capital work in progress.	An evaluation was done to establish the value in this account represented amount available or used to fund capital projects: • Balance was compared to amount brought forward and disbursements from the Ministry • Confirmed the balance to the ledger and schedules No reconciliation was done between the deferred income and the amount of work in progress. However, value of work in progress together with the value of cash and cash equivalents more than covered the deferred income.

Other Matter

16 Internal Control and Operating Environment

16.1 Irregular Deployment on Acting Capacity

Since 2015 the Corporation has not filled the position of managing director but has continued to appoint serving officers in acting capacity to date contrary to regulations and compromising the decision-making capacity of the acting officers. The failure to fill this key position for long periods of time compromises the internal control environment in the Corporation.

16.2 Implementation of the Enterprise Resource Programme (ERP)

The Corporation is yet to fully implement the ERP system procured in 2015. No reason has been given for the failure to implement this system, which as per the policy of the Corporations, is supposed to have been amortized within three (3) years of acquisition.

According to the contract for the delivery of the system, M/s Dynasoft Business Solutions Ltd was to deliver the system within 4 weeks from the date of the contract on 04 September 2015. Thereafter the system was to be fully implemented within 190 days after which a final acceptance certificate would be issued by the Corporation. There is no evidence of the completion of the implementation.

The system was intended to be installed as the platform on which all the activities of the Corporation would be carried out. As such the failure to implement the system has affected the operation of the Corporation, including the assurance that the reports, financial and other, produced from the system are accurate and free from significant misstatement.

Further, given the dynamism in technology, the system may become obsolete before the Corporation derives value from the amount incurred on it.

Management's Responsibility 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, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

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.

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 of Kenya. 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 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 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, but not for the purpose of expressing an opinion 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 Corporation 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 and business activities of the Corporation 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.

From the matters communicated with management, I determine those matters that were of most significance in the audit of the financial statements and internal control of current period and are therefore the key audit matters. These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Nairobi

25 March 2019