

REPORT OF THE AUDITOR-GENERAL ON NORTHERN WATER SERVICE BOARD FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Northern Water Service Board set out on pages 1 to 19, which comprise the statement of financial performance as at 30 June 2017, and the statement of financial position, statement of changes in net assets and statement of cash flows, 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 Northern Water Service 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 comply with State Corporation Act, Cap 446 and the Water Act, 2002 (Revised 2016).

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 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. Award of Contracts for Capital Projects

During the year ended 30 June 2017, the Northern Water Service Board awarded contracts amounting to Kshs.73,790,106 to various contractors for construction and rehabilitation of various water works. However, examination of payment vouchers, tender documents and minutes revealed the contracts were not awarded in accordance with the laid down procurement procedures. Forms of tenders, Confidential Business Questionnaires and other tender documents were not properly filled as required by the respective tender requirement. Some of the payment vouchers were not supported with interim or Practical Certificate of Completion. It was also noted that variation or amendment of projects made during the projects execution were not supported with bills of quantities hence it was not known how the cost of the variations were derived.

Under the circumstances, it was not possible to ascertain the propriety of the expenditure of to Kshs.73,790,106 as at 30 June 2017.

2. Unaccounted for Fuel

During the year under review, examination of payment vouchers, supporting documents and fuel records at the Northern Water Service Board, revealed that fuel worth Kshs.1,667,510

was purchased but was not properly accounted for. Some of the fuel was not taken on charge in the bulk fuel register. Some of the fuel drawn by the vehicles was not entered in the work ticket.

In consequence, the propriety of the expenditure of Kshs.1,667,510 could not be confirmed as a proper charge to public funds.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Northern 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 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, are 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, there were no Key Audit Matters to communicate in my report.

Other Matter

1.0 Budget and Budgetary Performance

The budget proposal for Northern Water Services Board for the financial year 2016/2017 was drawn from the Medium Term Expenditure Framework (MTEF) 2016/2017-2018/2019. The budget proposal was deliberated among other agendas in the Board of Director's meeting held on 30 October, 2015.

The statement of comparison of budget and actual amounts for project costs revealed that the final budget for the same item was Kshs.825,672,149 while the actual amount spent during the financial year was Kshs.578,752,080 resulting in a performance variance of Kshs.246,920,069.

Further, unexpended project grants amounting to Kshs.252,067,849 was reported in the statement of financial position under Note No.22. It was not clear why projects of this magnitude were not implemented as budgeted. Further, the list of the projects intended to be financed by the unspent fund and their status was not provided for audit review.

Under the circumstance, the budget was not applied for the intended purposes to benefit the community.

2. Human Resource

The organization had not approved the human resource policies manuals for use in the administration of the staff. The manuals are important as they guide the

Board on human resource issues including performance management, annual leave management, job descriptions, payroll management and staff discipline among others.

In the circumstance, audit could not establish if the funds allocated for Human Resource were used properly.

2.0 Fast Pay Payroll System

2.1 Inadequate Segregation of Duties

A review of the fast pay payroll management system functions revealed that IT user was performing users' functions i.e. system administrator handling payroll functions. IT users should only be involved in the support and maintenance of the system.

2.2. Inadequate User Setup

A review of the fast pay payroll management system further revealed that there was the System admin account that was being used that is not linked to any particular user, thereby making accountability difficult and could lead to an authorized payment.

2.3. Non-Maintenance of Audit/Event/Activity Logs

Walkthrough tests revealed that fast pay payroll management system does not maintain automatic logs for the activities undertaken in the system. This could lead to incorrect data entered manually.

3.0 Information Communication Technology

An inspection of the server room revealed that the Air Conditioner at the server room was not working and there was no Access register at the IT Server Room. This pose the threat of unauthorized and undetected access to the server room.

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 and using the applicable basis of accounting unless the management either intends to liquidate the Board'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 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.

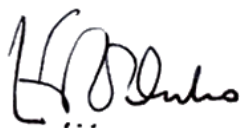
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 Corporation's 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 Board to cease to continue 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 Board's 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

27 June 2018