

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Northern Water Services Board set out on pages 1 to 18, which comprise the statement of financial position as at 30 June 2018 and the statement of performance, statement of change in net assets and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Northern Water Services Board 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 Public Finance Management Act, 2012 and Water Act, 2002.

### **Basis for Qualified Opinion**

#### **1. Receivables from Non-Exchange Transactions**

The receivables from non-exchange transactions balance of Kshs.23,880,969 as at 30 June 2018 relates to revenue receivables from the Water Service Providers which remained outstanding for more than two years. Consequently, it has not been possible to confirm that the receivables from non-exchange transactions balance of Kshs.23,880,969 as at 30 June 2018 is fairly stated.

#### **2. Cash and Cash Equivalents**

##### **2.1 Outstanding Temporary Imprest**

Included in the cash and cash equivalents balance of Kshs.733,797,520 under note 15 to the financial statements is Kshs.4,234,308 in respect of cash in hand out of which Kshs.1,200,000 related to unsurrendered temporary imprest which ought to have been surrendered on or before 30 June 2018. This is contrary to Section 152 of the Public Finance Management Act, 2012 which required temporary imprest to be accounted for within a week after the return to duty stations. Further, there was no schedule indicating the names of the imprest holders, date issued and date to be surrendered. No proper explanation was given why the imprest remained outstanding and had not been surrendered within the statutory deadline.

Consequently, the authenticity of unaccounted for temporary imprest of Kshs.1,200,000 as at 30 June 2018 could not be confirmed.

## **2.2 Bank Reconciliation Statement**

A review of the bank reconciliation statement for recurrent and development accounts for the month of June 2018 revealed the following;

### **2.2.1 Recurrent Account**

#### **(i) Unpresented Cheques**

Included in the balance of Kshs.1,512,451 in respect of payments in cash book not yet recorded in the bank statement (unpresented cheques) are stale cheques amounting to Kshs.10,775. The cheques were paid to National Council for People with Disabilities and Telkom Kenya limited. However, the cheques dated back to 2017 and continued reflecting as unpresented cheques yet they have yet to be reversed to the cash book. In view of the foregoing, the amount of stale cheques of Kshs.10,775 as at 30 June 2018 could not be accounted for.

#### **(ii) Payment in Bank Statement not in Cash Book**

Included in the payments in bank statement not in cash book is an amount of Kshs.40,282 paid to KRA as VAT collections which was debited twice in the bank. The transactions dated back to 2017 and continued reflecting in the bank reconciliation statement. No reason was given why the transactions had not been reversed and cleared.

### **2.2.2 Development Account**

#### **(i) Unpresented Cheques**

Included in the balance of Kshs.587,505 in respect of payments in cash book not yet recorded in the bank statement (unpresented cheques) are stale cheques amounting to Kshs.202,503. The cheques which were paid to commissioner of VAT dated back to 2015, but continued reflecting as unpresented cheques. No proper explanation was given why the cheques were not cleared and cash book updated.

#### **(ii) Payment in Bank Statement not in Cash Book**

Included in the payments in bank statement not in cash book is an amount of Kshs.118,394.70 paid to Commissioner of VAT. The transactions dated back to 2015 and continued reflecting in the bank reconciliation statement. No reason was given why the transactions had not been reversed and cash book not updated

Consequently, it has not been possible to confirm the accuracy of the cash and cash equivalents balance of Kshs.733,797,530 as at 30 June 2018.

## **Key Audit Matters**

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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 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 matters described in the Basis for 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**

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 EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that, nothing else 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 International 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 Board's ability to continue as a going concern, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the 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 Board's 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 Board policies and procedures may deteriorate.

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.
- 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 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 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 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**

**26 August 2019**