

REPORT OF THE AUDITOR-GENERAL ON STATE DEPARTMENT FOR WATER SERVICES FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of State Department for Water Services set out on pages 1 to 36, which comprise the statement of assets and liabilities at 30 June 2018, the statement of receipts and payments, statement of cash flows and summary statements of appropriation: recurrent and development combined, budget execution by programmes and sub-programmes 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 State Department for Water Services as at 30 June, 2018, and of its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the requirements of the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Variations Between Financial Statements and Trial Balance

A comparison of the financial statements and the trial balance availed for audit review had variances as indicated below;

Item	Financial Statements (Kshs)	Trial Balance (Kshs)	Variance (Kshs)
Exchequer releases	16,620,310,434	39,436,368,036	(22,816,057,602)
Bank Balances-Recurrent Account	21,355,105	(109,464,047)	130,819,152
Bank Balances- Development Account	196,647,352	(4,209,375,850)	4,406,023,202
Bank Balances- Deposit Account	35,476,750	948,275	34,528,475
Cash Balances	698,852	9,497,059,058	(9,496,360,206)
General Deposits	35,476,750	33,969,410	1,507,340
Other Liabilities	0	758,540	(758,540)
System required Liabilities	0	6,615,900	(6,615,900)
Cash Clearing Account	0	(11,539,853,706)	11,539,853,706

Opening Balance Reserve	0	22,695,352,025	(22,695,352,025)
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In absence of reconciliation between the two sets of records, it is neither possible to confirm the accuracy and completeness of balances reflected in the financial statements, nor that the financial statements agree with the Department's books of accounts.

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.

Key Audit Matters

Key audit matters are those matters which, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matter described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1. Underfunding of the State Department

According to the summary statement of appropriation for both Recurrent and Development Vote, the State Department had a total budget of Kshs.44,704,627,545, from exchequer, foreign and domestic grants and borrowings. The Department however received Kshs.28,977,170,367 from the three sources, resulting to an underfunding of Kshs.15,727,457,178 (35%), as detailed below:

Receipt Item	Budget (Kshs)	Actual (Kshs)	Difference (Kshs)	% of underfunding
Proceeds from Domestic and Foreign Grants	521,000,000	317,244,314	203,755,686	39%
Exchequer releases	20,003,575,625	16,620,310,434	3,383,265,191	17%
Proceeds from Foreign Borrowings	24,180,051,920	12,039,615,619	12,140,436,301	50%
	44,704,627,545	28,977,170,367	15,727,457,178	35%

Consequently, the State Department may have been unable to implement all the planned activities and this may have had a negative impact on service delivery to the public.

2. Budget Performance

A review of the budget and actual information for the State Department indicates instances of budget under performance under various items, as detailed below:

Receipt/Expense Item	Budget (Kshs)	Actual (Kshs)	Difference (Kshs)	% of Utilization
Other Receipts	678,186,770	5,067,000	673,119,770	1%
Transfers to Other Government Units	43,614,834,826	27,482,449,643	16,132,385,183	63%
Social Security Benefits	17,578,234	0	17,578,234	0%
Acquisition of Assets	248,839,461	3,069,970	245,769,491	1%

The low budget utilization may have led to low implementation of planned activities and this may have had a negative impact on delivery of services to the public by the State Department. Although, according to management the under-absorption arose from changes arising from the enactment of the Water Act, 2016 and certificates of work not forwarded for payment by the implementing agencies, it was not clear why management did not seek budget adjustment during the supplementary budget.

3. Motor Vehicle Management

A review of the State Department's transport correspondences showed that a motor vehicle registration No.KCH 683T, which was allocated to a former Cabinet Secretary, was not handed over to the department when the officer was transferred to another State Department.

In addition, a review of the Ministry's vehicles ownership documents revealed that fifteen (15) vehicles have no ownership documents as detailed below:

S/No.	Vehicle No.	Make/Type
1	GK A198U	VW Passat
2	GK A999T	VW Passat
3	KBG 118C	Toyota Hilux D/Cabin
4	GK A921Q	Toyota Prado
5	KAU 096V	Nissan X-trail
6	GK A905G	Nissan Patrol
7	KAU 476L	Toyota Prado
8	GK A 087U	Nissan sunny saloon
9	GK A139L	Nissan Sunny
10	GK A187L	Nissan Urvan
11	GK A537L	Nisan x-trail

12	GK A440F	Nissan double cabin
13	GK A458K	Nissan X-trail
14	KAU 678P	Toyota Prado
15	GK A 141	Nissan Saloon

Further, the State Department has 4 vehicles which previously belonged to Projects but reverted back to the State Department following completion and subsequent closure of the projects. However, these vehicles still bear private registration numbers and are yet to be changed to government registration numbers as detailed below:

S/No.	Vehicle No.	Make/Type
1	KAU 476L	Toyota Prado
2	KBH 282Q	Toyota Prado
3	KBV 755T	Nissan Navara
4	KAH 438Z	Isuzu Trooper

Under the circumstances, it was not possible to confirm that there is effective management of the Department's vehicles. Further, it was not possible to confirm that the Department owns the motor vehicles and that there is effective utilization of the assets.

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, I confirm that, nothing 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 on whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities which govern them. I believe that the 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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance, were not effective.

Basis for Conclusion

The audit was conducted in accordance to ISSAI 1315 and 1330. The standards require that I plan and perform the audit to obtain assurance on whether effective processes and systems of internal control, risk management and governance, were operating effectively, in all material respects. I believe that the 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 (Cash Basis), and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of the internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the State Department's ability to continue to sustain services, disclosing as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either is aware of intention to terminate the State Department, 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 State Department's financial reporting process, reviewing the effectiveness of management's systems for monitoring compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in 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 which 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 review is planned and performed to express a conclusion on whether, in all material respects, 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, 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 which 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 which 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 State Department's 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 which 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 which may cast significant doubt on the State Department's ability to continue sustaining 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 State Department to cease sustaining 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 which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the State Department 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 which 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 which may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

20 March 2019