

REPORT OF THE AUDITOR-GENERAL ON TANA WATER SERVICES BOARD FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Tana Water Services Board set out on pages 1 to 36, 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, 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 Tana Water Services 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 the Water Act, 2002.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, 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

1.0 Non-Current Assets

1.1 Inherited Assets

As previously reported, the Board inherited a number of non-current assets previously owned by the Ministry of Water and Irrigation and National Water Conservation and Pipeline Corporation, which have not been incorporated in the Board's financial statements. These assets include land and building (Maji House Nyeri), Water and Sewerage infrastructure assets of unknown value spread within its jurisdiction and fifteen (15) motor vehicles and various District Water Offices of unknown value. Further, as similarly noted in the previous year, assets net book values as at 30 June 2017 include the value of four motor vehicles still bearing GK registration numbers and which have not been transferred to the Board's name.

In addition, there was no comprehensive Fixed Assets register maintained by the Board to indicate all the assets vested to it under the Board jurisdictional area as they await the execution of transfer plan in line with the Water Act, 2002.

Under the circumstances, the value, existence and completeness of Non-Current Assets cannot be ascertained.

1.2 Property, Plant and Equipment - Grants

Similarly and as previously reported, the Property, Plant and Equipment balance of Kshs.5,506,568,389 as at 30 June 2017 excludes unknown value of a water boiler and several water tanks received from the parent Ministry and which are being used by the Board. This has in effect understated the value of Property, Plant and Equipment in the financial statements and the commensurate depreciation.

Further, the Japanese International Cooperation Agency (JICA) funded through a grant water project under Embu Water and Sanitation Company Limited, a water services provider (WSP) under the jurisdiction of the Board. Although the Board estimates the cost of the project to be Kshs.2.3 billion, the assets developed under the project have not been included in the financial statements and no documentary evidence was provided in support of these costs.

In addition, the Property, Plant and Equipment balance includes an amount of Kshs.26,252,205 in respect of Kiambere-Mwingi water supply project which is under the jurisdiction of Tanathi Water Services Board but whose initial development cost was borne by Tana Water Services Board. Although the Board does not draw any benefits from Kiambere-Mwingi Water Project, the Board continues to reflect as assets the cost of these assets in its books and charges annual depreciation on these assets. In addition, no documentary evidence in respect of transfer of the project assets from Tana Water Services Board to Tanathi Water Services Board was made available for audit verification.

Consequently, the accuracy, existence and completeness of Property, Plant and Equipment balance of Kshs.5,506,568,389 as at 30 June 2017 could not be confirmed.

2.0 Water Projects funded by African Development Bank – Nugatory Payment

Note 11 to the financial statements reflects General Expenses figure of Kshs.229,397,168 which includes ADB-Board support interest of Kshs.52,026,476. As previously reported in 2015/2016, the Board delayed in settling certified works prompting the contractors to raise the interest claims contrary to section 14.8.1 of the contract agreement. This nugatory expenditure could have been avoided had the bills been settled within the stipulated time.

As a result, the propriety and value for money of the expenditure of Kshs.52,126,476 in respect of ADB-Board support interest for the year ended 30 June 2017 could not be confirmed.

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

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 Board'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 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.

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.

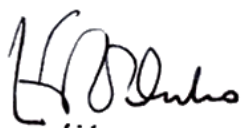
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 Board'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 Board to cease 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 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

05 July 2018