

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Tanathi Services Board set out on pages 1 to 44, 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 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 Tanathi 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 the Water Act, 2016 and the Public Finance Management Act, 2012.

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**

#### **1.0 Presentation of Financial Statements**

Page Xliii and Xliv of the financial statements for the year under review included a report of the Auditor-General with an unqualified opinion. However, the report and the opinion did not originate from the Auditor- General's report.

In the circumstance, the origin of the report as included in the financial statements is erroneous and therefore the presentation of the financial statements as at 30 June 2017 was misleading.

#### **2.0 Property, Plant and Equipment**

The financial statements reflects a Property, Plant and Equipment balance of Kshs.5,676,062,426 as at 30 June 2017. However, included in this balance were motor vehicles, computers and accessories, furniture and fittings and plant and machinery all costing Kshs.132,165,126 which had been fully depreciated at the beginning of the financial year 2015/2016. Further, these assets had not been retired from active use and no effort had been made to revalue them as required.

In addition, three parcels of land namely Matinyani/Kulia (0.125 acres), Mavoko Municipality (1.5 Acres) and Kimuyu Nguti all valued at Kshs 5,345,000 had no ownership documents.

Consequently, the accuracy, ownership, existence, completeness and security of the property, plant and equipment balance of Kshs.5,676,062,426 as at 30 June 2017 could not be confirmed.

### **3.0 Unutilized and Unaccounted for Drought Mitigation Programme Funds**

During the year under review, the Board received Kshs.170,781,831 as grant for drought mitigation. However, only Kshs.81,622,887 was utilized in the year under review resulting in under expenditure of Kshs.89,158,944 as at 30 June 2017. No explanation was given for the under expenditure of Kshs.89,158,944 even as drought continued devastating the region during the year under review.

In addition, the Board spent Kshs.4,999,222 during the year toward equipping of Imarba-Eseki Borehole main electro mechanical works of installation of a generating set at a cost of Kshs.1,960,000. However, a physical verification done on 8 March 2018 revealed that the generating set was not functioning due to frequent break downs.

In the circumstances, the propriety and value for money of Kshs.4,999,222 as at 30 June 2017 could not be established.

### **4.0 Unaccounted for Thwake Multi-Purpose Dam Funds**

The bank statements and other accounting records made available for audit review showed the Board received Kshs.200,000,000 during the year under review from the Ministry of Water and Irrigation and the same was transferred to the National Land Commission. However, no records were made available to show how the Kshs.200,000,000 was utilized by the National Land Commission and therefore, the funds remained unaccounted for as at 30 June 2017.

Consequently, the accountability and propriety of the Kshs.200,000,000 as at 30 June 2017 could not be confirmed.

### **5.0 Migwani Water Supply Project**

Tanathi Water Services Board entered into a contract agreement with Prolific Works Ltd for a period of four months from 13 May 2015 to 13 September 2015 at a contract sum of Kshs. 92,783,374 for implementation of Migwani Water Supply Project. However, although the contractor had been paid Kshs.75,338,313 (81.2% of the contract sum) as at 30 June 2017, the works had not been completed as at the time of this audit in March 2018 almost two and a half (2 ½) years after the expiry of the contract period and no approval for the extension of the contract period was availed for audit review.

In addition, the land on which the re-enforced concrete wall tank and those on which three water kiosks were erected had no ownership documents and no fencing was done on the tank and the water kiosks.

Consequently, the propriety and value for money of the Kshs.75,338,313 paid to the contractor could not be established as at 30 June 2017 and the long project delay is counterproductive to the Board.

## **6.0 Matungulu Water Supply Project**

Tanathi Water Services Board entered into a contract with Uniscope Agencies Ltd for a period of one year from 28 February 2012 to 28 February 2013 at a contract sum of Kshs.114,386,296 for implementation of Matungulu Water Supply Project. However, although the contractor had been paid Kshs.10,343,992 as at 30 June 2017, the works had not been completed as at the time of this audit in March 2018 almost five (5) years after the expiry of the contract period and no approval for the extension of the contract period was made available for audit review.

In addition, the land on which the water kiosk was erected had no ownership document and no fencing was done on the water kiosks.

Consequently, the propriety and value for money of the Kshs.10,343,992 payments to the contractor as at 30 June 2017 could not be established as well as the long project completion delays.

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

### **Other Matter**

## 1.0 Budget and Budgetary Control - Under Performance in Revenue Collection

During the year under review, the Board approved a total budget of Kshs.353,493,376. However, the actual income received as at 30 June 2017 was Kshs.312,220,169 resulting in unexplained revenue shortfall of Kshs.41,273,207.

In the circumstance, the Board failed to deliver services equivalent to the income/revenue shortfall of Kshs.41,273,207 budgeted but not received as at 30 June 2017.

Further, statement of financial performance reflected a total expenditure of Kshs.893,063,799 against a total income of Kshs.281,164,099 leading to a deficit of Kshs.611,872,700 compared to a deficit of Kshs.225,194,448 in the year 2015/2016.

In the circumstances, the Board's sustainability of services in future could not be established as at 30 June 2017.

In addition, three vote heads with a total budget of Kshs.223,578,000 had a total expenditure of KShs.780,509,123 resulting to an over-expenditure of Kshs.556,931,123 as follows:-

<b>Item</b>	<b>Budgeted Amount Kshs.</b>	<b>Actual Expenditure Kshs.</b>	<b>Over-Expenditure Kshs.</b>
Staff Cost	66,678,000	71,602,260	4,924,260
Administration and General Expenses	156,900,000	441,494,797	284,594,797
Finance Charges	-	267,412,066	267,412,066
<b>Total</b>	<b>223,578,000</b>	<b>780,509,123</b>	<b>556,931,123</b>

However, the respective supplementary budget authorizing the Kshs.556,931,123 expenditure was not made available for audit review.

### **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 to as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services 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 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 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 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**

**03 July 2018**