

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Tanathi Water Services Board set out on pages 1 to 42 which comprise the statement of financial position as at 30 June 2018, 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 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 Water Act, 2016.

Basis for Qualified Opinion

1.0 Inaccuracies in the Retention Account Balance

Note 14 to the financial statements reflects Kshs.105,172,643 in respect to cash and cash equivalents which includes Kshs.43,239,883 in respect to retention account. However, note 15 to the financial statements reflects balance of Kshs.61,050,474 for the same item resulting to an unreconciled or unexplained variance of Kshs.17,810,591.

In the circumstances, the validity and accuracy of the retention account balance as at 30 June 2018 could not be confirmed.

2.0 Unsupported Debit Balance on Capital Reserves

The statement of changes in net assets reflects a total balance of Kshs 2,516,259,631 as at 30 June 2018. Included in this balance is Kshs.3,793,997,395 in respect to capital reserve which further includes a debit balance of Kshs.5,308,553 in respect to the capital reserves for the year ended 30 June 2017. However, the respective details and supporting documents in respect of the Kshs.5,308,553 capital reserves were not availed for audit review.

In the circumstances, the accuracy of the Kshs.2,516,259,631 balance reflected in the statement of changes in net assets for the year ended 30 June 2018 could not be confirmed.

3.0 Property, Plant and Equipment

Note 12 (a) to the financial statements reflects a balance of Kshs.5,525,877,624 in respect to net book value of the property, plant and equipment as at 30 June 2018 which further includes nil balances for both Motor vehicles and Plant and Machinery. However, the Note 12 (a) shows that Motor vehicles and Plant and Machinery with a cost of Kshs.95,386,339 and Kshs.9,694,876 respectively as at 1 July 2017 both totaling to Kshs.105,081,215 were fully depreciated as at 30 June, 2018 but the same have not been revalued contrary to International Public Sector Accounting Standards (IPSAS)17 paragraph 67 which states that “the residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimate, the change(s) shall be accounted for as a change in an accounting estimate...” Further, the Kshs.5,525,877,624 in respect to property, plant and equipment include three (3) parcels of land valued at Kshs.5,675,000 whose title deeds were not availed for verification.

In the circumstances, the ownership, security and accuracy of property, plant and equipment balance of Kshs.5,525,877,624 as at 30 June 2018 could not be confirmed.

4.0 Grants Received

Note 5(a) to the financial statements reflects Kshs.339,868,103 in respect to grants which includes Kshs.107,500,000 and Kshs.78,037,260 in respect to development grants and drought mitigation grant respectively both totaling to Kshs.185,537,260. However, a confirmation from the Ministry of Water and Sanitation reveals that Kshs.243,522,250 was disbursed to Tanathi Water Services Board during the year ended 30 June 2018 resulting to an unexplained variances of Kshs.57,984,990 between the Ministry’s and Tanathi Water Services Board’s records as shown below;

Item	Ministry of Water (Kshs)	Tanathi WSB (Kshs)	Variance (Ksh)
Development grants	138,522,250	107,500,000	31,022,250
Drought Mitigation grants	105,000,000	78,037,260	26,962,740
TOTAL	243,522,250	185,537,260	57,984,990

Further, note 5(a) to the financial statements reflects Kshs.99,635,302 in respect to deferred income recognized and whose details were not availed for audit review.

In the circumstances, the accuracy of the Kshs.339,868,103 in respect to grants for the year ended 30 June 2018 could not be confirmed.

5.0 Debtors and Prepayments

Note 13 to the financial statements for the year ended 30 June, 2018 reflects a balance of Kshs.538,011,612 in respect to debtors and prepayments. However, included in the Kshs.538,011,612 is Kshs.19,896,517 and Kshs.1,672,425 both totaling to Kshs.21,568,942 in respect to long outstanding debts owed to the Board by the Ministry of Water and Sanitation and District water officers respectively which have been outstanding since November 2012 (over six years) and whose recoverability is doubtful.

In addition, the Kshs.538,011,612 includes Kshs.229,891,154 in respect to trade debtors which could not be confirmed as debtor's circularization carried out in January 2019 was not responded to.

In the circumstances, the recoverability, accuracy and validity of Kshs.229,891,154 and Kshs.21,568,942 in respect to trade debtors and long outstanding debtors respectively both totaling to Kshs.251,460,096 as at 30 June 2018 could not be ascertained.

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

Other Matter

1.0 Budgetary Control and Performance

1.1 Revenue analysis

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflects budgeted revenue of Kshs.603,594,552 and actual revenue of Kshs.514,483,614 resulting to a revenue budget shortfall of Kshs.90,610,938 in two (2) items and an excess revenue budget of Kshs.1,500,000 in one item as shown below:

Item	Budget (Kshs.)	Actual (Kshs.)	Over (Kshs.)	Under (Kshs.)	%
Grants (Development)	106,000,000	107,500,000	1,500,000		1.4%
Deferred Income recognized	99,635,302	99,635,302		0	
GOK Grants (Recurrent)	54,695,545	54,695,541		0	
Drought mitigation grant	141,680,198	78,037,260		63,642,938	44.9%
Exchange gain	174,592,511	174,592,511		0	
WSP Lease remuneration arrears	26,991,000	23,000		26,968,000	99.9%
Total	603,594,552	514,483,614	1,500,000	90,610,938	

The excess collection of Kshs.1,500,000 over the revenue budget may be a pointer to low set targets hence there is need for the management to review its budgeting

mechanism with a view to coming up with a more realistic revenue budgets to achieve higher revenue growth. In addition, the revenue budget shortfall of Kshs.90,610,938 is an indication of services that the Water Board has not delivered to its customers.

1.2 Expenditure Analysis

The statement of comparison of budget and actual amounts for the year ended 30 June, 2018 reflects a budgeted expenditure of Kshs.449,966,198 and actual expenditure of Kshs.560,322,557 resulting to an over expenditure of Kshs.111,754,181 on three (3) items and under expenditure of Kshs.1,397,822 on one (1) other item as shown below:

Item	Budget (Kshs.)	Actual (Kshs.)	Over (Kshs.)	Under (Kshs.)	%
Staff costs	66,678,000	72,941,054	6,263,054		9%
Board expenses	22,482,000	21,084,178		1,397,822	6%
Adm and general expenses	219,126,000	256,608,033	37,482,033		17%
Development costs	141,680,198	209,689,292	68,009,094		48%
Total	449,966,198	560,322,557	111,754,181	1,397,822	

The under-spending of the budget by Kshs.1,397,822 reflected equivalent services denied to the customers by the Water Board. Further, no approval was availed for audit review for the Kshs.111,754,181 over-expenditure as required by Section 12 of State Corporations Act which states that no state corporation shall, without prior approval in writing to the Minister and the Treasury incur any expenditure for which a provision has not been made in the annual estimate. There is need therefore for the management to relook at its budgeting mechanism with a view to focusing on areas which will improve service delivery to the customers of Tanathi Water Services Board.

2.0 Financial Performance

The Board's statement of financial performance reflects Kshs.514,483,614 in respect to total revenue and Kshs.560,322,557 in respect to total expenses resulting to a deficit of Kshs.45,838,943 (2017: deficit of Kshs.611,872,700). Further, the accumulated deficit increased from Kshs.1,255,807,421 in 30 June 2017 to Kshs.1,301,646,364 as at 30 June 2018. If strategies are not put in place to reverse the trend, Tanathi Water Services Board is likely to face financial challenges in future.

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 Lawfulness and Effectiveness in Use of Public Resources 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 of Conclusion

1.0 Tanathi Water Service Board 10% Retention Account

Note 14 to the financial statements reflect Kshs.105,172,643 in respect to cash and cash equivalent as at 30 June 2018 which include Kshs.43,239,883 in respect Tanathi Water Service Board 10 % retention account. A review of the respective bank statement and the cash book revealed that Kshs.38,454,475 was transferred from the retention account to recurrent, development and drought mitigation accounts as shown below.

Date (Cash book)	Cheque No	Amount (Kshs)	Account transferred to
12/1/2018	698	15,000,000	Recurrent account
17/1/2018	699	1,000,000	Recurrent account
30/1/2018	700	2,000,000	Recurrent account
2/2/2018	701	10,000,000	Recurrent account
16/2/2018	702	2,000,000	Recurrent account
1/3/2018	703	6,000,000	Recurrent account
14/3/2018	704	1,000,000	Recurrent account
14/3/2018	705	1,000,000	Development account
31/5/2018	77	454,475	Drought Mitigation account
	Total	38,454,475	

However, there was no approval for the transfer of Kshs.38,454,475 from retention account to other accounts contrary to Section 43(b) of the Public Finance Management (PFM) National Government Regulations, 2015 which states that “an accounting officer shall ensure that public funds entrusted to their care are properly safeguarded and are applied for purposes for only which they were intended and appropriated by the National Assembly.”

In the circumstances, the Board management is in breach of the law.

2.0 Ethnicity

A review of the staff ethnic composition at the Board revealed that the dominant community accounted for 72.5 % of the total employment positions as shown in the table below.

Category	Dominant Community	Others	%
Senior management	9	12	75%
Other staff	20	28	71.4%
Total	29	40	72.5%

The Board did not therefore comply with Section 7 (1) (2) of the National Cohesion and Integration Act, 2008 (Revised 2012) which stipulates that no public establishment shall have more than one third of its staff from the same ethnic community.

In the circumstances, the Board management is in breach of the law.

3.0 Non Compliance with the Approved Staff Establishment

The human resource records made available for audit review reveals that the Board has an approved staff establishment of seventy-three (73) staff at various designations while the staff in-post at the time of this audit in January 2019 was forty (40) staff resulting to a staff establishment shortfall of thirty-three (33). Included in the staff shortfall of thirty-three (33) staff is the position of the Chief Executive Officer which was still vacant at the time of audit in January 2019. In addition, the approved staff establishment reflects zero post for supply chain management officer and one (1) post for the accountant. However, as at the time of audit in January 2019, the Board had three (3) and two (2) staff in these positions respectively resulting to an excess of four (4) staff; three (3) supply chain management officers and one (1) accountant without Board's approval contrary to Section 2.1.5 of the Board's Human Resource Policy and Procedures manual which state that "All appointments shall be made with the approval of the board or as delegated and shall be within the approved establishment".

In the circumstances, the Board is in breach of its policies and procedures.

4.0 Work in Progress

4.1 Migwani Water Supply Project

4.1.1 Non-Adherence to Contract Terms

Note 12 (b) to the financial statements reflect Work in progress of Kshs.2,891,516,368 as at 30 June 2018. Included in this amount is Kshs.90,515,091 in respect to Migwani Water Supply Project.

As reported in the previous year, Tanathi Water Service Board entered into a contract agreement with a firm for a period of four (4) months from 13 May 2015 to 13 September 2015 at a contract price of Kshs.92,783,374 for the implementation of Migwani Water Supply project. However, although the contractor had been paid Kshs.90,515,091 (97.5% of the contract price) as at 30 June 2018, the work had not been completed as at the time of this audit in January 2019 almost three and half years after the expiry of the contract period and no approval for an extension of the contract period was availed for audit review.

In the circumstances, the value for money for Kshs.90,515,091 paid to the contractor for the water project as at 30 June 2018 could not be ascertained.

4.1.2 Lack of Ownership Documents

Note 12 (b) to the financial statements reflect Work in progress of Kshs.2,891,516,368 as at 30 June 2018. Included in this amount is Kshs.90,515,091 in respect to Migwani Water Supply Project. However, project verification done in January 2019, revealed that the land on which the borehole, pump house, re-enforced concrete wall tank and the machine operator house were erected had no ownership documents. Further, the water kiosk is constructed on a donated piece of land whose agreement documents were not made available for audit review and no fencing had been done to secure the water kiosk site. Although the management explained that the water kiosk was erected on a piece of land donated by the community, the respective evidence was not availed for audit review.

In the circumstances, it has not been possible to ascertain the security and ownership of the Migwani water supply whose expenditure for the year under review is Kshs.90,515,091.

4.2 Kiambere Mwingi Water Supply and Sanitation Project

4.2.1 Abandoned Projects

Note 12 (b) to the financial statements reflect Work in progress of Kshs.2,891,516,368 as at 30 June 2018. Included in this amount is Kshs.19,698,780 in respect to Kiambere Mwingi Water Supply Project.

Tanathi Water Service Board entered into a contract agreement with an Italian firm on 25 June 2015 for the executive design and completion of works for the rehabilitation of water and sanitation systems of Kiambere basin and capacity building at a total project cost of Kshs.14,544,000,000. During the field visit in the month of January 2019, it was noted that no work has been ongoing since April 2018 and the contractor was not the site.

In the circumstances, the value for money for the Kshs.19,698,780 spent on the project during the year may not be achieved.

4.2.2 Contract Period Extension

Note 12(b) to the financial statements reflect Work in progress of Kshs.2,891,516,368 as at 30 June 2018. Included in this amount is Kshs.19,698,780 in respect to Kiambere Mwingi Water Supply Project.

The contract commencement date for the project was 27 January 2017 with a construction period of 600 days, which was to expire on 12 October 2018. The expenditure on the project was Kshs.19,698,780 as at 30 June 2018 almost four (4) months after the expiry of the contract without evidence of contract period extension. In the circumstances, the value for money for the project may not be achieved.

4.2.3 Lack of Ownership Documents

Further, the parcels of lands at Mwingi town where the Kiambere Mwingi Water Supply Project- sewer treatment work was to be undertaken has no ownership documents.

In the circumstances, the ownership of the project is in doubt.

4.2.4 Non – Adherence to Procurement Law

Further, it has not been possible to establish whether the firm was competitively sourced contrary to Section 91 (1) and (2) of Public Procurement and Disposal Act, 2015 which states that “Open tendering shall be the preferred procurement method for procurement of goods, works and services” and; (2) “The procuring entity may use an alternative procurement procedure only if that procedure is allowed and satisfies the conditions under this Act for use of that method”. Although the board explained that the project financing agreement required the contractor to be selected by the financier, no records were availed to confirm the explanation.

In the circumstances, value for money in the project may not be achieved. In addition, the Board violated the law.

5.0 Audit fees

Note 15 to the financial statements reflects Kshs.325,546,755 in respect to creditors and payables which includes Kshs.177,941,615 in respect to trade creditors and which further includes Kshs.3,712,000 in respect to accumulated audit fees since 2014/2015 financial year which is payable to the Office of Auditor- General in accordance to Section 41 (1)(c) of the Public Audit Act, 2015 which states that the funds of the Office of the Auditor-General shall consist of audit fees charged at the rates prescribed by the Auditor-General. In the circumstances, the Water Service Board is in breach of the law.

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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

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 has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective. 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.

In preparing the financial statements, management is responsible for assessing the Tanathi Water Services Board's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Tanathi Water Services 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 money is applied in an effective way.

Those charged with governance are responsible for overseeing the Tanathi Water Services 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 with limited assurance as to 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 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 noncompliance. 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 Tanathi Water Services Board'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 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 Tanathi Water Services 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 Tanathi Water Services Board to cease to continue 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 Tanathi Water Services 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

16 April 2019