

# REPORT OF THE AUDITOR-GENERAL ON WATER RESOURCES AUTHORITY 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 Water Resources Authority set out on pages 1 to 38, 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 Water Resources Authority 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 (Accrual Basis) and comply with the Water Act, 2016.

### Basis for Qualified Opinion

#### 1. Property, Plant and Equipment

The property, plant and equipment balance reflects Kshs.337,412,827 as disclosed in note 14. However, as reported in prior years, this does not include an unknown value of twelve (12) parcels of land totaling 24.4709 acres, on which the Authority has constructed buildings and other developments. Further, these parcels of land which are located in various Counties do not have ownership documents, as detailed in the table below:

No.	Land Parcel	Size (Acres)	Location (County)
1	Nanyuki Regional Office	0.2372	Laikipia
2	Machakos Region Office	0.7413	Mackakos
3	Embu Regional Office	9.8842	Embu
4	Muranga Sub-Region	2.2289	Muranga
5	Kerugoya Sub-Region	0.6375	Kirinyaga
6	Kitui Sub-Region	0.4843	Kitui
7	Naivasha Sub-Region	0.3321	Nakuru
8	Kapenguria Sub-Region	0.7413	West Pokot
9	Kisumu Region Office	0.6177	Kisumu
10	Mombasa Sub-Region	8.34	Mombasa

<b>No.</b>	<b>Land Parcel</b>	<b>Size (Acres)</b>	<b>Location (County)</b>
11	Siaya Sub-Region	0.1350	Siaya
12	Nanyuki Sub-Region	0.0914	Laikipia
	<b>Total</b>	<b>24.4709</b>	

In view of the foregoing, it has not been possible to confirm the rightful ownership of these properties, as well as the completeness of property, plant and equipment balance of Kshs.337,412,827 as at 30 June 2018.

## **2. Cash and Cash Equivalents - Long Outstanding Reconciling Items**

The cash and cash equivalents balance reflects Kshs.363,887,396 as disclosed in note 16 which include balances held in various Kenya Commercial Bank (KCB) accounts, with reconciling items which have been outstanding for over six (6) months as detailed below:

<b>a) Receipts in Bank statements but not in Cashbook</b>			
<b>S/No.</b>	<b>A/C No.</b>	<b>Bank</b>	<b>Amount (Kshs)</b>
1	1109066295	KCB – Rev - Capital Hill	1,157,579
2	11029622643	KCB – Rev – Embu -Tana	1,305,327
3	11040337513	KCB - Kisumu Branch	2,900,671
4	1106233980	KCB - Rev - Athi - Machakos	12,551,250
		<b>Total</b>	<b>17,914,827</b>
<b>b) Receipts in Cash book but not in Bank Statements</b>			
5	1109066295	KCB – Rev - Capital Hill	79,975
6	11040337513	KCB - Kisumu Branch	1,897,713
7	1106233980	KCB-Rev - Athi - Machakos	4,158,096
		<b>Total</b>	<b>6,135,784</b>
<b>c) Payments in Bank statements but not in Cash Book</b>			
8	1106233980	KCB – Rev - Athi - Machakos	2,015,510
		<b>Total</b>	<b>2,015,510</b>

It is not clear why management has not conducted investigations on the causes of the long outstanding reconciling items and subsequently clear them from the bank reconciliation statements.

Consequently, it has not been possible to confirm that cash and cash equivalents balance of Kshs.363,887,396 as at 30 June 2018 is fairly stated.

### 3. Receivables from Exchange Transactions

The receivables from exchange transactions balance reflects Kshs.2,294,584,069 as at 30 June 2018 as disclosed in note 17. Included in this balance is Kshs.2,207,962,378 (96%) relating to amounts owed to the Authority by various companies and counties for periods of over nine months and whose recoverability is in doubt. The assessment is that the provision for bad debts of Kshs.254,953,785 is inadequate for the growing long outstanding debt portfolio. Further, management has not adhered to its own debt collection policy which provides that debts should be recovered as and when they fall due and outstanding debts should be stated at nominal value less provisions of 10% and 50% for debts older than 8 and 12 months respectively. According to management, efforts to recover the amounts, including signing Memorandum of Understanding (MoU) with the debtors and court processes have been made. However, the outstanding receivables, out of which 96% have been outstanding for periods of over nine months, are considered significant when compared with the Authority's operations and failure to recover them may adversely affect its operations.

Consequently, it has not been possible to confirm the recoverability of the receivables from exchange transactions of Kshs.2,207,962,378.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Water Resources Authority 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 the audit evidence 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 judgement, 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 our report.

#### Other Matters

##### 1. Non-Remittance of Third Party Deductions

The trade and other payables from exchange transactions balance reflects Kshs.1,228,397,476 as disclosed in note 20 which includes Kshs.1,081,085,840 relating to amounts owed to three institutions as detailed below:

Name	Amount (Kshs)
Water Resources Authority Pension	401,813,315.85
Ukulima Sacco	51,573,037.72

Paymaster General - Commissioner of Domestic Taxes	627,699,486.92
<b>Total</b>	<b>1,081,085,840.49</b>

The above relates to amounts deducted from employees' salaries, for subsequent remission to the respective institutions. These amounts have remained outstanding for durations beyond the stipulated period.

In letter ref. WD/3/3/1405(13) of 27 April 2017, the Principal Secretary undertook to remit Kshs.10 million to Kenya Revenue Authority (KRA) every month until the outstanding amount was fully paid. However, no evidence of remission was availed for audit verification. Further, the Authority has not made any provision for penalties and interest chargeable as a result of failure to remit the deduction to the relevant authorities on time.

## **2. Un-Serviced Long Term Loan**

The financial statements reflect a long term loan of Kshs.379,745,730, as disclosed in note 21. This loan is on-lent from the Government of Kenya out of proceeds of a World Bank (IDA) credit and was earmarked for the Natural Resources Management Project. According to the terms, the loan was to be repaid on various effective dates commencing May 2017. However, the above loan balance includes Kshs.17,133,430 which relates to interest and penalties arising from non-payment of both principal and interest on due dates. According to management, the Authority does not have the capacity to repay the loan due to inadequate funding levels. This loan, which is not being serviced continue to accumulate interest and penalties, and this may result to risk of the Authority being exposed.

## **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 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**

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*Report of the Auditor-General on the Financial Statements of Water Resources Authority for the year ended 30 June 2018*

## **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 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 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 Authority'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 is either aware of any intention to cease operations of the Authority, 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 Authority'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 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 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 Authority'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 Authority'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 Authority 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 which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Authority 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**

**07 May 2019**