

# **REPORT OF THE AUDITOR-GENERAL ON WATER RESOURCES AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019**

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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 45, which comprise the statement of financial position as at 30 June, 2019, 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 the Water Resources Authority as at 30 June, 2019, 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 Public Finance Management Act, 2012 and the Water Act, 2016.

### **Basis for Qualified Opinion**

#### **1.0 Property, Plant and Equipment**

The statement of financial position as at 30 June, 2019 reflects property, plant and equipment with a net book value of Kshs.358,218,459. However, as reported in prior years, this balance does not include the values of eleven (11) plots of land measuring 23.7296 acres in aggregate without title documents but on which the Authority has put up buildings and other developments. The plots are listed in the Appendix to this report.

Management has indicated that acquisition of the eleven (11) title documents is ongoing. In the absence of title documents, the ownership and completeness of the property, plant and equipment balance totalling Kshs.358,218,459 as at 30 June, 2019 could not be confirmed.

#### **2.0 Receivables from Exchange Transactions**

The statement of financial position as at 30 June, 2019 reflects receivables from exchange transactions totalling Kshs.2,382,406,937. Included in this balance are debts totalling Kshs.2,207,962,378 owed to the Authority by various companies and Counties. A large portion of the debts (96%) have been outstanding for periods lasting over nine months.

In addition, the provision for bad debts amounting to Kshs.264,711,882 made by Management as at 30 June, 2019 appears insufficient. Further, examination of debtors records indicated that Management had not adhered to its own debt collection policy which calls for debts to be recovered as and when they fall due, and be stated at nominal value less provisions of 10% and 50% if older than eight (8) to (12) months respectively.

Although Management has made efforts to recover the debts including signing Memorandums of Understanding (MOUs) with the debtors and initiating court proceedings, the efforts have not been successful.

In view of the foregoing, it has not been possible to confirm the recoverability of the receivables from exchange transactions balance totalling Kshs.2,382,406,937 as at 30 June, 2019.

### **3.0 Non-Remittance of Third-Party Deductions**

The statement of financial position as at 30 June, 2019 reflects trade and other payables from exchange transactions totalling Kshs.1,264,317,648. Included in this balance are deductions amounting to Kshs. 401,813,316, Kshs.51,573,038 and Kshs. 627,699,4872 due to Water Resources Authority Pensions Department, Ukulima SACCO and Commissioner of Domestic Taxes respectively.

The deductions were made from employees' salaries for the period 2011-2016 for onward transmission to the named institutions but have remained outstanding with the Authority for several years. Further, the Authority has not made provisions for penalties and interest payable on the unremitted deductions.

Failure to remit the staff deductions is irregular and may cause the Authority to incur unnecessary liability and wasteful expenditure.

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 130 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 that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

### **Other Matter**

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

The statement of financial position as at 30 June, 2019 reflects a long-term loan totalling Kshs.332,394,608. The original loan amounted to Kshs.362,612,300 and was On-Lent to the Authority by the National Government out of proceeds of a World Bank (IDA) credit earmarked for Natural Resources Management Project. However, the balance reflected in the financial statements excludes an amount of Kshs.30,217,691 being unpaid cumulative principal amount due as at 30 June, 2019.

The loan was to be repaid in instalments on various dates commencing March, 2017. According to Management, delays in repayment of the loan resulted from lack of sufficient funds.

In the absence of regular repayments, the loan continues to incur interest and penalty charges that are likely to result in nugatory use of public funds when the outstanding sums are eventually paid.

## 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 OVERALL 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 2315 and 2330. 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 to sustain services, disclosing as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to dissolve the Authority or to cease operations.

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 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 applicable 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 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 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**17 August, 2021**

## APPENDIX

### Parcels of Land without Ownership Documents

	<b>Land Parcel</b>	<b>Size (Acres)</b>	<b>Location</b>
1	Nanyuki Regional Office	0.2372	Laikipia County
2	Embu Regional Office	9.8842	Embu County
3	Murang'a Sub-Region	2.2289	Murang'a County
4	Kerugoya Sub-Region	0.6375	Kirinyaga County
5	Kitui Sub-Region	0.4843	Kitui
6	Naivasha Sub-Region	0.3321	Nakuru
7	Kapenguria Sub-Region	0.7413	West Pokot
8	Kisumu Region Office	0.6177	Kisumu
9	Mombasa Sub-Region	8.34	Mombasa
10	Siaya Sub-Region	0.1350	Siaya
11	Nanyuki Sub-Region	0.0914	Laikipia
	<b>Total</b>	<b>23.7296</b>	