

# **REPORT OF THE AUDITOR-GENERAL ON WATER RESOURCES MANAGEMENT AUTHORITY (WARMA) 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 Water Resources Management Authority (WARMA) 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 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 Management Authority 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 State Corporations Act, Cap 446.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that nothing else 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. Property, Plant and Equipment**

As reported previously, property, plant and equipment balance of Kshs.382,383,733 as at 30 June 2018 excludes twelve (12) parcels of land of undetermined value across the country on which the Authority has put up various developments including buildings but for which it does not possess legal ownership documents such as title deeds. Further, the Authority has not maintained an appropriate fixed assets register with details of the assets including a description of the asset, date of acquisition and cost, tag number, class and category of the asset.

In view of the forgoing, it has not been possible to confirm the cost, existence, ownership, valuation and security of the non-current assets reflected in the financial statements of Kshs.382,383,733 as at 30 June 2018.

#### **2. Un-receipted Customer Deposits**

Included in the payables figure of Kshs.1,442,609,838 is an amount of Kshs.6,781,702 which are indicated as Un-receipted customer deposits. These are not actual payables.

Further, it was explained that these were revenue money deposited in the revenue accounts of Water Resources Management Authority. However, the receipt details of the persons or companies depositing the money and the purpose for the money deposited were not shown in the bank records making it not possible for the Authority to receipt the money in the cash book and revenue accounts. In addition, the schedule showing these deposits was not provided for audit review.

In the circumstance, it has not been able to confirm the existence, accuracy and completeness of the customer's deposits of Kshs.6,781,702 as at 30 June 2017.

### 3. Cash and Cash Equivalents - Long Outstanding Reconciling Items

The statement of financial position reflects a cash and cash equivalents balance of Kshs.322,058,710 as at 30 June 2017. However, the following accounts have long outstanding reconciling items which have been outstanding for a period of more than 6 months as follows;

Details	Branch	Account Number	Current year Final Figure Kshs.	Remarks
KCB-Revenue	Machakos	1106233980	4,057,689	Long outstanding receipts in account not in bank statement amounting to Kshs.624,602.26
KCB Revenue	Kisumu	1104037513	5,694,841	Long outstanding receipts in account not in bank statement amounting to Kshs.4,732,256.70
KCB-Revenue	Kakamega	1101923040	2,468,910	Long outstanding receipts in account not in bank statement amounting to Kshs.774,546
KCB Revenue	Nanyuki	1103187198	4,138,483	Payment in account not in bank statement amounting to Kshs.31,922.5 and Long outstanding receipts in account not in bank statement amounting to Kshs.1,164,694.35

Under the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.322,058,710 As at 30 June 2017 could not be ascertained.

### 3. Uncollected Debtors

During the year under review, the Authority had receivables from exchange transactions of Kshs.2,453,308,956 (Note 17), out of these debtors, Kshs.2,095,551,277 has been outstanding for a period of over nine months and whose recoverability is doubtful. However, the provision for bad debts of Kshs.245,330,896 appears inadequate for the growing debt portfolio. Further, the debt collection policy has not been adhered to. Even though the Authority has explained the efforts being made to recover the debts, including signing MOUs with the debtors and court process, the amount outstanding is very huge compared to the operations of the Authority and failure to recover the amount will significantly affect that financial operations of the Authority.

Consequently, the recoverability and accuracy of the receivables from exchange transactions of Kshs.2,207,962,378 as at 30 June 2017 could not be confirmed.

#### **4. Non Remittance of Third Party Deductions**

Included in the trade and other payables from exchange transactions balance of Kshs.1,205,309,422 as at 30 June 2017, is an amount of Kshs.1,081,085,841 which is owed to three Institutions as follows;

<b>Name</b>	<b>Amount Kshs.</b>
WRA Pension	401,813,316
Ukulima Sacco	51,573,038
Paymaster General- Comm. of Domestic Taxes	627,699,487

These are part of statutory deductions that were made from salaries of employees for remittance to the relevant institutions but were not remitted. The amounts have remained outstanding 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 balance was cleared. However, no evidence of remission of the amount was made available for audit review. Further, the Authority risk penalties and interest on the unremitted amount of Kshs.1,081,085,841.

In consequence, it has not been possible to confirm the accuracy and completeness of the trade and other payables from exchange transactions balance of Kshs.1,205,309,422 as at 30 June 2017.

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

Records maintained at the Water Resources Management Authority indicate that the Authority received a loan totaling Kshs.362,612,300 from the Government arising from a credit granted by the World Bank(IDA) earmarked as Long Term Loan payments to IDA/WORLD BANK for Natural Resources Management Project with various effective dates of repayments starting on 30 March 2017. However, although the repayment

fell due the Authority did not make any repayment totaling Kshs.18,130,614 (principal amount) and Kshs.14,708,461 (interest).This has since had a growing penalty of Kshs.5,046,355. Further, the Management of the Authority explained that it does not have finances to repay the outstanding loan.

In the circumstances, it has not been possible to confirm that, the Authority will be able to repay the outstanding loan balance of Kshs.367,658,654 as at 30 June 2017, when it falls due.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Water Resources Management 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 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 section of my report, I determine that there were no other 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 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 either intends to liquidate the Authority 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 Authority'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 of Kenya. 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 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 Authority'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 Authority's ability to continue 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 Authority to cease 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 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 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**

**02 October 2018**