

# **REPORT OF THE AUDITOR-GENERAL ON WATER SERVICES REGULATORY BOARD (WASREB) 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 Services Regulatory Board (WASREB) set out on pages 25 to 43, 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 Service Regulatory 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 State Corporations Act, Cap 446 of the laws of Kenya.

Further as required by Article 229(6) of the Constitution, except for the matters described in the Other Matter and Basis for Qualified Opinion sections of my report, based on the procedures performed, I confirm that nothing else has come to my attention to make me believe that public money has not been applied in a lawful way.

### **Basis for Qualified Opinion**

#### **1. Cash and Cash Equivalents**

The statement of financial position indicates a cash and cash equivalents' balance of Kshs.73,853,552 as at 30 June 2017. However, although the statement of cash flows reflects the same amount, the actual casting of the statement of cash flows shows a cash and cash equivalents balance of Kshs.73,790,552 resulting into an unexplained difference of Kshs.63,000. In consequence, the accuracy of the cash and cash equivalents could not be confirmed.

#### **2. Outstanding Account Receivables**

The statement of financial position reflects a receivables balance of Kshs.113,486,346 as at 30 June 2017. However, the amount is net of impairment allowance of Kshs.59,861,973 without indication of the basis on how the impairment was arrived at. Further, receivables records maintained at the Board indicate a total of Kshs.172,019,069 (note 12) was owed by various firms, companies and counties as outstanding amounts as at 30 June 2017, out of which Kshs.96,230,214 has been outstanding for a period of over nine months. Though efforts have been made, including having the water companies execute standing orders in favour of the Board, the outstanding amounts remain significant relative to the annual revenue, which forms a

key component of financing of the Board. The amount outstanding can significantly affect the operations of the Board if not recovered.

### **3. Unsupported Expenditure**

During the year under review, the Board spent Kshs.110,172,824 on administrative expenses which include Kshs.22,396,887 on advertising and publicity as per Note 10. Included in advertising and publicity is a total of Kshs.7,110,965 paid as monthly allowances to Water Action Groups (WAGS) from various regions in the country. Even though the Management explained that the allowances were paid on the strength of an approval by the Board, no evidence of such approval has been produced for audit verification. It is also not clear how the groups accounted for this money which was being paid to them monthly or how management confirmed that they were working as per their mandate and that they were paid for work done.

Consequently, it has not been possible to confirm the propriety and value for money of advertising and publicity expenditure of Kshs.22,396,887.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Water Services Regulatory 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 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, were 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, there were no other Key Audit Matters to report in the year under review.

### **Other Matter**

### **Comparative Budget and Actual Information**

The budget for the board as reflected in the approved estimates was Kshs.125,000,000 (Kshs.65 million Recurrent and Kshs.60 million Development).

The following has been observed as regards the Board's printed estimates budget compared to the budget that was applied and the actual values:

Under State Corporations budget, the Board spent Kshs.190,000,000 allocated as follows in recurrent activities:

|                     |                                |
|---------------------|--------------------------------|
| Personal emoluments | Kshs.112,057,000               |
| Other Expenses      | Kshs. <u>77,943,000</u>        |
| <b>Total</b>        | <b><u>Kshs.190,000,000</u></b> |

The Board spent a total of Kshs.242,166,521 on recurrent and development against an approved estimate of Kshs.125,000,000 without approval.

### **Management's Responsibility 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 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 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 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, but not 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 to sustain 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 cease to continue to sustain 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**

**16 July 2018**