

REPORT OF THE AUDITOR-GENERAL ON COAST WATER WORKS DEVELOPMENT AGENCY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Coast Water Works Development Agency set out on pages 1 to 35, which comprise the statement of financial position at 30 June, 2019 and the statement of financial performance, statement of cash flows, statement of changes in net assets 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 Coast Water Works Development Agency as at 30 June, 2019, 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 Public Finance Management Act, 2012 and the Water Act, 2016 .

Basis for Qualified Opinion

1.0 Presentation of Financial statements

The statement of financial performance does not separately disclose revenue from exchange and non-exchange transactions as required by the reporting format prescribed by the Public Sector Accounting Standards Board. Further, Notes 6, 7,11,12,13,14,15,17,18 and 19 are not presented sequentially, whereas Note 9 in the statement of financial performance is redundant since it makes reference to total revenues which should not have a Note.

In addition, although the statement of cash flows was prepared using the direct method, it reflects an adjustment for depreciation amounting to Kshs.143,580,866, whose use however, the template issued by the Public Sector Accounting Standards Board only recommends when the indirect method is used.

Consequently, the financial statements do not conform to International Public Sector Accounting Standard No.1 on presentation of financial statements and the format prescribed by the Public Sector Accounting Standards Board.

2.0 Inaccuracies in the Financial Statements

A recast of the balances that comprise the assets balance totalling Kshs.14,705,873,284 reflected in the statement of financial position as at 30 June, 2019 yielded Kshs.14,705,973,284, resulting to an unexplained variance of Kshs.100,000.

Further, the net assets balance totalling Kshs.1,879,914,387 reflected in the statement of financial position as at 30 June, 2019 differs by Kshs.100,000 with the re-cast total amounting to Kshs.1,879,814,387.

In addition, Note 20 to the financial statements reflects additions to assets during the year totalling Kshs.6,256,669. However a recast of the items included in the balance yields a sum of Kshs.6,265,669, resulting to a variance of Kshs.9,000 which has not been explained.

In the circumstances, the accuracy and completeness of the statement of financial position as at 30 June, 2019 could not be confirmed.

3.0 Variances Between Financial Statement Figures and Supporting Schedules

The monitoring and evaluation and maintenance of water assets expenditure balances reflected in the financial statements differ with the amounts reflected in the respective supporting schedules as follows:

Account Name		Note	Financial Statement Amount (Kshs.)	Schedule Amount (Kshs.)	Variance (Kshs.)
1.	Monitoring & Evaluation	10	18,673,558	18,673,198	360
2.	Maintenance of Water Assets	13	64,253,678	62,653,152	1,600,526
Total			82,927,236	81,326,350	1,600,886

Consequently, the accuracy and completeness of the financial statements could not be confirmed.

4.0 Unconfirmed Balances

As explained in the following paragraphs, several balances reflected in the financial statements did not have sufficient supporting records, or were not fairly stated:

4.0.1 Property, Plant and Equipment

As similarly reported in the previous year, the property, plant and equipment balance totalling Kshs.2,564,857,929 as at 30 June, 2019 does not include assets of undetermined value transferred to the Agency from the Ministry of Water and Irrigation, and the defunct National Water Conservation and Pipeline Corporation pursuant to Legal Notice No.101 of 12 August, 2005. No satisfactory explanation was provided by Management for exclusion of the assets from these financial statements.

Further, assets, including lands and office buildings acquired while undertaking various works under the Water and Sanitation Services Improvement Project (WaSSIP) and the Agency's projects such as Mkanda Dam in Kwale County, have similarly not been included in these financial statements and the Agency's fixed assets register as at 30 June, 2019. Records provided for audit indicated that the lands measured at least 53.79 hectares and were acquired at a total cost of Kshs.10,832,423.

In addition, a report by Management on the status of the plots of land owned by the Agency revealed that at least one-third of the lands as at 30 June, 2019 had been encroached upon by private developers. These included 22 acres of land with staff houses in Shanzu, Mombasa, which were irregularly apportioned into 42 plots and the respective title deeds issued to private developers. Therefore, the Agency's assets have not been properly safeguarded as required by Section 72(1)(a)(b) of Public Finance Management Act, 2012.

Additionally, examination of motor vehicle records indicated that only fifty-three (53) out of 89 of the Agency's motor vehicles and eighty-nine (89) out of one hundred and twenty eight motor cycles were recorded in the assets register. Therefore, the remainder thirty-six (36) motor vehicles and thirty-nine (39) motor cycles were at risk of misplacement or loss as their locations and use could not be effectively tracked by Management.

In view of these issues, it has not been possible to confirm the accuracy, completeness and ownership of the property, plant and equipment balance totalling Kshs.2,564,857,929 reflected in the statement of financial position as at 30 June, 2019.

4.0.2 Loan Balance

The statement of financial position reflects a loan balance totalling Kshs.11,482,729,838 as at 30 June, 2019, as further disclosed in Note 23 to the financial statements. As previously reported, in spite of the disclosure that Kshs.11,464,257,010 of the loan was outstanding in June, 2018, the confirmation letter issued by the National Treasury dated 15 September, 2018 reflected a balance of Kshs.12,241,117,290, resulting to unexplained variance of Kshs.758,387,452.

Records held by the Agency indicated that, in the year 2008, the Government of Kenya entered into a financing agreement with the World Bank to finance water and sanitation services in the then Coast Province through Coast Water Works Development Agency. The Bank was to disburse Kshs.4,570,199,584.27 (USD.45,203,760) under Credit IDA Credit 4376-KE at an interest rate of 1.5 per cent per annum. The repayment period was set at thirteen (13) years with effect from 30 March, 2013, and an annual repayment of USD.4,906,636 comprised of USD.3,168,030 in principal amount and USD.1,738,606 in interest. However, records to confirm whether any repayments had been made to offset the loan were not provided for audit verification. In addition, the outstanding interest as at 30 June 2019, if any, was not disclosed separately under other current liabilities as required under Paragraph 82 of IPSAS (Accrual) 1.

Further, although International Public Sector Accounting Standard (IPSAS) No.4 requires foreign currency monetary items to be translated using the closing rate, the loan balance was translated using the exchange rate prevailing on the date the loan was acquired. As a result, no foreign exchange gain or loss was recognized. Further, the Agency's accounting policy on translation of foreign denominated transactions and balances was not disclosed in the notes to the financial statements in line with the accounting standards.

In view of these discrepancies, it was not possible to confirm whether the Agency had observed the terms of the loan. In addition, the accuracy and completeness of the loan balance totalling Kshs.11,482,729,838 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

4.0.3 Trade and Other Receivables

As previously reported, the trade and other receivables balance totalling Kshs.3,621,629,912 as at 30 June, 2019 includes Kshs.3,616,155,676 due from Water Service Providers. However, the balance differs by Kshs.985,788,777 from the balances totalling Kshs.2,630,366,899 reflected in the books of the Water Service Providers, as detailed in the table below:

Water Service Provider		Balance as Per Agency (Kshs.)	Balance as Per Water Company (Kshs.)	Difference (Kshs.)
1.	Mombasa Water and Sewerage Company Limited	1,381,172,144	1,167,419,444	213,752,700
2.	Malindi Water and Sewerage Company Limited	531,332,877	506,029,445	25,303,432
3.	Kilifi-Mariakani Water and Sewerage Company Limited	658,879,187	315,671,948	343,207,239
4.	Kwale Water and Sewerage Company Limited	500,719,880	190,764,959	309,954,921
5.	Taita/Taveta Water and Sewerage Company Limited	529,211,732	450,481,103	78,730,629
6.	Lamu Water and Sewerage Company Limited	13,111,856		13,111,856
7.	Tana River Water and Sewerage Company Limited	1,728,000		1,728,000
Total		3,616,155,676	2,630,366,899	985,788,777

In the circumstance, the accuracy and completeness of the trade and other receivables balance totalling Kshs.3,621,621,912 as at 30 June, 2019 could not be confirmed.

4.0.4 Finance Costs

The statement of financial performance reflects finance costs totalling Kshs.114,335,040 incurred in the year under review. Management indicated that the costs denoted interest charged on the World Bank Loan. However, no records were provided to confirm how the amount was arrived at.

In the circumstances, the measurement and validity of finance costs totalling Kshs.114,335,040 for the year ended 30 June, 2019 could not be confirmed.

4.0.5 Trade and Other Payables

The statement of financial position reflects trade and other payables totalling Kshs.1,343,329,059 as disclosed in Note 22 to the financial statements. Included in the balance is interest on loans totalling Kshs.843,685,821. However, records on the principal amount and interest paid and outstanding on the loans were not provided for audit review.

Consequently, the accuracy and completeness of the trade and other payables balance totalling of Kshs.1,343,329,059 as at 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Coast Water Works Development Agency Management 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 that the audit evidence I have 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. I have determined that there were no key audit matters to report in the year under review.

Other Matter

1.0 Budgetary Control and Performance

1.0.1 Revenue Budget

The statement of comparison of budgets and actual amounts indicates that the Agency's revenue budget totalled Kshs.1,349,591,000 during the year under review and actual collections totaling Kshs.2,177,287,914, resulting to net surplus of Kshs.827,696,914 or 61.3% of the budget as detailed below:

Revenue Item		Budget (Kshs.)	Actual (Kshs.)	Over- Collection (Kshs.)	Ratio of Actual Over Budgeted Collections (%)
1.	Rendering of Services	560,000,000	835,219,773	275,219,773	149.1%
2.	Government Grants and Subsidies	785,000,000	1,332,282,346	547,282,346	169.7%
3.	Other Income	4,591,000	9,785,795	5,194,795	213.1%
Total		1,349,591,000	2,177,287,914	827,696,914	161.3%

As the data shows, collections under all the three revenue items exceeded their respective budgets with the total collections being equivalent 161% of the total budgeted.

1.0.2 Expenditure Budget

During the year under review, the Agency had budgeted to spend Kshs.2,063,137,234 on its various programs and activities. However, actual expenditure totalled Kshs.1,939,803,479, resulting to under-expenditure of Kshs.123,333,755 or 6% as summarized below:

Item	Budgeted Amounts (Kshs.)	Actual Amounts (Kshs.)	Over Absorption (Kshs.)	Under-Absorption (Kshs.)	Under-Absorption (%)
1. Use of goods and Services	442,769,000	311,041,172	-	131,727,828	29.8%
2. Remuneration of Directors	21,955,000	15,392,600	-	6,562,400	29.9 %
3. Employees Costs	235,662,000	205,116,602	-	30,545,398	13.0 %
4. General Expenses	58,058,000	24,286,985	-	33,771,015	58.2%
5. Repair and Maintenance	482,720,000	561,685,846	78,965,846	-	16%
6. Contracted Services	707,945,234	707,945,234	-	-	-
7. Finance Costs	114,028,000	114,335,040	307,040	-	0.3%
Total	2,063,137,234	1,939,803,479	79,272,886	202,606,641	6.0%

The under-expenditure mainly occurred in four items whereby the Agency had budgeted to spend Kshs.758,444,000 but spent Kshs.555,837,359, resulting to under-absorption of Kshs.202,606,641 or 26.7% of the aggregate target.

Further, the Agency had budgeted to spend Kshs.482,720,000 on repairs and maintenance but spent Kshs.561,685,846 resulting to over-expenditure of Kshs.78,965,846 or 16% of the budget. However, no evidence was provided by Management to confirm whether the over-expenditure was approved by the Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Conclusion 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 money has not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Non-Revenue Water

The statement of financial performance reflects water sales totalling Kshs.835,219,773. Included in the balance are bulk sales totalling Kshs.697,863,700 as disclosed in Note 7 to the financial statements. The report of the Chief Executive Officer indicated that the volume of water produced in the year under review totalled 57,305,000 cubic meters (M³) out of which 34,893,185 cubic meters(M³) were billed to customers. The balance totalling 22,411,815 cubic meters(M³) or 39% of the output produced signified Non-Revenue Water which was 14.11% percentage points above the allowable loss of 25% prescribed in the guidelines issued by the Water Services Regulatory Board. The Non-Revenue-Water (NRW) totalling 19,546,735.5 cubic meters may have resulted to loss of Kshs.390,934,710 at the sale price of Kshs.20 per cubic meter charged by the Agency to Water Service Providers.

The significant level of Non-Revenue Water is a drain on the Agency's profitability and could hamper its ability to sustain its services.

2.0 Expired Mkanda Dam Performance Bond

Examination of records on construction of Mkanda Dam indicated that the performance bond signed by the contractor expired on 31 March ,2018. No record of a new performance bond having been issued was provided for audit.

In the circumstance, the bond may not be enforceable and the Agency could incur losses should the contractor fail to perform the contract as agreed.

3.0 Irregularity in Baricho Well-Field Resettlement Compensation

Examination of records on compensation payments made for resettlement of persons affected by the construction of Mkanda Dam indicated that payments totalling Kshs.2,330,460 were made to persons whose names were not in the Resettlement Action Plan (RAP) that identified the Project Affected Persons (PAP) and compensations due to them.

In the circumstance, the expenditure totalling Kshs.2,330,460 incurred on the persons may have been irregular.

4.0 Outstanding Imprests

Note 18 to the financial statements reflects outstanding imprests totalling Kshs.877,022, as at 30 June, 2019 out of which Kshs.497,200 had been outstanding for over one (1) year contrary to Section 93 (5) of the Public Financial Management Regulations, 2015. In addition, records examined indicated that five officers held multiple imprests totalling Kshs.790,020, contrary to Section 93(4)(b) of Public Finance Management Regulations, 2015.

Management indicated that the imprests would be recovered through payroll deductions, but did not explain why it had taken so long to effect the recoveries.

5.0 Payment of Salary Advances

Examination of salary records indicated that advances totalling Kshs.1,002,349 as at 30 June, 2019 paid to seventeen (17) officers were in excess of their two months' basic salaries contrary to Section 6.1. of the Agency's Human Resource Manual. Further, collateral security required to be provided by payees for the excessive advances were not presented for audit.

In the circumstance, the salary advances balance totalling Kshs.2,338,774 as at 30 June, 2019 may have been paid irregularly

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, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, 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.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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 overall 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, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Agency's ability to sustain its services disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve the Agency, 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.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Agency 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 overall 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 review 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 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 Coast Water Works Development Agency 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 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 Agency'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 Agency 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 Agency to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

10 January, 2022