

REPORT OF THE AUDITOR-GENERAL ON NATIONAL IRRIGATION BOARD FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Irrigation Board set out on pages 1 to 48, which comprise of 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 effects of the matter 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 National Irrigation Board as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unconfirmed Property Plant and Equipment Balance

As disclosed in Note 13 to the financial statements, the statement of financial assets reflects property, plant and equipment amounting to Kshs.5,090,259,635 which includes tractors and motor vehicles with a net book value of Kshs.26,110,558. However, the balance excludes the value of one motor vehicle which was claimed to have been stolen in the financial year 2016/2017. The ownership documents of the said vehicle were not provided for audit review and Management did not explain how the matter had been treated in the financial statements or the steps taken for its recovery.

Further, the balance includes an amount of Kshs.31,457,999 being expenditure incurred on refurbishment and renovations of property, plant and equipment. The expenditure is disclosed separately in the fixed assets register but could not be attributed to specific items or class of plant, property and equipment.

In the circumstances, the accuracy and completeness of the property, plant and equipment amounting to Kshs.5,090,259,635 could not be confirmed.

2. Accuracy of Inventories Balance

As disclosed in Note 18 to the financial statements, the statement of financial position reflects inventories balance of Kshs.129,007,694, out of which an amount of Kshs.5,238,587 relates to inventory maintained at the Head Office. Examination of records and physical verification of stores reflected inventories worth Kshs.1,497,842 were obsolete. However, no provisions has been made for the obsolete stock in the financial statements.

Consequently, the completeness, valuations and accuracy of inventories balance of Kshs.129,007,694 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

3. Unexplained Retained Earnings Adjustments

As disclosed in Note 21 to the financial statements, the statement of financial position reflects a balance of Kshs.17,487,862,068 under retained earnings. The balance was arrived at by adding the surplus for the year of Kshs.2,208,953,526 to the opening balance Kshs.15,972,115,340 and deducting an amount of Kshs.693,206,799, which is explained as retained earnings adjustment. However, no explanation was provided for the adjustment.

Further, as disclosed in Note 15 to the financial statements reflects work in progress adjustment balance of Kshs.749,572,258, which is not in the additions to property plant and equipment schedule. The adjustment has also not been explained or supported. The policy of the Board is to offset all projects completed during the year to the retained earnings. However, the policy is not documented or disclosed by a way of a Note to the financial statements as per the requirements of IPSAS 3.

Consequently, the accuracy, completeness, presentation and disclosure of the retained earnings of Kshs.17,487,862,068 could not be confirmed.

4. Variance in Inter Company Transactions

As disclosed in Note 19 to the financial statements, the statement of financial position reflects receivables from exchange transactions net balance of Kshs.209,465,578 comprising staff imprests, trade debtors, farmers and other receivables. The other receivables amount of Kshs.169,714,052 constitutes balances owed by its two subsidiary companies of Mwea Rice Mills Limited and Western Kenya Rice Mills (WKRM) which significantly differ with the balances reflected in the current account of the respective subsidiary's financial statements for the same period as tabulated below:

Entity	Financial Statements for the year ended 30 June 2019		Variance (Kshs.)
	Board (Kshs.)	Subsidiaries (Kshs.)	
Mwea Rice Mills Current Account	11,246,209	44,115,151	(32,868,942)
Western Kenya Rice Mills Current Account	37,704,542	33,482,549	4,221,993

Management has not given any explanation for the above discrepancies.

Further, the other receivables balance of Kshs.169,714,052 constitute a suspense account Kshs.34,280,229 which does not relate to any specific debtors.

In addition, the balance includes staff imprests balance of Kshs.16,706,792 which constitutes in the balance of Kshs.2,468,258 relating to long outstanding imprests dating back to 2015. Management has not explained measures it has taken to recover the long outstanding imprests, whose recovery appear to be doubtful.

In the circumstances, the accuracy and completeness of the receivables from exchange transactions balance of Kshs.209,465,578 could not be confirmed.

5. Long Outstanding Payables from Exchange Transactions

As disclosed in Note 30 to the financial statements, the statement of financial position reflects payables from exchange transactions balance of Kshs.1,993,898,246 which includes an amount of Kshs.934,515,800 which has been outstanding for more than one year.

Further, included in the balance is long outstanding liability of Kshs.30,000,000 owed to Agricultural Development Corporation (ADC). However, the balance differs significantly with respective receivable balance of Kshs.91,323,713 reflected in ADC financial statements by Kshs.61,323,713. Management has not explained the measures it has planned to take settle the long outstanding debts.

In addition, trade payables amounting to Kshs.1,149,645,944 as at 30 June, 2019, includes an amount of Kshs.20,981,308 due to Water Resources Management Authority, which has remained outstanding for a long period. No measures seem to have been taken by the Management to settle the long outstanding debt.

In the circumstances, the completeness and accuracy of the payables from exchange transactions totalling to Kshs.1,993,898,246 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Irrigation Board 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. There were no key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amount reflects final receipts budget and actual on comparable basis of Kshs.7,561,667,642 and Kshs.7,383,610,663 respectively resulting to an under-funding of Kshs.178,056,979 of the approved budget. Similarly, the Board spent Kshs.4,757,220,037 against an approved budget of Kshs.7,561,667,642 resulting to an under-expenditure of Kshs.4,757,220,037 or 63% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the stakeholders.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

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, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I confirm that, nothing else 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

1. Delayed Community Irrigation Development Projects

1.1 Water for Household Project Phase II

The Management awarded a contract to a company, for water for household project phase 2 in Mwatate Constituency at a contract sum of Kshs.19,933,250.00 (inclusive of taxes). The project commenced on 18 May, 2019 and was due for completion within four (4) months from the commencement date of the project.

Physical verification of the sampled water pans in Mwakitau Location, Mwaghenyi village on 18 February, 2020 revealed that farmers were required to install a plastic lining after construction was done. However, it was observed that no water pan with a plastic had been lining installed by farmers for all the project visited. The average depth of the water pans exceeded 1.5 meters making it difficult for users to access water especially when the water level was low and the water pans are not fenced rendering them dangerous to the public and animals.

In the circumstances, value for money and intended objective of the water for household projects may not have been achieved.

1.2 Rehabilitation Works of Kerwa Dam Project

A contract for the rehabilitation works of Kerwa Dam Project- Mbeere South Constituency Embu County to a 100,000 cubic meters was awarded to a contractor at a contract sum of Kshs.17,970,000. The contract period was three months with a commencement date of 28 March, 2019 and completion date stated as 28 June, 2019. This could not be achieved at Kerwa earth dam which had a capacity of 59,300 cubic meters only. To achieve the targeted capacity, the contractor was instructed by the resident engineer to de-silt two (2) more identified earth dams within the area to achieve the quantities, thus Mikuuri Earth Dam-15,900 cubic meters and Kariko Earth Dam-24,800 cubic meters. The associated cost of each dam was not provided and change of site for a new project were not approved by the Managing Director.

Physical verification carried out on the Kerwa earth dam on 17 February, 2020 revealed that the dam waters were not utilized for purposes of irrigation as intended, as provision on how the dam water was to be drawn and utilized for agricultural purposes had not been factored in the contract. The dams were not fenced as precaution to users thus posing an environmental threat to the communities around and the contract specifications were not adhered to.

1.3 Rehabilitation Works for Kathanje Earth Dam Project

On 28 May, 2019, the Board signed a contract for the rehabilitation of Kathanje water pan in Tharaka Nithi County was at a contract sum of Kshs.19,430,000 for a contract period of three (3) months. The project involved rehabilitation works by desilting and

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expanding Kathanje earth dam to a volume 100,000 cubic meters. The contractor however did not complete the works as per the contract for failure to attain the volume required of 100,000 cubic meters due to land provide ability and soil profile.

Physical verification carried out on the Kathanje dam on 17 February, 2020 established the following: -

- (i) The works of placing and compacting in 300mm layers to achieve 95% MDD for embankment and form slopes of 1:2 on the upstream shoulder and raise to a height of max 4.8m with a crest width of 4m for a length of the embankment was not achieved,
- (ii) The embankment was severely eroded due to erosion and poor compacting,
- (iii) The embankment showed signs of horizontal cracks which if no remedial action is taken and the rains commences, the dam would collapse and cause severe destructions to life and property considering that the dam was constructed between schools,
- (iv) Dam 2, with a total area of 3622.9 meters' square was not fully excavated because of rock and did not achieve the claimed volume of 16,303 m³,
- (v) Similarly, dam 3, with a total area of 2990.16 meters' square was not fully excavated to achieve the claimed volume of 13,455m³,
- (vi) The perimeter fence had not fully been erected due to a dispute on the width of a road reserve and a resident bordering the dam.

Consequently, value for money totalling to Kshs.19,430,000 could not be confirmed as a proper charge to public resources.

1.4 Rehabilitation Works of Iganjo/Silanga Water Pan

The Board awarded to a contractor for rehabilitating Iganjo/Silanga Water Pan in Murang'a at a contract sum of Kshs.17,970,000. According to the Interim Payment Certificate No.1, the contractors gross work done was Kshs.14,430,365.85. The water pan is one of the existing water pans in the country that was identified for rehabilitation in order to achieve one of the Big 4 agendas of ensuring food security. It was to be used for fish and fishing by the community. The water pan was desilted and all the mud and hyacinth in the water removed. However, a physical verification carried out at the water pan site indicated that the water pan had not been put to the intended use and was not fenced off to enhance security and restrict trespassers. It was also noted that water hyacinth and lilies had grown which may lead to future siltation.

Consequently, value for money to the citizens for rehabilitating Iganjo/Silanga Water Pan at a cost of Kshs.17,970,000 could not be confirmed.

1.5. Variations in Households Projects in Murang'a

The Board constructed household projects in various counties in the country which included Nyeri, Laikipia, Nyandarua, Meru, Isiolo, Baringo, Kiambu, Murang'a, Kajiado, Uasin Gishu, Machakos, Trans Nzoia, Embu, Kwale, Taita Taveta, Samburu, Nakuru and Tharaka Nithi counties. The construction of these household projects involved the construction of water pans in identified farmer's land. The water pan of each farmer was to have a capacity of between 1,000- 3,000m³.

The household projects in Murang'a were constructed for farmers in Kambiti, Kamahuha, Gatanga- Ithanga and wards. During physical verification of the pans carried out on 12 February, 2020, it was noted that there were no well-defined spill ways and inlets for the passage of water and the embankments appeared unstable Kigumo

The Management may not have conducted a proper survey and study on the soil around the area of the pans since most of the pans could not hold water for a long time. The farmers on the other hand had not met part of fencing the water pans and even buying pumps to draw the water from the pans.

In the circumstances, value for money and achievement of the intended purposes could not be confirmed.

3.0 Other Projects Management and Related Issues

3.1 Termination of contract for Bura Irrigation and Settlement Scheme Rehabilitation Project

The Contract for the rehabilitation of Bura Irrigation and Settlement Scheme was awarded to company for a contract sum of Kshs.7,355,829,104 inclusive of 10% contingency sum. Notification of award was done on 24 August, 2012 and contract signed on 27 February, 2013. The commencement and revised completion date were 27 November, 2015 and 27 November, 2016 respectively. The following issues were noted: -

- i. The project implementation appraisal report done in May, 2018 shows that the contractor had presented ten interim certificates amounting to Kshs.2,739,494,669.93 and had been paid Kshs.2,444,453,392.43 resulting in outstanding payment to the contractor of Kshs.295,041,277.50. Claims for interest on the overdue payments by the contractor and liquidated damages payable to the Board (clause 47) were Kshs.71,919,006.19 and Kshs.524,908,037.28, respectively. However due to delay in completion of the project the contract was terminated.
- ii. Although the contractor had a performance guarantee with Kenya Commercial bank (KCB) of USD 5,750,000 and performance bond guarantee of USD5,751,744, a demand by the Board was dishonoured by the bank. No

explanation was provided for refusal by the Kenya Commercial Bank to pay the performance bond and advance payment guarantee to the Board given that as at the time of termination of the contract they were still valid.

- iii. The Board has sought legal redress and hired a legal firm for representation in a suit against Kenya Commercial Bank (KCB) for the recovery of advance payment guarantee and performance guarantee. The contract for the above legal services was entered into in March, 2019. The management has, however, not provided details on how far the case has progressed.
- iv. After termination of the initial rehabilitation contract by the employer, a new contractor was awarded phase one of the remaining works (item 1-2.2). However, it was noted that the contract was awarded to a company at a contract sum of Kshs.1,786,927,858.83 as per contract agreement number NIB/DRP/023/2018-2019 dated 4 June, 2019. The contract was awarded on 15 January, 2019 and signed on 4 June, 2019. The commenced date was on 3 October, 2019 for a contract period of twelve months ending 2 October, 2020. However, the works commenced ten months after the contract award. No explanation was provided for the delay.
- v. A progress report dated 4 December, 2019 indicates that only 1% of the work had been done. Further, there was a reservation from resident engineer concerning the need for the contractor to double the efforts to be at par with the program of work.

Consequently, the full recovery of the performance and advance payment guarantee and value for money could not be confirmed.

3.2 Delayed Construction of Thiba Dam

The contract for the construction of the above dam with a capacity of 15.6 Million M³ at Kirinyaga County in Gichugu Constituency was awarded to a company for a contract sum of Kshs.8,221,083,893.09. The commencement date was 1 March, 2018 and completion date of 1 December, 2021. The works involved diversion, spillway, intake and sand trap dam. The expected achievement to date was 46% against actual achievements to date of 25.01%. Delay in progress at January, 2020; against cumulated planned projected progress of 51%. The status report further states that the contractor suspended works on 30 September, 2019 due to delay in payment. No explanation was provided for the delay in payments since it is a donor funded project.

Further, the contract for construction of canals and roads was awarded to a company at a contract sum of Kshs.3,534,724,981.49 for a contract period of 1155 days. The contract was signed on 26 August, 2016 with a commencement date was 9 June, 2017 and completion date of 9 August, 2020. However, it was noted that the expected achievements as at February, 2020 was 62% against actual achievement of

40% resulting to a delay of 22%. During a site visit on 14 February, 2020 the contractor was not on site and had laid down their tools due to non-payment.

In the circumstances, it has not been possible to confirm whether the public got services from the delayed projects.

3.3 Delayed Construction Works of the Lower Nzoia Irrigation Project – LOT 1

The contract for the construction works of the Lower Nzoia Irrigation Project – LOT 1 was awarded to a company through the Ministry of Water & Sanitation and Irrigation and National Irrigation Board as the implementer. The contract sum was Kshs.3,873,317,854 and contract dated 30 October, 2017 commencing on 12 June, 2018 for 1095 days. By February, 2020 certified works accounted for Kshs.822,222,271. It was however noted that the percentage contract period elapsed was 46.20% period of 605 days while the achieved percentage progress of works (financial) was at 21.30% with physical work progress of 10%. The delay was occasioned by compensation of PAPs in the dam way. However, before the commencement of the project the employer should have ensured that the project was free from any encumbrances to avoid project delay.

In the circumstances, it has not been possible to confirm whether the public got services from the delayed projects.

4.0 Failure to implement Internal Audit Management System

During the 2015/2016 financial year, the Management had procured an Internal Audit Management System for control management, analysis and risk assessment. The Audit Management System was procured at a contract sum of Kshs.6,499,736. To date, a total payment of Kshs.5,531,461.36 has been made to the firm. However, it was observed that the system was not being used by the internal auditors.

The Board has not obtained value for money in respect to the expenditure amounting to Kshs.5,531,461 so far incurred for the Audit Management system.

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 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 with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether 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 the Board of Directors

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 Board's ability to continue 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 terminate the Board 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 manner.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Board 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 audit is planned and performed to express a conclusion about 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 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 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 noncompliance. 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 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 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 that may cast significant doubt on the Board’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 Board 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 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

30 December, 2021