

REPORT OF THE AUDITOR-GENERAL ON WATER RESOURCES AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Water Resources Authority set out on pages 1 to 59, which comprise the statement of financial position as at 30 June, 2020, 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 Water Resources Authority as at 30 June, 2020, 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 Water Act, 2016.

Basis for Qualified Opinion

The financial statements reflect several balances that are not supported with adequate relevant records, or information, as explained in the following paragraphs:

1.0 Property Plant and Equipment

The statement of financial position reflects property, plant, and equipment with a net book value of Kshs.320,950,941. However, as previously reported, the balance does not include eleven (11) parcels of land with buildings and related infrastructure located in Laikipia, Embu, Muranga, Kirinyaga, Kitui, Nakuru, West Pokot, Kisumu, Mombasa, and Siaya counties and cumulatively measuring 23.7296 acres. Further, the Authority did not have in its possession ownership documents for the lands.

In the circumstance, valuation and ownership by the Authority of the lands included in the property, plant, and equipment balance totalling Kshs.320,950,941 as at 30 June, 2020 could not be confirmed.

2.0 Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions totaling Kshs.2,397,502,974 as further disclosed in Note 19 to the financial statements. The receivables include Kshs.2,207,962,378 owed by various water companies and County Governments for various periods exceeding nine months. As result, recoverability of the balance is doubtful. The reasons for failure by the Government institutions to pay the debts were not clear.

In view of the long outstanding debts, the extent of recoverability of the debtor's balance totalling Kshs.2,397,502,974 as at 30 June, 2020 could not be confirmed. In addition, continued delay in recovery of the debts may constrain the Authority's ability to fund its operations and programmes and attain its statutory objectives.

3.0 Trade and Other Payables

The statement of financial position reflects trade and other payables totalling Kshs.1,254,271, 377 as further disclosed in Note 23 to the financial statements. The balance includes long outstanding employee deductions totalling Kshs.1,162,026,290 due for remittance to the Commissioner of Domestic Taxes, Water Resources Authority Pension Scheme and Ukulima Savings and Credit Cooperative Society. Records provided for audit indicated that a commitment made by the Ministry of Water and Irrigation in April, 2017 to remit to Kenya Revenue Authority (KRA) Kshs.10 million monthly on behalf of the Authority to offset the outstanding amount had not been honoured.

Further, the Authority has not made provisions for penalties and interest chargeable for delays or failure to remit the deducted amounts to the relevant authorities. As a result, the actual amount of remittances outstanding as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Water Resources Authority 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 the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Un-serviced Long Term Loan –Restated

The statement of financial position reflects long-term loan restated balance totaling Kshs.320,307,532 as further reflected in Note 27 to the financial statements. The amount relates to an on-lent loan from the Government of Kenya out of proceeds of a World Bank (IDA) credit for the natural resources management project in 2007. The terms of the loan provided for repayments commencing March, 2017.

The Note reflects outstanding expenses on the loan relating to interest on penalties (Kshs.35,324,482) and short term borrowings - current portion (Kshs.42,304,768) raising total liability to Ksh.397,936,782.

Management explained the failure to repay the loan to lack budgetary allocations for the purpose. Any further, delay in servicing the loan is likely to make its repayment even more strenuous to the Authority due to compounding of payable interest and penalties.

My Opinion is not qualified in regard to this matter.

Key Audit Matters

Key audit matters are those matters which, in my professional judgement, 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.

Budgetary Control and Performance

The statement of comparison of budget and actual amounts indicates that the Authority's budgeted and actual revenues for the year under review amounted to Kshs.1,268,000,000 and Kshs.1,368,271,173 respectively resulting in a surplus of Kshs.93,544,921.

No explanation was provided for surplus receipts which mainly resulted from grants Kshs.188,977,552 received under transfers from other government entities.

The statement further reflects budgeted and actual expenses totalling Kshs.1,268,000,000 and Kshs.1,375,1114,180 resulting in over-expenditure of Kshs.105,491,180. Management attributed the over-expenditure totalling Kshs.105,000,000 to spending on Kenya Water Security Project that had not been budgeted for.

Prior Year Issues

The audit report for the previous financial year (2018/19) highlighted several unsatisfactory issues relating balances reflected in the financial statements, and on lawfulness and effectiveness in use of resources. The report on progress made in resolving the issues at Appendix 1 of the financial indicates that most of the issues have been resolved whereas measures to resolve the remainder have been initiated. The actual status of the issues shall be determined after they are discussed by the National Assembly.

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 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 Management Board

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 assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Authority'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 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 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 comply with the authorities which govern them, and that public resources are applied in an effective way.

The Management Board is responsible for overseeing the financial reporting process, reviewing the effectiveness of Management's 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 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 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 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

14 February, 2022