

# **REPORT OF THE AUDITOR-GENERAL ON KENYA WATER INSTITUTE FOR THE YEAR ENDED 30 JUNE, 2020**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Water Institute set out on pages 1 to 30, 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 the 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 the Kenya Water Institute as at 30 June, 2020, 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 Kenya Water Institute Act, 2001 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Land Without Title Deeds**

The statement of financial position reflects Kshs.1,496,628,096 being the net book value for property, plant and equipment. As disclosed under Note 20A to the financial statements, the value included Kshs.1,044,642,000 for land of which Kshs.1,014,642,000 related to three (3) land parcels in different locations where the Institute has campuses. However, as previously reported, although allotment letters for the land parcels were provided, the Institute had not obtained title deeds.

Further, the Management did not maintain a register of assets indicating the details and pertinent information as required under Regulation 143 of Public Finance Management (National Government) Regulations, 2015.

In the circumstances, ownership, accuracy and existence of property, plant and equipment valued at Kshs.1,496,628,096 as at 30 June, 2020 could not be confirmed.

#### **2. Unsupported Trade Receivables**

The statement of financial position reflects receivables from exchange transactions of Kshs.106,929,048 which as disclosed under Note 18A to the financial statements, comprised gross trade receivables of Kshs.156,961,887 before adjustment for provisions.

However, Kshs.61,772,272 of the balance was not supported with debtors' analysis, invoices, students' nominal rolls and general ledgers.

In the circumstances, the accuracy and validity of the receivables from exchange transactions balance of Kshs.106,929,048 could not be confirmed.

### **3. Inaccurate Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalents of Kshs.36,745,052 which as disclosed at Note 17 to the financial statements comprised cash in hand and bank balances held in two (2) bank accounts at a local bank. However, cashbooks maintained by the Institute reflected cash and bank balances totalling to Kshs.28,974,232 as at 30 June, 2020, resulting into an unreconciled difference of Kshs.7,770,820. Further, the Institute Management did not prepare monthly bank reconciliation statements for the two bank accounts as required under Regulation 90 of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, the accuracy and existence of the reported cash and cash equivalents balance of Kshs.36,745,052 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Water Institute 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 which, 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.

## **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 section 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. Uneconomical Borehole Drilling Activities**

Note 8 to the financial statements reflects drilling revenue of Kshs.38,453,104 (2019: Nil) relating to water boreholes drilling activities undertaken by the Institute as an income generating activity. However, as disclosed at Note 16 to the financial statements, the Institute incurred drilling expenses amounting to Kshs.23,656,853 (2019: Kshs.29,087,705) resulting into a loss of Kshs.14,796,251 (2019: Kshs.29,087,705).

Considering the current trend, and in the absence of a feasibility assessment, the viability of the business venture could not be confirmed. In addition, the activities could consume resources earmarked for the Institutes' core mandate.

### **2. Long Outstanding Staff Receivables**

Regulation 93(5) of Public Finance Management (National Government) Regulations, 2015 provides that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station. Regulations 93(6) further provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate. However, included in the staff receivables balance of Kshs.15,040,390 reflected under Note 18B to the financial statements, was Kshs.12,566,231 being imprests issued to the Institute's employees and which had been outstanding for a period exceeding ninety (90) days. The imprests ought to have been surrendered by 30 June, 2020. Further, evidence of the measures Management had put in place to recover the long outstanding imprests was not provided.

In addition, a review of the imprest register revealed that seven (7) staff members were issued with additional imprests totalling Kshs.3,918,745 before accounting for outstanding ones, contrary to Regulation 93(8) of the Public Finance Management (National Government) Regulations, 2015, which prohibits issue of additional imprest to a staff member with outstanding imprests.

Management was therefore, in breach of the law.

### **3. Delayed Project Completion**

The work in progress of Kshs.263,395,793 reflected in the statement of financial position included Kshs.1,966,141 in respect of construction of classrooms at Chiakariga Campus at a contract sum of Kshs.19,903,802. The works commenced on 27 September, 2017 for a period of forty-two (42) weeks which was later extended by a further twenty-four (24) months to March, 2019. However, as at the time of the audit, almost three (3) years later, the classrooms were yet to be completed and the construction had stalled.

In the circumstances, the Institute was yet to obtain value for the money spent on the project. In addition, delayed completion exposed the works done to degradation and posed the risk of cost escalations.

#### **4. Employees in Acting Positions Beyond Stipulated Period**

The statement of financial performance reflects expenditure totalling to Kshs.245,558,211 on employee costs of which Kshs.14,511,050 and Kshs.3,347,113 was paid as acting allowances and special duty allowances respectively, to thirty-two (32) employees who had been appointed in acting positions. However, the employees acted in the positions for more than six (6) months and continued to draw the respective allowances during the extended period. This is contrary to the provisions of Sections C.14(1) and C.15(4) of the Human Resource Policies and Procedures Manual for the Public Service which prohibits payment of the allowances for more than six (6) months.

Management was, therefore, in breach of the law.

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 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 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 Governing Council**

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 which are free from material

misstatement, whether due to fraud or error and for assessment of the effectiveness of the internal control, risk management and governance.

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

The Governing Council is responsible for overseeing the Institute's financial reporting process, reviewing the effectiveness of the Institute'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 Institute'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 Institute's ability 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 Institute to cease 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 which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Institute 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 which 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 which may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**31 January, 2022**