REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

ATHI WATER WORKS DEVELOPMENT AGENCY

FOR THE YEAR ENDED 30 JUNE, 2025

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REPORT OF THE AUDITOR GENERAL ON ATHI WATER WORKS DEVELOPMENT AGENCY FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;

B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Athi Water Works Development Agency set out on pages 1 to 59, which comprise of the statement of financial position as at 30 June, 2025 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 Athi Water Works Development Agency as at 30 June, 2025 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Failure to Revalue Fully Depreciated Assets

The statement of financial position and Note 16 to the financial statements reflects Property, Plant and Equipment balance of Kshs.123,725,883,911. Included in this balance is cost of fully depreciated assets of Kshs.314,577,328 which was depreciated to Nil value more than three (3) years ago and has not been revalued as at 30 June,2025.

In the circumstances, the accuracy and valuation of fully depreciated Property, Plant and Equipment balance of Kshs.314,577,328 could not be confirmed.

2. Lack of Land Ownership Documents

The statement of financial position and Note 16 to the financial statements reflects Property, Plant and Equipment balance of Kshs.123,725,883,911. Included in this balance is land valued at Kshs.436,768,406. However, land on which the Athi Water Plaza is built has no title deed more than six (6) years after the court ruling of the stated parcel of land of unknown value. In addition, valuation has not been carried out.

In the circumstances, the accuracy, ownership, valuation and completeness of Property, Plant and Equipment balance of Kshs.123,725,883,911 could not be confirmed.

3. Long Outstanding Receivable from Exchange Transactions

The statement of financial position and Note 20(b) to the financial statements reflects long term receivables from exchange transactions balance of Kshs.6,017,277,133. Included in this balance is Kshs.4,957,156 or 64 %, of the receivables which have been long outstanding for over three (3) years. The receivables related to debts from sale of bulk water owed to the Agency by Nairobi City Water & Sewerage Company, Ruiru Juja Water & Sewerage Company, Gatundu South Water & Sanitation Co Ltd and other Water Service Providers (WSPs). Management did not provide any effort it has undertaken to recover the long outstanding amounts.

In the circumstances, the recoverability of the long outstanding debt could not be confirmed.

4. Long Outstanding Trade and Other Payables from Exchange Transaction

The statement of financial position and Note 24 to the financial statements reflect trade and other payables from exchange transaction balance of Kshs.5,087,502,034. Review of ageing analysis revealed that other payables with a balance of Kshs.4,383,329,757 representing 86% of the payables had been outstanding for over ninety (90) days.

In the circumstances, the Agency may not be in a position to honor its liability's as and when they fall due.

5. Material Uncertainty Related to Going Concern

The statement of financial position reflects total current assets balance of Kshs.4,489,192,091 against total current liabilities balance of Kshs.5,506,357,034 resulting in a negative working capital of Kshs.1,017,164,943.

In the circumstances, there is a threat on the entity's going concern and the financial statements have been prepared on a going concern basis assuming continued support from the Government and other stakeholders.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Athi Water Works Development Agency's Management in accordance with ISSAI 130 on the 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.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final receipts budget of Kshs.1,694,653,388 and actual on comparable basis of Kshs.2,854,807,365 resulting to a budgetary increase of Kshs.1,160,153,977 or about 68% above the budget. Similarly, the Agency spent Kshs.2,013,260,044 against the actual receipts of Kshs.2,854,807,365 leading to under absorption of Kshs.841,547,321 or 29% of the actual receipts.

The under absorption affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, 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

Unresolved Prior Year Audit Matters

In the audit report of the previous year, several issues were raised under Report on the Financial Statements, Emphasis of Matter, Other Matter, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved some of the issues or given any explanation for failure to resolve them as at 30 June, 2025 as shown below:

Issue No.	Issue Title
1	Inaccuracies in the loan balance
2	Construction works for Gatundu ground water exploitation project contract
3	Construction works for Gatundu Water and Sanitation Project-drilling and equipping of Gatundu boreholes
4	Rehabilitation of independent Mataara Water Supply Scheme Project- delay in completion of Project
5	Additional costs to be incurred on Gatura intake
6	Internal controls and weakness in Inventory management

Other Information

The Management is responsible for the Other Information set out on page iv to xlviii which comprise of Key Entity Information and Management, The Board of Directors, Key Management Team, Chairman's Statement, Report of the Chief Executive Officer, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors, Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Agency's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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. Lack of Signed Agreements between the Water Service Providers and the Agency on Bulk Water Supply

Athi Water Works Development Agency operates two (2) bulk water supply systems—Karimenu Dam II and Northern Collector Tunnel—supplying water to various water service providers as authorized by WASREB. However, the Agency has not entered into an agreement with these water service providers to define the terms and scope of the bulk water supply as required under Section 100(2) of the Water Act, 2016 which states that water service provider may enter into an agreement with any other license or water service provider on terms and conditions to be approved by the regulatory board.

In the circumstances, Management was in breach of the law.

2. Failure to Achieve the Objectives of the Northern Collector Tunnel Bulk Water System

Examination of bulk water sales through the Northern Collector Tunnel revealed that the Northern Collector Tunnel, approved by WASREB to supply bulk water to six (6) Water Service Providers (WSPs), was only serving two (2) —Gatanga Water and Sanitation Company and Nairobi City Water & Sewerage Company. This under-achievement is due to the project not being substantially complete, resulting in suboptimal operations.

In the circumstances, the system is not meeting its intended purpose, failing to deliver value for money.

3. Failure to Transfer Ownership Documents from Athi Water Services Board to Athi Water Works Development Agency

Following the enactment of the Water Act, 2016 and Legal Notice 28 dated 26 April, 2019, the Athi Water Services Board (AWSB) was converted into the Athi Water Works Development Agency (AWWDA). However, the title deeds for key assets, including the Kiserian Sewerage Treatment Plant, Kiserian Sewerage Wayleave Trace, Northern Collector Tunnel and Kiambu Water Supply Wayleave Traces, remain registered under the name of AWSB. Similarly, an examination of one and eighty five (185) motor vehicle and motorbike logbooks listed in the assets register revealed that, despite the conversion to AWWDA, all logbooks are still registered under the name of AWSB.

In the circumstances, ownership of these assets could not be confirmed.

4. Land in the Name of the Defunct Nairobi City Council

The titles for Kabete Water Treatment Plant Land, Gigiri Water Reservoir Land, Gatina Pumping Station Land, Kyuna Pumping Station/Water Reservoir Land, Loresho Water Tower Land, Dagoretti Water Reservoir Land, Uthiru Water Reservoir Land, Wilson Water Reservoir Land, Embakasi Water Reservoir, Southern Region Water Offices (Nairobi Dam) Land, Karen Western Region Offices Land, Karen Borehole Land, Karen Tree Lane Borehole & Staff House Land, Karen Sewage Treatment Ponds Land, Kariobangi Sewage Treatment Works Land, Hill Tank Land, Outering Road Water Tower Land, Kenyatta University Pumping Station Land, Kenyatta Avenue Pumping Station, Kasarani Reservoir Land, Dandora Sewerage Treatment Works Staff Housing (Ruai) Land, Dandora Sewerage Treatment Works Land and Nairobi Water Stores - (City Centre) Land are in the name of the defunct Nairobi City Council.

In the circumstances, the ownership of these properties could not be confirmed.

5. Drilling and Equipping of Boreholes, Elevated Steel Water Tanks and Associated Distribution Pipelines in Kikuyu

The statement of financial position and Note 16 to the financial statement reflect property, plant and equipment balance of Kshs.123,725,883,911. Included in this balance is work in progress amount of Kshs.98,871,374,294 which included drilling and equipping of 3 No. boreholes, construction of 3 No. elevated steel water tanks and associated distribution pipelines in Kikuyu at a contract sum of Kshs.25,302,062.10(inclusive of 16% VAT) signed on 15 May, 2024 with contract period of twelve (12) months. As at the time of audit, the contractor had been paid Kshs.13,647,542.53.

Review of the contract documents revealed the contractor requested an extension of contract period by six (6) months up to 7 December, 2025 reason being delay in handing over of the replacement borehole site for Gatune Primary School. This request was approved on 4 June, 2025.

Project verification carried out on 7 August, 2025 revealed that the contractor and consultant were not on site. Additionally, the new site for borehole drilling had not been identified.

In the circumstances, timely completion of the project and effective utilization of the funds may not be achieved.

6. Delayed Construction of Kiambaa Water Supply Project

The statement of financial position and Note 16 to the financial statement reflect property, plant and equipment balance of Kshs.123,725,883,911. Included in this balance is work in progress amount of Kshs.98,871,374,294 which included construction of Kiambaa Water Supply Project at a contract sum of Kshs.52,656,317 (inclusive of 16% VAT) signed on 16 May, 2024. Physical verification on

8 August, 2025 revealed that contractor has still not commenced work and was not on site while the project was supposed to have been completed on 26 June, 2025.

In the circumstances, timely completion of the project and effective utilization of the funds may not be achieved

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply 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, except for the effect of the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Under Staffing in the Agency

The statement of financial performance and Note 12 to the financial statement reflect employee cost amounting to Kshs.292,507,150. Review of the approved staff establishment for AWWDA revealed total approved establishment of two hundred and forty two (242) positions with total in-post staff of eighty two (82) positions resulting in a significant overall under-staffing of one hundred and sixty (160) staff. The technical staff constituted 64% of total establishment while support staff constituted 36% of total establishment. The organization is significantly understaffed, with only 34% (82/242) of approved positions filled. This indicates a critical staffing shortfall across most departments and units.

In the circumstances, the Agency may not effectively discharge its mandate and meet its operational objectives.

2. Non-Compliance with Climate Change Financing

During the year under review, it was noted that Athi Water Works Development Agency did not develop strategies, laws and policies relating to climate change contrary to the Paris Agreement on Climate Change under the United Nations Framework.

These policies are to address:

i. Climate Change Action Plan and other implementation projections for its legislative and policy functions.
ii. Establishment of a designated unit with sufficient staff and financial resources, along with appointing a senior officer to coordinate the mainstreaming of the climate change action plan and other climate change statutory functions into sectoral strategies.
iii. Review of record-keeping practices requiring proper documentation of carbon emissions and credits, project outcomes, climate change action initiatives and transparency of financial transactions.
iv. Review the effectiveness of mechanisms implemented by the entity to regularly monitor and review the performance of integrated climate change functions.
v. Review of stakeholder engagement to emphasize the importance of addressing the interests and needs of stakeholders, including local communities, to prevent conflicts and project disruptions.
vi. Formulate annual reports submitted by to the Council, detailing the status and progress of performance and implementation of all assigned climate change duties and functions.

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 controls, 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 the Management and 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 controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Agency's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the appropriate basis of accounting unless Management is aware of the intention to terminate 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 comply 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 Management 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 governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

02 December, 2025