REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

COAST WATER WORKS DEVELOPMENT AGENCY

FOR THE YEAR ENDED 30 JUNE, 2025

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REPORT OF THE AUDITOR-GENERAL ON COAST 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 Coast Water Works Development Agency set out on pages 1 to 48, 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 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, 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Unconfirmed Existence and Ownership of Motor Vehicles

The statement of financial position and Note 22 to the financial statements reflects property, plant and equipment balance of Kshs.18,028,311,550. Review of log books revealed that eleven (11) motor vehicles with undetermined values were registered under the names of entities other than the Agency. According to Management, the vehicles had initially been registered in the names of contractors involved in donor-funded projects and were handed over to the Agency upon project completion. However, no explanation was provided for the Agency's failure to formally transfer ownership of the vehicles into its name. Further, Management did not provide for audit review the log book for Motor vehicle registration number KBC 135D make 4.2L 4 Door L/Cruiser Hard Top transferred to Northern Water Services Board and the approval of their transfer by the Board of Directors.

In the circumstances, ownership, valuation and existence of the property, plant and equipment balance of Kshs.18,028,311,550 could not be confirmed.

2.0 Use of Estimated Consumption for Customer Billing

The statement of financial performance and Note 7 to the financial statements reflects sale of bulk water of Kshs.1,407,877,436. Analysis of billing reports obtained from smart billing system revealed that during the year under review, bulk water sales amounting to Kshs.421,614,280 or 30% of total water sales reported was calculated using estimated meter readings rather than actual meter readings.

In the circumstances, the accuracy and completeness of the sale of bulk water of Kshs.1,407,877,436 could not be confirmed.

3.0 Unsupported Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.1,833,877,951 which as shown in Note 23 to the financial statements includes Kshs.561,238,068, Kshs.1,239,351,955, Kshs.9,610,839, Kshs.9,650,437 and Kshs.14,026,651 in respect of general creditors, loan Interest, W/Tax, VAT/Tax and other deductions respectively. However, included in payables balance is Kshs.1,239,351,955 loan interest payable for which a repayment plan was not provided.

In the circumstances, the accuracy and completeness of trade and other payables of Kshs.1,833,877,951 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Coast Water Works Development Agency 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 final revenue budget and actual amounts on comparable basis of Kshs.2,197,722,000 and Kshs.2,971,380,870 respectively resulting in an over-collection of Kshs.773,658,870 or 35% of the budget. Similarly, the Agency expended an amount of Kshs.2,339,080,002 against actual receipts of Kshs.2,971,380,870, resulting in an under-utilization of Kshs.632,300,868 or 21% of actual receipts.

The overfunding indicates lack of a realistic budget while under absorption affected implementation of planned activities and impacted negatively on service delivery to the citizens.

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. Except for the effect of the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Audit Matters

In the prior year's audit report, 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. Review of the status during audit of the Agency in 2024/2025 revealed that the following eight (8) issues remained unresolved:

No.	Financial Year	Audit Issue
1	2023/2024	Inaccuracies in the financial statements
2	2023/2024	Unsupported capital balance
3	2023/2024	Lack of gender balance and ethnic distribution
4	2023/2024	Irregular payments of special duty and acting allowances
5	2023/2024	Unfunded projects under County Water Project 2023-2024
6	2023/2024	Project verification
7	2023/2024	Staff in employment with invalid certification
8	2023/2024	Stalled projects

Other Information

The Directors are responsible for the Other Information set out on page iv to xliv 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 and 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 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 the 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

1.0 Regularity of Human Resource Management Practices

Review of human resource management practices at the Agency revealed the following anomalies;

1.1 Lack of Gender Balance in Staff Establishment

During the year under review, the Agency had 158 permanent and contractual employees out of whom 128 or 81% were males while 30 or 19% were women. The male employees exceeded the prescribed two-thirds as stipulated in article 27(8) of the Constitution which states that not more than two-thirds of the members of elective or appointive bodies to be of the same gender.

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

1.2 Lack of Ethnic Diversity in Staff Establishment

Review of human resource records revealed that the Agency had one hundred and fifty-eight (158) employees engaged on contract and permanent terms, out of whom ninety-seven (97) or 61% were from the same dominant ethnic community. This is contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which provides that no public establishment to have more than one third of its staff from the same ethnic community.

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

2.0 Failure to Verify Academic Qualification for recruited Officer

During the year under review, the Agency recruited the Deputy Director Corporate Communications following a competitive recruitment process in which she was ranked fourth among the other interviewees all being male, and selected based on gender balance. However, evidence of confirmation of the officer's Masters certificate by the Kenya National Qualifications Authority was not provided for audit confirmation.

In the circumstances, the Agency was in breach of the law

3.0 Regularity of Procurement and Contract Management Practices

The statement of financial performance and Note 16 to the financial statements reflects project expenses of Kshs.538,623,064. Review of regularity of procurement and contract management practices revealed the following observations;

3.1 Delayed Completion of Vumbe - Faza Project Phase II

Management awarded contract number CWSB/LM-EQ/W/01/2017 for drilling and equipping of six (6) shallow wells at Vumbe and Kengeni area in Lamu County and connection to Kizingitini via Tchundwa, Myabogi and Mbwajumwali to a local contractor on 23 June, 2017 at a contract sum of Kshs.56,081,368 with works commencing on 7 July, 2017 with initial expected completion date of 7 February, 2018, which was extended to 31 August, 2023 upon the request by the contractor. Cumulative payments on the contract as at 30 June, 2025 amounted to Kshs.39,546,511 equivalent to 71% of the contract sum with the project being stalled at 72% completion rate. The project remained incomplete without a valid contract in place and the performance bond having expired on 6 April, 2018.

In the circumstances, the value for money on Kshs.39,546,511 paid to the contractor could not be confirmed.

3.2 Payment for Unproductive Borehole at Onjila in Tana River County

The statement of financial performance reflects project expenses of Kshs.538,623,064 as disclosed in Note 16 to the financial statements. Included in the expenditure is Coast CWWDA County Projects of Kshs.292,095,469 which in turn includes Kshs.7,727,729 paid to a local contractor for the drilling and equipping of one borehole at Onjila in Garsen Tana River County under contract number CWWDA/T/W/04/2023-2024. The contract was awarded on 23 May, 2024 at a contract sum of Kshs.13,899,999 with works expected to take six (6) months commencing on 5 June, 2024 and a completion date of 4 December, 2024. Cumulative payments on the contract as at 30 June, 2025 amounted to Kshs.7,727,729. However, review of project reports indicated that the ground water at Onjila was significantly low, water quality was not chemically suitable for domestic consumption and the project objective of increasing access to reliable water was not achieved. The borehole project was subsequently closed on December 2024.

In the circumstances, the value for money on the construction of the borehole at Onjila in Tana River County could not be confirmed.

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 THE 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 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 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 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Agency's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention 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 Agency's 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

05 December, 2025