REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA WATER INSTITUTE

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON KENYA WATER INSTITUTE 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.

An Unmodified Opinion is issued when the Auditor-General concludes that 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 aim to address the Auditor-General's statutory roles and responsibilities 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

Opinion

I have audited the accompanying financial statements of Kenya Water Institute set out on pages 1 to 36 which comprise of the statement of financial position as at 30 June, 2025 and the statement of 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, the financial statements present fairly, in all material respects, the financial position of Kenya Water Institute 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 Kenya Water Institute Act 2001 Revised Edition 2012 and the Public Finance Management Act, 2012.

Basis for Opinion

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 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 opinion.

Emphasis of Matter

1. Material Uncertainty Relating to Going Concern

The Statement of Performance discloses that the Institute recorded a loss of Kshs.837,072 during the year under review. In addition, the Institute's current liabilities of Kshs.1,068,219,532 exceeded its current assets of Kshs.150,165,738 by Kshs.918,053,794. Further, Management discussion and analysis and statement of directors responsibilities discloses that the increasing liability is due to infrastructural development of the construction of a tuition block at Main Campus funded by the parent ministry.

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.

2. Payables from Exchange Transactions

The statement of financial position reflects payables from exchange transactions balance of Kshs.1,047,611,851 and as disclosed in Note 22 to the financial statements. This balance includes amounts due from staff, student, trade and retention fee of Kshs.9,738,700, Kshs.12,568,625, Kshs.981,832,588 and Kshs.43,471,938 respectively all totaling Kshs.1,047,611,851. Age analysis of the trade payables indicated that Kshs.544,758,163 over 50% were over 3 years. In the circumstances, the Management is unable to pay its obligations when they fall due.

My opinion is not modified in respect of these matters.

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 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, 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;

i. Non-Adoption of Approved Human Resource Policies and Procedural Manual
ii. Understaffing at the Institute
iii. Non-Compliance to a Third Rule
iv. Construction of Elevated Tank and Borehole in Kitui Campus
v. Lack of Regulations for the Kenya Water Institute
vi. Delay in Supply development and Commissioning of an Integrated Enterprise Resource Planning System
vii. Non-Integration of the Dynamics 365 – ERP System and Bank
viii. Management of Institute's Campuses

Other Information

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

In connection with my audit on the Kenya Water Institute 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 and I am required to report that fact. Based on the audit procedures performed and the matters described in my Basis for Qualified Opinion, I confirm that Other Information is not materially inconsistent with the financial statements.

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. Construction of Tuition Building at the Institute Headquarter

The statement of financial position reflects a property, plant and equipment balance of Kshs.3,230,545,758 and as disclosed in Note 21 to the financial statements. This balance includes capital work in progress balance of 1,778,142,968 which further includes Kshs.60,086,193 paid during the year in respect to construction of tuition building at Institute at a contract sum of Kshs.1,736,583,588. The commencement date was 8 April, 2024 with a set completion date of 7 April 2026. The Institute was to advance 15% of the contract sum amounting to Kshs.260,487,538 to the contractor. However, sum advanced was Kshs.173,658,358 hence a variance of kshs.86,829,180. Further, the contractor had submitted interim payment certificates totalling Kshs.348,610,857 which had not been paid. However, Physical verification indicated that the contractor was not on site.

In the circumstances, the value for money could not be confirmed and the delays in payment may lead to cost over runs

2. Employee Cost

The statement of financial performance reflects employee costs balance of Kshs.257,545,385 and as disclosed in Note 11 to the financial statements. Review of records provided for audit revealed that one (1) and eight (8) employees of the Institute had not been promoted for more than five (5) and fourteen (14) years respectively. This was despite the Institute having an approved career progression guideline, training policy and yearly performance evaluation on staff.

In the circumstances, the staff productivity and morale of the employees may be affected

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 effects 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. Lack of Regulations for the Kenya Water Institute

A review of Section 3 (1) of the Kenya Water Institute Act No. 11 of 2001 established the Kenya Water Institute which was to provide directly or in collaboration with other institutions of higher learning, services in human resource development, consultancy, research and development in the water sector on a commercial basis to the public sector, state corporations, local authorities, the private sector and all other persons, local or foreign, who may request for such services from the Institute; also to provide training programmes, seminars, and workshops and producer publications aimed at maintaining standards in the water and sanitation sector; to provide a forum for effective collaboration between the public and private sectors and other interested parties for the development of the water and sanitation sectors; and to conduct examinations and award diplomas, certificates and other awards to successful candidates. However, the Institute has no regulations in place to provide detailed mandate, responsibilities and management of facilities/campuses.

In the circumstances, the operations, governance and management of the Institutes could not be ascertained.

2. Management of Institute-Kisumu Campus

The Kenya Water Institute Act No. 11 of 2001 is an Act of Parliament that established the Kenya Water Institute, to provide for its incorporation, powers and functions, and for connected purposes. The Act further provides for establishment of facilities/Institutes in any part of Kenya for the better discharge of its functions and responsibilities under the Act. However, a review of accounting records and physical inspection done in the month of October,2025 in the Kisumu Campus revealed various that the Institute was operating on a rented building. This is despite the fact that the Institute has land valued at Kshs.40,000,000 which is not developed and the Campus lacked a backup generator for cases of power loss or rationing.

In the circumstances, the institute may not be able to execute its mandate effectively and efficiently.

3. Appointment of Governance Council Members

Review of the appointment letters of the Council Members revealed that the Permanent Secretary to the Ministry for the time being responsible for local authorities had no representative, the Director of Water Development had no representative and a representative of the public universities who shall be appointed on a three-year rotational basis on the advice of the said universities had no representative. This contrary Section (5) (1) (g) of the KEWI act required the Cabinet Secretary to appoint four (4) representatives included one representative of private sector managers of community based water and sanitation programmes; one representative of a registered local Non-Governmental Organization involved in activities related to the water sector, nominated by the National Council of Non-Governmental Organisations; one representative of professional bodies, the activities of which relate to the water sector; and one representative of registered water users associations. However, appointment letters availed for audit review did not show whose representation they were for. In addition, the Minister had made 5 appointments instead of 4.

In the circumstances lack of representation from the highlighted Ministries/Institutions leads to lack of broad-based decisions.

4. Lack of Inventory Management Policy

The Institute is yet to develop a policy on stock management and re-order levels. A manual stock management system is still not in use in the campuses which is prone to basic human errors. Further, Kenya Water Institute is yet to determine the optimal stock levels for basic but crucial items in the stores which are needed for day-to-day operations of the Institute.
In the circumstances operational efficiency of the institute may be jeopardized and the reliability of the ERP System not confirmed

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 those Charged with Governance

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 Institute'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.

Those charged with governance are responsible for overseeing the Institute'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

8 December, 2025