REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

LAKE VICTORIA NORTH WATER WORKS DEVELOPMENT AGENCY

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON LAKE VICTORIA NORTH 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 Lake Victoria North Water Works Development Agency set out on pages 1 to 47, 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 Lake Victoria North 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 Set Aside Retention Funds in the Retention Account

The statement of financial position indicates current liabilities balance of Kshs.3,817,843,996. During the year under review, the Agency implemented community development projects amounting to Kshs.510,845,143, attracting a 10% retention fees of the payments of Kshs.51,084,514. However, the retention funds were not disclosed in the financial statements.

In the circumstances, the accuracy and completeness of current liabilities balance of Kshs.3,817,843,996 could not be confirmed.

2. Long Outstanding Receivables from Exchange Transactions

The statement of financial position and Note 17 to the financial statements reflect receivables from exchange transactions balance of Kshs.458,274,269. However, the ageing analysis provided for audit revealed that receivables amounting to Kshs.539,149,199 had been outstanding for more than three (3) years. Further, it was noted that the Agency does not have in place a debts policy to guide in effective monitoring and recovery of outstanding debts. This was contrary to Regulation 90(1) of the Public Finance Management (National Government) Regulations, 2015 requires Accounting Officers to take all reasonable steps to ensure that all money due to the entity is collected and properly accounted for. In addition, good financial management practices require entities to maintain an effective debt management policy to guide the collection and monitoring of receivables.

In the circumstances, the recoverability and appropriateness of classification of receivables from exchange transactions balance of Kshs.458,274,269 as current assets could not be confirmed.

3. Unsupported Long-Term Loans Due

The statement of financial position and Note 25 to the financial statements indicate long-term loans repayments due balance of Kshs.3,335,372,075. The loans relate to a KFW Loan-Nzoia Phase I of Kshs.1,292,234,731, KFW Loan-Nzoia Phase II of Kshs.1,401,157,559 and Water Supply and Improvement Project (WaSSIP) loan of Kshs.641,979,785. However, the loan amortization schedules were not provided for audit review.

In the circumstances, the accuracy, completeness and validity of long-term loans repayments due balance of Kshs.3,335,372,075 could not be confirmed.

4. Material Uncertainty Relating to Sustainability of Services

The statement of financial performance reflects a deficit of Kshs.282,355,638 and financial year 2023-2024 deficit of Kshs.349,041,480. The accumulated deficit increased from Kshs.4,006,818,909 in 2023/2024 to Kshs.4,289,174,547 during the year under review. In addition, current liabilities balance of Kshs.3,817,843,996 exceeded current assets balance of Kshs.1,210,410,065 resulting to negative working capital of Kshs.1,440,306,964.

In the circumstances, the Agency is technically insolvent and its sustainability depends on the assumption that it will continue to receive financial support from the Government, bankers and creditors. This information has not been disclosed in the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Lake Victoria North 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 recurrent expenditure budget and actual on comparable basis amounts of Kshs.1,205,059,355 and Kshs.1,012,033,425 respectively, resulting in an under-expenditure of Kshs.193,025,930 or 16% of the budget. Further, the statement indicates actual capital expenditure of Kshs.798,776,538 against an approved budget of Kshs.1,673,011,318, resulting in an under-expenditure of Kshs.874,234,780 or 52% of the budget.

In the circumstances, the under-expenditure affected the planned activities and implementation of projects 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. 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 Matters

In the previous year's audit, several issues were raised under Report on the Financial Statements, Emphasis of Matter and Report on Lawfulness, Effectiveness in Use of Public Resources as stated in **Appendix I**. However, the issues had not been resolved and no explanation was provided for the delay in resolving the issues.

In the circumstances, the Management commitment to accountability in the management of public resources could not be confirmed.

Other Information

Management is responsible for the Other Information set out on page vi to xlv which comprise of Key Agency 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 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. Long Outstanding Trade and Other Payables

The statement of financial position indicates trade and other payables from exchange transactions balance of Kshs.204,466,609 and as disclosed in Note 21 to the financial statements. The balance includes payables amounting to Kshs.202,367,792 which were between one (1) and two (2) years old. Management did not provide a detailed explanations or evidence of plans for settlement of these long-outstanding debts. This was contrary to Regulation 42(1)(a) of the Public Finance Management (National Government) Regulations, 2015 requires that debt service payments shall be a first charge on the Consolidated Fund and the Accounting Officer shall ensure that the Government does not default on debt obligations.

In the circumstances, failure to settle long-outstanding payables may result in accumulation of liabilities, potential legal claims from creditors, and misstatement of the financial position of the entity.

2. Slow Progress in Construction of Water Infrastructure at Mosongo Chebai -Top Suwerwa Water Project

During the year under review, the Agency commenced water infrastructure works for Mosongo Chebai–Top Suwerwa water project as per the contract agreement dated 11 February, 2025, for a contract duration of twenty-four (24) months. The contract sum was Kshs.643,354,060. However, a physical inspection of the project revealed that water tank excavation works had been completed. However, the water infrastructure design was still under amendment, and no works had commenced on the water catchment area and treatment plants. This was attributed to unresolved issues with affected families, raising concerns whether adequate public participation and community involvement was conducted.

Further, an internal memo from Engineer in-charge of the project to the Agency's Chief Executive Officer dated 25 June, 2025 indicated that the Agency risked legal action for breach of contract. The Agency attributes the delay in execution to objection by land owners of the original sites for intake and water treatment plant to sell part of their land parcels for the project despite advance payment of Kshs.35,689,195 having been made to contractor. This was contrary to *Regulation 138(1) of* the Public Procurement and Asset *Disposal Regulations, 2020 which states that* the contract implementation team shall have a contract management plan that provides for review meetings, and *Regulation 140(1) which provides that t*he head of procurement function shall prepare a monthly progress report of all procurement contracts and submit the same to the accounting officer in accordance with Section 152 of the Act.

In the circumstances, value for money was not achieved from the project.

3. Delayed Rehabilitation and Augmentation of Alupe Dam Water Supply and Sanitation Project

The Agency awarded a tender for the rehabilitation and augmentation of Alupe dam water supply and sanitation project *contract* No. LVNWWDA/GK/BSA/ALUPE DAM/2024-2026/01 at a contract sum of Kshs.469,666,858. The contract was signed on 27 September, 2024, and the site was officially handed over to the contractor on 06 April, 2024. A physical inspection conducted on 09 October, 2025 revealed that the contractor had not commenced any works on site, despite receiving an advance payment of Kshs.66,852,609 on 3 June, 2025. No justification was provided for the delay in commencement of works. This was contrary to Section 147 of the Public Finance Management Act, 2012 and Regulation 145 of the Public Procurement and Asset Disposal Regulations, 2020, which requires payments to be made for work actually executed and certified. Further, contracts should have commenced and progressed in line with the agreed timelines to ensure value for money and timely service delivery.

In the circumstances, the Agency risks loss of public funds through payment for works not commenced. The delay may lead to cost escalation and denial of intended water supply and sanitation services to the community.

4. Unconfirmed Works on Last Mile Connectivity Project in Eldoret Town

The contract for construction of last mile connectivity works for Eldoret City at a contract sum of Kshs.504,201,143 was awarded to a firm on 20 November, 2022. The project duration was twelve (12) months and expected completion date was 31 March, 2024. However, physical verification revealed that the project was inconclusive since the Agency could not explain certain elements of the project managed by Central Rift Valley Water Works Development Agency. Additionally, the terms of engagement between Agency and Central Rift Valley Water Works Development Agency could not be confirmed, despite the works being executed within the jurisdiction of the latter. This was contrary to Article 227(1) of the Constitution of Kenya, 2010, which requires that when a State organ or any other public entity contracts for goods or services, it shall do so in accordance with a system that is fair, equitable, transparent, competitive, and zcost-effective, and Article 201(d) which stipulates that public money shall be used in a prudent and responsible way.

In the circumstances, there is possibility for payment for works not done.

5. Unconfirmed Projects Ownership

The statement of financial position and Note 20 to the financial statements reflect property, plant, and equipment balance of Kshs.17,174,089,212. The balance includes Nabikoto Kamukuywa springs water project valued at Kshs.4,136,243 and Kapanga Kibisi Nabiswa cluster project valued at Kshs.24,997,830.
The physical verification revealed that the projects were initially implemented by the County Executive of Bungoma and later taken over by Lake Victoria North Water Works Development Agency. However, the handing over reports, and official agreement between the two entities were not provided for audit review. Additionally, it was noted that existing county government infrastructure was already in place at the project sites, making it difficult to ascertain the extent of work undertaken by the Agency.

Furthermore, the projects were constructed on private land, and the landowners were observed to be conducting farming activities within the water catchment areas, which poses a risk to the sustainability of the projects. There was no evidence provided to confirm how the Agency engaged the local communities regarding land use and project sustainability. This was contrary to Article 227(1) of the Constitution of Kenya, 2010, which requires that when a State organ or any other public entity contracts for goods or services, it shall do so in accordance with a system that is fair, equitable, transparent, competitive, and cost-effective.

In the circumstances, there was a risk of double payment for the same projects and potential disputes over land ownership and project sustainability.

6. Failure to Institute Project Completion Mechanisms on Delayed Implementation of Projects

The statement of financial performance and Note 15 to the financial statements indicate grants and subsidies (community development) expenditure amounting to Kshs.618,588,286. The expenditure includes interim payment certificate (IPC) number 1 dated 21 August, 2024 for civil works, pipelines and sewerage works in respect to construction of Malava Gravity Scheme Water Project, which comprises Malava town water supply project, Namagara water supply project, and Ishirugu water supply project. These projects were contracted through multi-year contracts. However, the audit revealed the following anomalies:

a) Malava town water supply project awarded to lot 1 contractor at a contract sum of Kshs.886,172,668.

The project started on 23 September, 2023 with an expected completion date of 22 June, 2025. A physical verification done on 9 October, 2025 established no activity at the main treatment plant, and minimal activities at the construction of ablutions blocks. At the time of audit, which was four (4) months after the expected completion date, the project was ongoing and certified at 60% completion.

b) Namagara water supply project awarded to lot 2 contractor at a contract sum of Kshs.844,576,534.

The project started on 23 September, 2023 with an expected completion date of 22 April, 2025. A physical verification done on 9 October, 2025 established the laying of foundation at the main treatment plant was ongoing. The construction of intake weir, construction of rising main tanks, pressure control tanks and laying of pipes had not started, six (6) months after the contractual period had lapsed. The project was noted to be running on extended time with no clear guidelines on completion dates. The project was certified at 35% complete.

c) Ishirugu water supply project awarded to lot 3 contractor at a contract sum of Kshs.554,518,631.

The project started on 25 June, 2024 with an expected completion date of 25 December, 2025. The audit verification on 9 October, 2025 established the contractor was on site, and majority of the works were at an advanced stage and project was certified at 70% completed.

This was contrary to Regulation 23 of the Public Procurement and Asset Disposal Regulations, 2020 which states that, in addition to responsibilities provided for under section 44(2) and in accordance with section 44(2)(j) of the Act, an accounting officer shall —ensure that procurement and asset disposal contracts are entered into lawfully and implemented accordingly; take appropriate measures to resolve any issues arising from investigations, inspections, assessments and reviews pursuant to Sections 38 and 43 of the Act.

In the circumstances, Management was in breach of law.

7. Un-surrendered Imprests

The statement of financial position indicates receivables from non-exchange transactions balance of Kshs.361,551,340 and as disclosed in Note 18 to the financial statements which includes outstanding imprests balance of Kshs.643,001. However, the imprests were not surrendered by 30 June, 2025 which is the financial year end. This was contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015 which requires that a holder of a temporary imprest shall surrender or account for it within seven (7) days after returning to duty station. Further, Regulation 93(6) provides that any officer who fails to account for an imprest shall have the amount recovered from their salary or other emoluments.

In the circumstances, failure to surrender or recover outstanding imprests may lead to loss of public funds and inaccurate reporting of receivables in the financial statements.

8. Non-Compliance with Laws on Affirmative Action

Review of records maintained by Management revealed that the Agency had sixty-four (64) employees as at 30 June, 2025. However, it was noted that thirty-seven (37) members of staff or 58% were from one dominant ethnic community. This was contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community.

Further, only one non-technical employee on permanent and pensionable terms was identified as a Person with Disability (PWD). This is below the 5% threshold recommended under Section 21(2) of the Persons with Disabilities Act, 2025.

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

9. Long Outstanding Borrowings

The statement of financial position reflects borrowings balance of Kshs.12,820,617,140 and as disclosed in Note 27 to the financial statements. The loans comprised of Kshs.3,264,087,213 from KFW, Kshs.4,266,594,756 from International Development Agency (IDA), Kshs.1,721,054,595 from Belgium, and Kshs.3,568,880,577 from African development bank (AfDB). However, the Agency had not been making any loan repayments in respect to Belgium loan for over four (4) years in a row, and no explanation was provided for non-repayment of the loan.

This was contrary to Regulation 42(1)(a) of the Public Finance Management (National Government) Regulations, 2015 which states debt service payments shall be a first charge on the Consolidated Fund and the Accounting Officer shall ensure this is done to the extent possible that the Government does not default on debt obligations.

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

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, 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 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 sustain services, disclosing, as applicable, matters related sustainability of services and using the application 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 are 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

10 December, 2025

Appendix I

Unresolved Prior Year Matters

Reference No. of the Auditor-General's Report	Title of Audit Issue
	Report on the Financial Statements
1	Long Outstanding Receivables from Exchange Transactions
2	Unsupported Long-Term Loan Repayments Due
3	Unsupported Borrowings
4	Material Uncertainty Relating to Sustainability of Services
	Emphasis of Matter
	Budgetary Control and Performance
	Report on Lawfulness and Effectiveness in the Use of Public Resources
1	Un-surrendered Imprests.
2	Long Outstanding Trade and Other Payables
3	Staff in acting Capacity for More than Six Months
4	Noncompliance with Law on Ethnic Diversity
5	Stalled Kingwal-Segut School Water Project
6	Sironoi Water Project