REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

LAKE VICTORIA SOUTH 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 SOUTH 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 South Water Works Development Agency set out on pages 1 to 49, 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 South Water Works Development Agency 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

1.0. Inaccuracies in the Financial Statements

The statement of financial performance and as disclosed in Note 14 to the financial statements reflects an amount of Kshs.49,571,011 in respect of contracted services, which differs with the ledger amount of Kshs.48,645,968, resulting in unreconciled variance of Kshs.925,043.

In addition, the statement of financial position reflects a balance of Kshs.174,520,214 in respect of cash and cash equivalents while the supporting ledgers and cash books reflect a balance of Kshs.172,314,300, resulting in unreconciled variance of Kshs.2,205,914.

In the circumstances, the accuracy and fair presentation of the financial statements could not be confirmed

2.0. Inaccuracies in the Trade and Other Payables Balance

The statement of financial position and as disclosed in Note 23 to the financial statements reflects an amount of Kshs.259,281,968 in respect of trade and other payables balance. However, review of the ledgers supporting GOK-funded projects amount of Kshs.236,264,992 disclosed in Note 15 revealed that a total of Kshs.3,698,881 was in respect of withholding taxes withheld by the Agency but not remitted to the Kenya Revenue Authority as provided under Section 35 of Income Tax Act (Cap 370). Out of this amount, Kshs.2,572,931 was not included in the list of trade and other payables.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.259,281,968 could not be confirmed.

3.0. Cash and Cash Equivalents

The statement of financial position and as disclosed in Note 18 reflects cash and cash equivalent balance of Kshs.174,520,213. The audit revealed the following irregularities:

3.1. Double Payment on Retention Money to the Contractor

As reported in the internal audit report, the audit confirmed that a contractor was double paid retention money totalling Kshs.480,051. The overpayment on retention amount was not corrected in the cash book or recovered from contractor.

3.2. Unsupported Co-operative Gratuity Bank Balance

Note 18 to the financial statements reflects an amount of Kshs.20,745,240 that relates to co-operative gratuity. The following anomalies were noted:

i. Certificate of bank balance for the bank account was not provided for audit review.
ii. Review of the bank reconciliation statement for the month of June, 2025, revealed Kshs.267,582 as unpresented cheques and Kshs.2,565,752 receipts in cashbook not in bank statement. It was, however, noted that some of the items have been outstanding from as far back as March, 2024.

3.3. Dormant Bank Accounts

Two bank accounts: Kisumu LTAP 2 with a balance of Kshs.267,172 and KIWASCO Special Account with a balance of Kshs.643,515 had no movement in terms of figures compared to figures that were reported in the previous year, meaning that no activity took place during the year under review. No explanation was given as to why the accounts are dormant but still maintained by the Agency.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.172,314,299 could not be confirmed

4.0. Failure to Revalue Fully Depreciated Assets in Use and Disclose Obsolete Assets

The statement of financial position reflects property, plant and equipment balance of Kshs.21,296,041,273 and as disclosed in Note 21 to the financial statements. The balance comprises of the net book values of Kshs.828,267 for motor vehicles and cycles, Kshs.1,684,870 for plant machinery, Kshs.3,458,795 for furniture and fittings, Kshs.726,711 for office equipment and Kshs.9,694,976 for computers. These categories of assets include assets with a cost of Kshs.197,932,514, which were fully depreciated, but the assets were still in use. No reason was given for failure to have the assets revalued or their useful lives reviewed and incorporated in the fixed assets register.

In the circumstances, the accuracy of the property, plant and equipment balance of Kshs.21,296,041,273 as at 30 June, 2025 could not be confirmed.

5.0. Unsupported Employer Contribution to Pension Scheme

The statement of financial performance and as disclosed in Note 10 to the financial statements reflect an amount of Kshs.167,152,907 in respect to employees' cost. Included in this amount is Kshs.11,296,205, being employer contribution to pension scheme. The Scheme's rules require that the employer contribute 15% of basic salaries of the scheme members. The supporting schedule provided to support this amount does not indicate computation of employer contribution to Pension Fund and gratuity and the number of employees and the amount of their basic salaries used to compute the 15% pension contribution by the employer amounting to Kshs.11,296,205.

In the circumstances, the accuracy and completeness of employer pension contribution of Kshs.11,296,205 could not be confirmed.

6.0. Material Uncertainty Related to Going Concern

The statement of financial position reflects an amount of Kshs.528,786,995 relating to current assets and an amount of Kshs.2,797,464,517 relating to current liabilities, which results to a negative working capital of Kshs.2,268,677,522. In addition, the Agency continues to generate loss during the year. It made a deficit of Kshs.390,916,889 compared to the previous year's deficit of Kshs.247,451,352. This is a clear indication that the Agency is technically insolvent and its continued existence is dependent on the government and creditors.

In the circumstances, the going concern of the Agency is dependent on government and creditors.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Lake Victoria South 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 amount reflects final budget and actual on comparable basis of Kshs.1,490,794,917 and Kshs.1,840,739,638 respectively, resulting in an over-funding of Kshs.349,944,721 or 44% of the budget. Similarly, the Agency expended Kshs.960,461,674 against actual revenue of Kshs. 1,840,739,638 resulting in under-utilization of Kshs.880,277,964 or 48 % of available funds.

The under-utilization 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. 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 prior year's audit report, several issues were raised under the Report on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Effectiveness of Internal Controls, Risk Management and Governance, respectively. Review of the status during audit of the Lake Victoria South Water Works Development Agency in 2024/2025 revealed issues detailed in **Appendix 1** which remained unresolved.

Other Information

The Directors are responsible for the Other Information set out on page v to xlix which comprises 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 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 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

1.0. Long Outstanding from Exchange Transactions

The statement of financial position reflects current portion of receivables from exchange transactions amounting to Kshs.152,974,223. It was however noted that current receivables from exchange transactions amounting to Kshs.152,974,223 have been outstanding for more than three (3) years. However, Management has not provided evidence of measures to show the steps it has taken to ensure full recovery of the outstanding amounts. This was contrary to Regulation 83 (g) of the Public Finance Management (National Government) Regulations, 2015 states that a sound cash management includes pursuing debtors with appropriate sensitivity and rigor to ensure that amounts receivable are collected and banked promptly.

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

2.0. Penalties Due to Loan Repayment Defaults

The statement of financial performance and as disclosed in Note 16 to the financial statements reflects finance costs amounting to Kshs.369,024,063. Included in the amount is the interest charged on development partner loans and interest on loans from commercial banks amounting to Kshs.366,259,035 and Kshs.2,765,028 respectively. Review of the detailed loan schedule revealed that out of the total finance costs of Kshs.369,024,063, penalty surcharges amounted to Kshs.278,564,272 or 75% of total finance costs. This is attributable primarily due to repayment delays.

In the circumstances, and as previously reported the upward trend in penalties reflect deteriorating debt management and poses a threat to the Agency's financial sustainability and the value for money as result of avoidable penalties charged to the Agency cannot be confirmed

3.0. Failure to Submit Required Quarterly Reports on Framework Contracts

Review of procurement documents for the year revealed that Agency entered into frame work agreements with various contractors for the development, maintenance and rehabilitation of water and sanitation infrastructures for two (2) years under contract numbers tabulated below:

No.	Contract Number	Remarks
1	LVSWWDA/FA/2/2023-2024	Various contracts
2	LVSWWDA/FA/2/2023-2024	Various contracts
3	LVSWWDA/FA/3/2023-2024	Various contracts
4	LVSWWDA/FA/4/2023-2024	Various contracts
5	LVSWWDA/FA/5/2023-2024	Various contracts
6	LVSWWDA/FA/6/2023-2024	Various contracts
7	LVSWWDA/FA/8/2023-2024	Various contracts
8	LVSWWDA/FA/9/2023-2024	Various contracts
9	LVSWWDA/FA/10/2023-2024	Various contracts
10	LVSWWDA/FA/11/2023-2024	Various contracts

No documentary evidence was provided to show that the head of the procurement function prepared and submitted to the accounting officer with a copy to the internal auditor quarterly reports detailing an analysis of projects procured through framework contracts including an analysis of procurement costs in relation to the prevailing market rates and any recommendations contrary to Regulation 134(3) Public Procurement and Asset Disposal Regulations, 2020 which states that the head of the procurement function shall prepare and submit to the accounting officer with a copy to the internal auditor quarterly reports detailing an analysis of items procured through framework contracts and these reports shall include an analysis of pattern of usage, procurement costs in relation to the prevailing market rates and any recommendations.

In the circumstances, Management breached the law

4.0. Drilling and Equipping of Boreholes

4.1. Dry Water Taps in Migori, Nyamira and Kisii

The statement of financial performance reflects grants and subsidies - GOK projects amounting to Kshs.541,089,615 as disclosed in Note 15 to the financial statements.

Review of procurement and payment records and field inspections revealed that four (4) boreholes and water supply projects in Migori, Nyamira, and Kisii counties with a combined expenditure of Kshs.24,858,431 are currently non-operational, denying the intended communities access to clean water. Despite full or substantial payments to contractors and completion certificates issued, site visits in June, 2025 confirmed that water taps at Mabera Primary School Borehole (Kshs.6,057,862), Alara Nyambija Catholic Church Borehole (Kshs.4,300,820), Isoge Water Supply Project (Kshs.8,465,222), and Ramasha Borehole Phase II (Kshs.6,034,527) were all dry and not serving the intended beneficiaries.

This contravenes Section 79(2)(b) of the Public Finance Management Act, 2012 which requires that public resources be used effectively and economically to deliver intended benefits.

In the circumstances, Management breached the law.

4.2. Dry Borehole- Drilling & Capping of Borehole at Kikimirai Central Primary School in Bomet

A company was contracted to carry out Kikimirai Borehole Water Project under Contract No: LVS/QT/104/23-24 at a contract sum of Kshs.2,223,650. The scope of work comprises of preliminary and general items, borehole drilling and development, 24 hours constant discharge test and water quality analysis. The total certified works paid as at the time of audit was Kshs.1,179,450 which includes Kshs.80,000 for test pumping and recovery measurements.

Field audit verification done on 18 June, 2025 revealed that the borehole was drilled and found dry. This therefore implies that no proper survey or testing was done to confirm the water production level before embarking on the project.

In the circumstances, there was no value for money spent on the borehole.

4.3. Boreholes Drilled but not Yet Equipped Due to Poor Budgeting Process

As previously reported, out of the six (6) boreholes, Kenya Forestry Borehole, Londiani Town Borehole, Bugo/Ainospet Borehole, Kiprengwe Borehole Kakrao Primary School Borehole and Mabera Primary School Borehole, that had been drilled but not yet equipped, only one, Mabera Primary School borehole was equipped during the year under review.

The remaining five (5) boreholes, which were drilled but remained unequipped, were implemented during the 2022/2023 and 2023/2024 financial years, with a cumulative cost of Kshs.11,096,020. This was contrary to Regulation 56 (1)(2) of Public Finance Management Regulations (National Government), 2015 which states that contracts imposing financial obligations in excess of one year may only be concluded by the accounting officer only if- (a) the accounting officer discloses all finalized and signed contracts by the beginning of a financial year; (b) they are budgeted for first before new projects are budgeted by the accounting officer of the national government entity.

During the year under review, Management approved the drilling of new boreholes despite the fact that previously drilled boreholes remained unequipped and unutilized, an indication that raises concerns over the regularity of the budgeting process. In addition, value for money may not have been realized, as the schools and surrounding communities are unable to access water as originally intended.

In the circumstances, Management was in breach of law.

4.4. Non-Operational Borehole at Siriba Dispensary

A borehole was drilled and subsequently equipped at Siriba Dispensary in previous financial years at a total cost of approximately Kshs.10,000,000, including Kshs.8,837,668 spent on equipping, civil, and building works. The project was completed on 31 May, 2022. Physical inspection and inspection for the financial year 2022/2023 conducted on 2 December, 2023 revealed that the borehole was not operational due to a malfunctioning pump. A follow-up on physical inspection during the month of June, 2025, one and a half years later, confirmed that the pump had not been repaired and the project therefore remained non-functional. This situation highlights a significant sustainability gap, as there appears to be no effective maintenance plan or budget provision to address breakdowns and keep the project operational.

In the circumstances, there was no value for money spent on the borehole.

5.0. Stalled Construction of Kasgunga Water Supply Project

The statement of financial performance reflects an amount of Kshs.541,089,615 in respect of grants and subsidies- GOK projects as disclosed in Note 15 of the financial statements. Review of the Kasgunga Water Supply project file revealed that the project was awarded to a local firm at a contract sum of Kshs.52,037,348. However, the date of project completion had elapsed. During the year under review, the contractor was paid Kshs.12,916,148, resulting in total payments made to the contractor since project inception to Kshs.21,001,589.60.

Further, Management did not provide payment voucher amounting to Kshs.12,916,148 and certificate of works paid for under this payment. A physical inspection conducted on 18 June, 2025 revealed that the project had stalled for over two (2) years, and the contractor was not on-site.

In addition, it was noted that the contractor had not been granted extension of the contract, an indication that the project timeline has not been formally adjusted and materials on-site valued at Kshs.6,302,439 have remained unused for over two years, increasing the risk of theft, damage or deterioration.

In the circumstances, both the contractor and the procuring entity failed to comply with their contractual obligations and the public may not get full value for the money spent on the project.

6.0. Stalled Construction of Rongo Water Supply Project

The Management awarded a contract to a Company for the Construction of Rongo Water Supply Project-Lot 1 under contract No. LVSWWDA/T/1/2021-2022 with the objectives to Improved Water Access and Supply for Rongo township area in Rongo

Constituency, Migori County at a contract sum of Kshs.171,062,428.19.The contractor took possession of the site on 7 June, 2022 for the executions of works and a commencement date of 14 June, 2022, a performance period of 18 months with a completion date of 14 December, 2023.

However, the audit confirmed slow progress of work as the project progress was estimated to be below 30%, whereas 100% of the contract period has elapsed. Although the slow progress was attributed to cash flow challenges, it is not satisfactorily explained why the Management continues awarding contracts before confirming availability of funds.

In the circumstances, both the contractor and the procuring entity failed to comply with their contractual obligations.

7.0. Non-Compliance with the National Cohesion and Integration Act, 2008

The staff bio data provided for audit review indicated that the Agency had eighty-one (81) permanent employees as at 31 March, 2025 out of which fifty (50) or 61% were from the dominant community in Kisumu County. This was contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 that stipulates that no public establishment shall have more than one third of its staff from the same ethnic community.

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

8.0. Deficiencies in the Payroll System

Review of payroll reports established that the current module clumps all the deductions together on the master roll under other deductions therefore limiting verification and confirmation of monthly employee deductions. Similarly, the module also has other allowances clumped together making it impossible to identify the type of allowances from the payroll report. This was contrary to Section 7.7 of Guidelines on management of state corporations 2024 states that the remuneration system for a state corporation should ensure that the staff payroll is in sync with public service standards and integrated with Unified Payroll Management system (UPMS).

The payroll reports also lacks critical information like salary incremental month, date of entry into a post and date an employee was hired. Lack of such vital information would make it difficult to verify the accuracy and correctness of payroll reports.

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

9.0. Lack of Assets Disposal Plan for Grounded Motor Vehicles

The motor vehicle inventory records provided for audit review have thirty-five (35) grounded vehicles. Management has only disposed two (2) grounded vehicles out of the thirty-five (35). No reason was provided for failure to dispose off the grounded motor vehicles to prevent further loss arising from wear and tear and repairing of un serviceable vehicles. Failure to take action goes contrary to Regulation 176(1) of the Public Procurement and Assets Disposal Regulations, 2020 which requires the Accounting Officer of a procuring entity to ensure that an annual assets disposal plan is prepared of items declared as unserviceable, surplus, or obsolete, obsolescence stores, asset or equipment as set out under Section 53(4) of the Act.

In addition, review of motor vehicle records provided by the transport department revealed that the Agency did not have logbooks for (51) motor vehicles. Out of the fifty – one (51) motor vehicles, forty-two (42) were registered in the name of contractors some whose contracts had lapsed. This was contrary to Section 9 of the Traffic Act, Cap 403 that mandates that vehicle and logbook transfers must be initiated within 14 days of acquiring a motor vehicle.

Further, review of internal audit report on transport management revealed that the Agency had ten (10) logbooks for vehicles which the internal audit was not able to verify and trace their locations and whereabouts. The internal audit made a recommendation to the Management to fast track the location of the motor vehicles. Management has not provided evidence on the effort made to address the issue of the un-accounted motor vehicles.

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

10. Incomplete Assets Register

Review of the assets register provided for audit was incomplete and lacked critical details such as:

i. Missing net book values for most assets, serial numbers for most assets, payment voucher numbers for most assets, assets conditions for all assets, tag numbers for most assets, specific current locations for all assets (it was generalized as head office, instead of specifying the locations), for some assets the depreciation and accumulated depreciation amounts were missing.

ii. For example, under motor vehicles and motor cycles category; twenty-five (25) lacked both the chassis and engine numbers. Under the category for computer and ICT equipment; seventeen (17) lacked the serial numbers, model, net book values, current location and also the assets conditions were not captured. Lastly, under office equipment; fifty-six (56) assets did not have the net book values and serial numbers.

iii. Further, it was observed that the Agency's assets were not tagged with unique identification numbers. An amount of Kshs.620,900 was advanced to various officers as facilitation to visit project sites to help in updating of the Agency's fixed assets register. However, at the time of audit in mid-June 2025, it was noted that the assets register was not yet updated. Thus, value for money for the Kshs.620,900 could not be confirmed.

In the circumstances, failure to maintain clear assets register may result into potential loss due to poor record keeping and oversight failure and failure to tag assets and to disclose the location makes it difficult to verify the existence and conditions of assets

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. Unconfirmed Number of Vehicles owned by the Agency

Review of motor vehicle records provided by the transport department indicates that the number of motor vehicles owned by the agency was one hundred twenty-eight (128). However, a report done by the internal audit department on transport management in February, 2024 established that the number of vehicles owned by the Agency were two hundred seventy-four (274) according to logbooks in custody of the Agency. The Asset register maintained by the Agency has captured thirty-five (35) motor vehicles.

In the circumstances, the actual number of motor vehicles owned by the Agency and effectiveness of internal controls on management of motor vehicles could not be confirmed.

2. Placement of Internal Audit Unit in the Organization Structure

The approved staff establishment record for the Agency indicates that the Internal audit unit is headed by the manager and placed at grade three (3) in the organization structure. This is one grade below other heads of departments like sanitation works services, research strategy and performance management and finance which are headed by senior managers placed at grade two (2). Placement of internal audit head in a lower grade than other heads of departments is a critical issue that can undermine the effectiveness, independence and objectivity of the internal audit function.

A lower grade can signal a lack of importance placed on the internal audit function within the organization. This can lead to difficulties in ensuring audit recommendations are taken seriously and implemented. Further, review of staff biodata as at 31 March, 2025 indicated that the position of principal internal auditor is still vacant.

In the circumstances, Management is yet to make effort to address internal audit challenges.

3. Non-Functional Enterprise Resource Planning System (ERP)

As previously reported, the audit confirmed that the ERP system had not been functional for more than one and a half years due to the management's failure to renew the user departments' licensing fees. During the audit, it was noted that the management resorted to using Excel spreadsheets to process and store financial data and records. This method is prone to errors and data manipulation. As previously indicated, the ERP Project Implementation Status Report confirmed that the system was handed over to users on 14 November, 2022, at a cost of Kshs.12,549,883. However, it was operational for only a short period approximately two (2) years before becoming inactive. The management also explained that budgetary constraints were the major reason for the failure to renew the user licensing fees.

In the circumstances, no value for money was achieved from the acquisition and usage of the ERP system.

4. Review of Quarterly Financial Reports- Non-Compliance with PSASB Reporting Template

During the year under review, it was noted that Management prepared quarterly financial performance reports. However, it was noted that the financial reports that were prepared by management did not conform with the quarterly financial reporting template that was issued by the Public Sector Accounting Standards Board on September, 2024. Management prepared the quarterly financial statements for three months for each quarter and not cumulatively as required. Further, Management also failed to submit the reports within fifteen days after the end of a quarter to the National Treasury as required by law.

In the circumstances, Management failed to adhere to the Financial Reporting Template prescribed by the Public Sector Accounting Standards Board.

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 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/Board of Management 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

11 December, 2025

Appendix 1: Unresolved Prior Year Matters

No.	Financial Year	Audit Issue
1.	2023/2024	Failure to Capitalize WIP Completed
2.	2023/2024	Unsupported Prior Year Adjustments on Borrowings
3.	2023/2024	Long Outstanding Receivables from Exchange Transactions
4.	2023/2024	Cash and cash Equivalent
5.	2023/2024	Unsupported Adjustments to Accumulated Surplus
6.	2023/2024	Lack of Fixed Asset Register for Work in Progress
7.	2023/2024	Failure to Prepare Agency's Asset Disposal Plan
8.	2023/2024	Non-Compliance with the National Cohesion and Integration Act, 2018
9.	2023/2024	Finance Cost
10.	2023/2024	Failure to Collect Revenue from the Water Service Providers
11.	2023/2024	Unutilized Enterprise Resource Planning System (ERP)
12.	2023/2024	Construction of Otong'lo Riat Water Supply Project
13.	2023/2024	Rehabilitation of Lower Tito Water Pan
14.	2023/2024	Construction of Kasgunga Water Supply
15.	2023/2024	Borehole Drilled but not Equipped
16.	2023/2024	Lack of Documents for Motor Vehicles
17.	2023/2024	Non – Compliant Imprest Register