REPUBLIC OF KENYA

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

NATIONAL WATER HARVESTING AND STORAGE AUTHORITY

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NATIONAL WATER HARVESTING AND STORAGE AUTHORITY 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 National Water Harvesting and Storage Authority set out on pages 1 to 51, 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 National Water Harvesting And Storage Authority as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and the National Cereals and Produce Board Act,1985 and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Cash And Cash Equivalents

The statement of financial position reflects cash and cash equivalent balance Kshs.169,275,266. Review of cash and cash equivalent documents revealed the following anomalies;

1.1. Long Outstanding Direct Debits

Included in the cash and cash equivalent balance is an amount of Kshs.22,738,326, Kshs.24,782,042 and Kshs.67,423,099 in respect of Special, Development and Recurrent Account respectively. Review of June 2025 bank reconciliation statements revealed reconciling items referred to as unposted items which are direct debits amounting to Kshs.31,860,430 and are long outstanding dating back to the financial year 2005/2006, 2006/2007, 2009/2010 and 2015/2016 in respect of Special, Development and Recurrent Account. Further, included in the long outstanding unposted items is an amount of Kshs.22,920,731 not broken down into individual cheque numbers.

1.2. Unreconciled Balances

The cash and cash equivalents balance of Kshs.169,275,266 includes a balance of Kshs.67,423,099 in respect of recurrent account as disclosed in Note 20 (b) to the financial statement. Review of the recurrent account bank reconciliation statements revealed unsupported and unexplained reconciling item of Kshs.1,956,997 referred to as cashbook undercast dating back to the year 2009 which have been added back to the balance as per the bank statement as payments in bank not in cashbook. It is not clear why the undercast has not been investigated to date

In the circumstances, accuracy, existence and completeness of cash and cash equivalent balance of Kshs.169,275,266 could not be confirmed.

2. Land Without Title Deeds

As previously reported the statement of financial position reflects property, plant and equipment balance of Kshs.35,749,049,176. The amount includes land amounting to Kshs.4,634,900,000 as disclosed in Note 24 to the financial statements. Review of records revealed that the Authority owns ninety-three (93) parcels of land. However, title deeds for eighty-seven (87) parcels of land valued at Kshs.3,594,400,000 have not been acquired. Further, fourteen (14) parcels of land have been encroached.

In the circumstances, accuracy, completeness and ownership of land amounting to Kshs.4,634,900,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Water Harvesting and Storage Authority 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.

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 Issues

In the audit report of the previous year, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance which have not been resolved. This contravened the requirements of the National Treasury circular No.NT/IAG/GEN/252(12) on Head of public service directive in regards to zero fault audit which directed the Ministries, Departments and Agencies to ensure that they close all the issues raised by the auditor General for the financial years 2021/22 and 2022/23.

In the circumstances, the Authority is in contravention with National Treasury circular No.NT/IAG/GEN/252(12) as detailed;

i. Inconsistencies in the Retention Balance
ii. Long Outstanding Reconciling Items in Cash and Cash Equivalents
iii. Land Without Title Deeds
iv. Long Outstanding Trade and Other Payables
v. Arbitration Claims Arising from Peace Dam Contract
vi. Long Outstanding Receivable from Exchange Transactions
vii. Uncollected Rental Revenue
viii. Delayed Disposal of High-Value Salvage Motor vehicles and Motor Vehicles without Registration Numbers
ix. Failure to Conduct Governance audit
x. Irregular Board and Board Committees' Composition
xi. Slow implementation of the Project- Construction of Umaa Dam Water Supply and Irrigation Project in Kitui County

Other Information

The Directors are responsible for the Other Information set out on page i to xliii which comprise of Key Authority 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 National Water Harvesting and Storage Authority'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. Delayed Completion of Construction Projects

1.1. Construction of Soin-Koru Multipurpose Dam Water Project-Lot 1

The entity entered into a contract No.NWHSA/OIT/030/2019-20 with a contractor under Joint venture on 11 May, 2022 at contract sum of Kshs.19,987,695,935 and the project commenced 27 August, 2022 with expected completion date being 27 August, 2027. The following observations were made;

i. The contractor is not on site.
ii. RE's offices, Laboratory and RE's Staff houses are not complete.
iii. Diversion culvert and Coffer Dam has not commenced.
iv. Excavation, Seepage Control i.e Grouting, Diaphragm wall, Relieve wells etc, Laboratory tests have not commenced.
v. Construction of a 54m high Zoned earth rock fill dam has not commenced.
vi. Side channel spillway with a concrete-lined chute and plunge pool has started with estimated 15% completion level.

vii. Concreting and installation of gabion boxes has not been done
viii. Intake tower B (54m high) and 3-barrel river diversion culvert has not commenced.
ix. Road Pavement, Drainage Structures and Road Furniture have not been done.
x. Water abstraction facilities (Water Supply Pipeline Diameter 1200mm, Penstock of diameter 1600mm or hydropower generation, Rapid draw down pipe diameter 1200mm) have not been fixed.
xi. Access road over embankment, Raw water access road, Intake tower access bridge have not been done.
xii. Penstock, Tailrace channel, Switchyard & dam services building, Dam embankment security and security access gates have not been done.
xiii. River training and diversion has not been done.

1.2. Construction of Umaa Dam Water Supply and Irrigation Project in Kitui County

The contract for the construction of the Umaa Dam Water Supply and Irrigation Project in Kitui County was awarded to a joint venture of Vanqo Roads and Engineering Ltd and China Jiangxi International Economic and Technical Co. Ltd on 20 December, 2023 at a contract sum of Kshs.1,960,184,623. The contract period was 24 months, starting from 3 January, 2024 with an expected completion date of 2 January, 2026. Interim Payment Certificate (IPC) No. 1 amounting to Kshs.284,657,419.35 has already been paid, while IPC 2 and 3, totaling Kshs.548,461,286 have been certified but not yet paid.

Physical verification carried out in November 2025 revealed the following:

- The contractor was present on site, but no active work was taking place at the time of the visit.
- Project consultants were not on site.
- The downstream cofferdam had been completed.
- Grouting and pressure tests had been conducted.
- Inlet chamber and trenches had been constructed.
- Completion and finishing of existing staff housing and other buildings were in progress.
- Rehabilitation and completion of the previous water treatment plant and sedimentation basin had not been done.
- Elevated water tank had not been installed.
- Spillway construction was incomplete.
- Fencing of the site had not been done.
- Pipes purchased by the previous contractor were exposed to sunlight and may be damaged.
- Overall, the project was at approximately 57% completion.

In the circumstances, delays in the project implementation may hinder the timely realization of the intended benefits to the community.

2. Avoidable Arbitration Claims Payable Arising from Peace Dam Contract

Note 31 to the financial statements reflects the contingent assets and contingent liabilities totalling Kshs.720,876,256 in respect of court judgements, arbitration awards and legal fees. The amount includes arbitration award and costs for the delays and suspension of works, illegal deductions and claims on the contract for the construction of Turkana Peace Dam-Nakuetum site in Turkana amounting to Kshs.397,440,203. Review of records revealed that the contract for the construction was signed on 18 March, 2020 at a contract sum Kshs.231,114,402. The project was completed and handed over to the Authority. In the event Management is obligated to pay the arbitration award of Kshs.397,440,203, it would amount to 172% payment over and above the contract sum.

In the circumstances, the value for money on the high claim could not be confirmed.

3. Discrepancies Between the Water Act and Mwongozo

Review of the financial statements and other records provided for audit including the board members' personal files, board composition paper and minutes revealed that the entity's Board is composed of twelve (12) members including the Managing director. This contradicts the dictates Section 31(1) of the Water Act, 2016 which states that the number of board members shall be ten (10) leading to a conflict between the Act, Mwongozo on the board membership.

In the circumstances, the Authority 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, 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. Understaffing of the Entity

Information provided for audit indicated that the Authority had an approved staff establishment of one hundred (100 officers while four (4) while the number of positions filled within the approved establishment was sixty-four (64), other positions were supernumerary. However, the establishment created sixteen (16) positions that had not been filled resulting to understaffing by the sixteen (16). The gaps could therefore negatively impact the entity on meeting its objectives and delivering services to the public due to inefficient human capital level.

In the circumstances, the effectiveness of the Authority to discharge legal matters affecting the County Executive may not be achieved.

2. Gender Composition of the Board

Review of available records, including Board minutes and the Board composition paper, revealed that the Board comprised only one (1) female member out of twelve (12) members. This composition does not meet the recommended gender balance threshold.

In circumstances, the effectiveness of the oversight and governance role of the Board could not be confirmed.

3. Lack of a Risk Management Policy

During the year under review, it was observed that the Authority did not have an approved risk management policy in place. Additionally, there was no evidence provided to confirm that the Department has identified, assessed, or documented risks, nor developed controls to address the identified risks.

In the circumstances, the security and reliability of data including the management information systems could not be 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 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 control 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 control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Authority's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Authority or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance 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 Authority'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

17 December, 2025