REPUBLIC OF KENYA

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

NORTH RIFT VALLEY WATER WORKS DEVELOPMENT AGENCY

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
Email: 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 NORTH RIFT VALLEY 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.

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 North Rift Valley Water Works Development Agency set out on pages 1 to 74, 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, the financial statements present fairly, in all material respects, the financial position of North Rift Valley Water Works Development Agency as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the North Rift Valley 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 opinion.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects revenue final budget and actual on comparable basis of Kshs.1,358,060,551 and Kshs.1,364,810,551 resulting to over funding of Kshs.6,750,000 of the budget. Similarly, the agency spent Kshs.934,456,413 against actual receipts of Kshs.1,364,810,551 resulting in an under expenditure of Kshs.430,354,138 or 32% of the actual receipts.

The under-performance affects the planned activities and may have impacted negatively 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. 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 paragraphs were raised under the report on Lawfulness and Effectiveness in the Use of Public Resources, Effectiveness of Internal Controls, Risk Management and Governance. Even though Management has provided explanations on the progress made on the recommendations made by auditors, the issues have remained unresolved as relevant parliamentary committee had not discussed them as detailed in **Appendix 1.**

Other Information

The Management is responsible for the Other Information set out on page (iii) to (xxxii) which comprise of Key Entity Information and Management, The Board of Directors, Key Management Team, Chairman's Statement, Report of the Chief Executive Officer, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors, 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. Delayed Implementation of Projects

Review of the project implementation status report presented revealed that there were seven (7) projects with a total contract sum of Kshs.175,524,230 which had not been completed and were past the completion timelines. This is contrary to Section 79. 2 (b) of the Public Finance Management Act, 2012 which states that a public officer employed in a national government, state organ or public entity shall ensure that the resources within the officer's area of responsibility are used in a way which is lawful and authorized; and (ii) is effective, efficient, economical and transparent. It was not clear as to why the projects were still in-complete.

In the circumstances, the residents may not have obtained value for money for the expenditure for delayed projects.

2. Delayed Completion of Construction of Moiben- Kuserwo Phase 1 Water Supply Project

As was reported the previous year, review of project implementation status revealed that the Agency invited bids for the completion of the water project on 18 October, 2022 in which the contract was awarded to the winning bidder at a contract sum of Kshs.8,950,020 and signed on 30 January, 2023.

Project commencement date was 24 February, 2023 and contract period being 4 months and had already expired as at 30 June, 2024. The project was handed over from Lake Victoria North Water Works Development Agency in 2022/2023 financial year when it was in phase 1 and it was to be implemented in two (2) phases at an estimated cost of Kshs.89.3 million.

Phase 1 was to cost Kshs.37 million while phase 2 was to cost Kshs.52.3 million. The project received funds in the financial year 2016/2017 of Kshs.36 million at Lake Victoria North Water Works Development Agency. On handing over, the Agency requested for funds to complete the pending works under phase 1 and were granted Kshs.10 million in the financial year 2022/2023 translating to a total of Kshs.46 million.

Phase 1 included construction of 50 cubic m and 100 cubic m, masonry tank, and laying of the entire 160mm diameter HDPE pipes. Total expenditure incurred during the year by Agency amounted to Kshs.4,030,352 leading to a total of Kshs.40,030,352 for phase 1 which is yet to be completed.

Physical inspection carried out in the month of October, 2025 revealed that there was a lot of siltation upstream, community interference at the Sitoton community tank and water point, flooding, trees falling in the forest disjointing the lines, soil erosion along the excavated sections and inability for the Agency to ease the load between Chepsirgen and Sitoton tank.

In the circumstances, the residents may not have obtained value for money for the expenditure incurred on the project.

3. Composition of the Board Committees

Review of board records and committee membership revealed that all the three committees of the board namely; Audit Governance and Risk Committee, Finance and Administration Committee, Technical Services Committee have more than one-third of the full board members. This is contrary to Section B.4 of OP Circular No. OP/CAB.9/1A of 11 March, 2020 states that the number of members to the board committees should not be more than one third (1/3) of all the full board members to obviate the risk of a committee conducting its business within the framework of a full board structure and any exception must be approved by the cabinet secretary in consultation with the SCAC and that members can only sit in a maximum of two committees.

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

4. Non-Compliance with Law on Ethnic Composition

As previously reported, the payroll records for the year under review revealed that the Agency has a workforce of 17 out of which 23 or 73.91% are members of the dominant ethnic community. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and no public establishment should have more than one third of its staff from the same ethnic community.

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, 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. Long Outstanding Trade and Other Payables

Statement of financial position and as disclosed in Note 40 to the financial statements reflects long outstanding balance of Kshs.49,577,974 in respect to trade and employee benefit obligations which has been outstanding for a long time. Kshs.8,093,649 has been outstanding for 1-2 years, Kshs.5,240,875 for 2-3 years and Kshs.1,381,725 for over 3 years. Management has not put interventions necessary to clear the outstanding balances of Kshs.14,716,249. In addition, the long outstanding balance has increased from Kshs.18,806,098 in 2023/2024 to Kshs.49,577,974 in 2024/2025.

Further, the long outstanding balances of Kshs.14,716,249 were not captured in the budget, and did not form the first charge. Failure to settle bills during the year to which they relate adversely affects the implementation of the subsequent year's budgeted programs to which they have to be charged. Delay in settling bills may attract legal cases, interest in case of disputes, and affect the following year's budget.

In the circumstances, the ability of the hospital to settle the outstanding trade and other payables balance of Kshs.49,577,974 could not be confirmed.

2. Lack of an Approved Risk Management Policy

As previously reported the Agency operated without a risk management policy contrary to Regulation 165 (1) of the Public Finance management (National Government Regulations, 2015 which requires each Accounting Officer to ensure that the national government entity develops risk management strategies which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operation.

3. Lack of Governance Audit

As previously reported, the Agency was not subject to governance audit to evaluate governance practices of the organisation. This is contrary to Parameter 1.13 of the Mwongozo code of governance 2015 which requires that the board, in consultation with the oversight office, should ensure that it subjects the organization to an annual Governance Audit by a member regulated by Institute of Certified Public Secretaries of Kenya (ICPSK) and accredited for that purpose.

Lack of governance audit may lead to higher liability and un identified risks which may led to financial loses and operational in efficiency.

4. Failure to Conduct Board Competency Needs Assessment

The Agency's Board did not plan and conduct a competency needs assessment program including a comprehensive annual development exercise with a minimum of two (2) days per board member during the financial year. Management did not provide evidence to confirm that the Board had been certified by an accredited body within the first six (6) months of their appointment. This was contrary to governance principles provided in Section 1.10 of the Mwongozo (Code of Governance for State Corporations), 2015.

In the circumstances, the board may lack critical skills in areas like finance, risk management, technology which lead to poor decision-making and missed strategic opportunities.

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 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.

Those charged with governance 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

28 October, 2025

Appendix 1

Unresolved Prior Year Matters

No.	Financial Year	Audit Issue
		Report on Lawfulness And Effectiveness in the Use of Public Resources
1	2023/2024	Non-Compliance with Law on Ethnic Composition
2	2023/2024	Delayed Implementation of Projects
3	2023/2024	Delayed Construction of Moiben- Kuserwo Phase 1 Water Supply Project
		Report on Effectiveness of Internal Controls, Risk Management and Governance
4	2023/2024	Lack of Governance Audit
5	2023/2024	Lack of Information Communication Technology (ICT) Strategy and Periodic Reports
6	2023/2024	Lack of Risk Management Policy
7	2023/2024	Lack of Segregation of Duties in the Finance and Accounting Department