REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

TANA WATER WORKS DEVELOPMENT AGENCY

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON TANA 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 the 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 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 the 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 Tana Water Works Development Agency set out on pages 1 to 53, 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 the Tana 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 and the Water Act, 2016.

Basis for Qualified Opinion

1.0 Long Outstanding Receivables

The statement of financial position reflects an amount of Kshs.262,316,260 in respect of receivables from non-exchange transactions, which include Kshs.262,208,410 in respect of water service provider's administration fees as disclosed in Note 32 to the financial statements. The trade debtors were due from various water service providers dating back to 2016. Though records reviewed indicated that the Agency was negotiating with the various water service providers to ensure settlement of the owed amounts, as at the time of audit in the month of November, 2025, the issue was outstanding and thus remained unresolved. The accumulation of the receivables denied the Agency much needed revenue to finance its activities.

In the circumstances, the validity, accuracy and recoverability of the trade debtors of Kshs.262,208,410 could not be confirmed.

2.0 Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs.8,627,270,342 in respect of property, plant and equipment as disclosed in Note 36A to the financial statements.

However, the following anomalies were noted.

2.1 Unreported Inherited Assets

As previously reported, the Agency inherited several non-current assets from the Ministry of Water and Irrigation and the National Water Conservation and Pipeline Corporation, which were not incorporated in the Agency's financial statements for the year ended 30 June, 2025. These assets include land and buildings (Maji House Nyeri), water and sewerage infrastructure assets of unknown value spread within its jurisdiction and fifteen motor vehicles and various District Water Offices of unknown value.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.8,627,270,342 could not be confirmed.

2.2 Lack of Land Ownership Documents

The property, plant and equipment balance Includes an amount of Kshs.1,022,235,902 in respect of land which further includes land valued at Kshs.47,032,500. However, although the Management provided allotment letters for audit review, tittle deeds which confirm ownership had not been acquired.

In the circumstances, the ownership of land valued at Kshs.47,032,500 included in the property, plant and equipment balance could not be confirmed.

2.3 Assets Registered under other Entities

The property, plant and equipment balance Includes an amount Kshs.2,769,248 in respect of net book value of motor vehicles. However, review of logbooks provided for audit revealed that eighteen (18) motor vehicles were not registered in the name of the Agency but under other entities. Although the Management in their response indicated that four vehicles had been transferred to the Agency, the logbooks were not provided for audit

In the circumstances, the ownership of motor vehicles valued at Kshs.2,769,248 included in the property, plant and equipment balance could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Tana Water Works Development Agency Management in accordance with ISSAI 130 on 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 final revenue budget and actual on comparable basis of Kshs.465,397,000 and Kshs.346,062,412 respectively resulting to an under-funding of Kshs.119,334,558 or 26% of the budget.

The underfunding 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 judgment, are of most significance in the audit of the financial statements. Except for 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 years' audit reports, 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 Agency in 2024/2025 revealed that the following matters remained unresolved.

	Financial Year	Audit Issue
1	2023/2024	Long Outstanding Receivables
2	2023/2024	Inherited Assets not incorporated in the Agency's Financial Statements
3	2023/2024	Lack of Land Ownership Documents
4	2023/2024	Assets Registered under other Entities
5	2023/2024	Long Outstanding Borrowings
6	2023/2024	Long Outstanding Payables

Other Information

The Management is responsible for the Other information set out on page iii to lxvii which comprise of Key Entity Information and Management, Governance Statement, Foreword by the Chairman, Statement of Performance Against Predetermined Objectives, Environmental and Sustainability Reporting Management Discussion and Analysis and the Statement of Management Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Agency 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 USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effects of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in 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 Lack of Diversity in Staff Ethnic Composition

Review of the personnel records and staff establishment revealed that the Agency had a total of one hundred and thirty-five (135) employees as at 30 June, 2025, out of which, one hundred and one (101) or (75%) were from the dominant ethnic community. This was contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008 which states 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.

2.0 Non-Compliance to Affirmative Action on Youth, Gender and Persons with Disabilities

A review of the Agency personnel bio data revealed that only two or 1% out of one hundred and thirty-five members of staff were persons with disability which was in contravention of Persons with Disability Act, 2025 Part II Section 5(e) which states that the Council shall endeavor to secure the reservation of five percent of all casual, emergency and contractual positions in employment in the public and private sectors for persons with disabilities

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

3.0 Long Outstanding Borrowings

The statement of financial position reflects outstanding loan balance of Kshs.13,151,257,288 as at 30 June, 2025 and as disclosed in Note 22 to the financial statements. Included in this amount is a long outstanding loan balance of Kshs.3,459,705,848 out of which an amount of Kshs.1,434,288,462 was in respect of loan repayment arrears. Further, the loan repayment arrears have remained outstanding for one hundred and eight (108) months and beyond as at 30 June, 2025.

Failure to repay outstanding loan arrears when they fall due may expose the Agency to penalties and fines on unremitted loan arrears resulting in losses.

4.0 Long Outstanding Payables

The statement of financial position reflects trade and other payables from exchange transactions amounting to Kshs.989,492,603 as at 30 June, 2025 and as disclosed in Note 40 to the financial statements. The amount includes long outstanding payables totaling to Kshs.513,422,245 owed to suppliers and which have been outstanding for more than two years.

In the circumstances, failure to settle payables when they fall due may expose the Agency to interests and other charges as a result of late payments resulting in losses.

5.0 Delayed Construction of Mbeere South Water Supply Projects Lot 1

The Agency awarded a contract to a Contractor at a contract sum of Kshs.789,689,756 for construction of Mbeere South Water Supply Projects Lot.1. The project was for a duration of 24 Months beginning 16.07.2024 to 15.08.2026.

Review of progress report for the month of June, 2025 revealed that the physical project progress was at 34.2% and time lapsed was at 61% of the contract duration, which was further confirmed during physical verification in the Month of November, 2025 which revealed that there was a minimal works going and which the contractor attributed to financial constraint that was occasioned by non-payments of the Interim Payment Certificate (IPCs) amounting to Kshs.61,142,986.

However, although the contractor was later paid the amount of the interim certificate (IPCs) owed, the contract was still behind the scheduled time and had delayed.

In the circumstances, the slow implementation of the projects may lead to lack of value for money on the projects.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards requires 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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015 and 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 Management and the 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 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 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 Agency's financial reporting process, reviewing the effectiveness of how the 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