REPUBLIC OF KENYA

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

WATER RESOURCES 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 WATER RESOURCES 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 Water Resources Authority set out on pages 1 to 73, 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 Water Resources Authority as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Water Act, 2016 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unreconciled Revenue Variances

The statement of financial performance reflects revenue on licences and permits amounting to Kshs.376,320,071 as disclosed in Note 7 to the financial statements. Review of E-Citizen Pesa flow invoices revealed discrepancies between the financial statements and the supporting records, with application and authorization fees reported as Kshs.114,311,150 in the financial statements while the schedule of invoices reflect Kshs.105,158,500 resulting to unexplained variance of Kshs.9,152,650. Similarly, the financial statements reflect groundwater and surface water permit fees of Kshs.262,008,921 while the schedule of invoices reflect Kshs.252,504,399 resulting to unexplained variance of Kshs.9,504,522. In addition, the Pesa flow invoices did not provide a breakdown between the groundwater and surface water permits, which limit the ability to accurately reconcile the reported amount with the supporting records.

In the circumstances, the accuracy and completeness of licenses and permits amount of Kshs.376,320,071 could not be confirmed.

2. Long Outstanding Receivables from Exchange Transaction

The statement of financial position and as disclosed in Note 18 to the financial statements reflect receivables from exchange transactions balance of Kshs.2,075,161,437. Included in the balance are general debtors' balance of Kshs.1,984,522,444 or approximately 86% of the receivables which have been outstanding for more than two (2) years whose recoverability is doubtful. Further, the provision for bad and doubtful debts of Kshs.230,573,493 may not be adequate for the long outstanding debtors.

In the circumstances, the accuracy and recoverability of the receivables from exchange transactions balance of Kshs.2,075,161,437 could not be confirmed.

3. Inaccurate Value for Property, Plant and Equipment

The statement of financial position and as disclosed in Note 20 to the financial statements reflect property, plant and equipment balance of Kshs.297,901,366 which includes a balance of Kshs.27,633,173 in respect to land and buildings. However, the balance does not include the value of the land on which the Authority's regional buildings are built on since valuation has not been done due to lack of ownership documents. In addition, the land register includes thirty-two (32) parcels of land donated to the Authority, out of which twenty-eight (28) parcels have not been surveyed and three (3) parcels are subject to disputes. Further, the size of land for five (5) parcels located in Nairobi Sub-Basin, Meru Sub-Basin, Kisii Sub-Basin, Kisumu Sub-Basin, and Wajir was not indicated. In addition, the Authority did not provide ownership documents for the un-surveyed land or transfer documentation for any of the parcels of land.

In the circumstances, the accuracy, completeness and ownership of property, plant and equipment balance of Kshs.297,901,366 could not be confirmed.

4. Unsupported Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.1,724,119,436 as disclosed in Note 21 to the financial statements. Included in the balance are payables totalling Kshs.61,133,856 in respect to prepayment from E-Citizen. However, the amount does not relate to trade payable. Further, it is unclear what resulted in the prepayment of revenue, given that the E-Citizen platform ordinarily remits funds already collected on behalf of the Authority. Further, Aging analysis of the trade creditors reflect payables balance of Kshs.1,364,677,477 or approximately 90% of the trade creditors which have been outstanding for more than one (1) year.

In the circumstances, the accuracy, validity and completeness of trade and other payables balance of Kshs.1,724,119,436 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Water Resources 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.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.2,956,389,608 and Kshs.2,110,900,445 respectively resulting to under funding of Kshs.845,489,163 or approximately 29% of the budget. Similarly, the Authority expended Kshs.1,838,764,874 against actual receipts of Kshs.2,110,900,445 resulting to under absorption of Kshs.272,135,571 or approximately13% of actual receipts.

The under-funding and under-absorption 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, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Matters

In the report of the previous year, several issues were raised under Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk management and Governance. However, Management had not resolved the issues or given any explanations for the failure to implement the recommendations. Further, Management had not submitted a report on how it has addressed the recommendations and findings of the previous year's audit. Issues which were raised in the report of 2023/2024 are as listed below;

i) Long Outstanding Receivables from Exchange Transaction.

ii) Debarment of Implementation of New Water Tariffs.

iii) Long Outstanding Trade and Other Payables.

iv) Understaffing in the Authority.

Other Information

The Management is responsible for the Other Information set out on pages iii to li which comprise of Key Entity Information and Management, Management Board, Key Management Team, Chairman's Statement, Report of the Chief Executive Officer, Statement of Performance against Pre-determined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Management Board and 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 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 and based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion, 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. Non-Remittance of Statutory Deductions

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.1,724,119,435 as disclosed in Note 21 to the financial statements. Review of payroll records and payable ledgers revealed that pension deductions amounting to Kshs.579,992,325, relating to previous financial years, were not remitted to the respective retirement benefits schemes by the Authority. Although a remedial action plan was agreed upon with the Retirement Benefits Authority (RBA) to clear the arrears through monthly payments of Kshs.8,523,100 over a six-year period beginning July, 2024, this has not been complied with. Further, review of the payroll and payment records for the financial year 2024/2025 revealed that while the Authority was required to remit Kshs.101,435,743 to the Water Pension Scheme comprising both employee and employer contributions only Kshs.11,327,317 was paid for the months of July, 2024 and April, 2025. This resulted in an unremitted balance of Kshs.90,108,426, despite the pension deductions having been made from employees' salaries throughout the year, indicating non-compliance with pension remittance obligations. In addition, outstanding tax obligations totaling Kshs.773,158,863 due to the Commissioner of Domestic Taxes remained unpaid.

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

2. Default in Loan Repayment

The statement of financial position and as disclosed in Note 25 to the financial statements reflects current portion of borrowing and long-term loan balances of Kshs.188,528,178 and Kshs.259,872,148 respectively totaling Kshs.448,400,326. The loan relates to an on-lent loan from the Government of Kenya arising from a credit granted by the World Bank (IDA) earmarked for Natural Resources Management (NRM) Project with various effective dates of repayments starting 30 March, 2017. The loan has been outstanding for considerably long period of time and the Authority has not started the repayment. The current portion of principal payable is Kshs.102,740,152 while the loan has accrued interest and penalties of Kshs.84,760,625 and Kshs.1,027,402 respectively totaling to Kshs.188,528,179.

In the circumstances, value for money on the loan totalling Kshs.448,400,326 plus the accrued interest and penalties could not be confirmed.

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 effects of the matter 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

Understaffing in the Authority

Review of the Authority's approved staff establishment indicates that it allows for employment of a total number of one thousand, one hundred and seventy-three (1,173) members of staff for the Authority to effectively carry out its duties and obligations. However, review of payroll data revealed that out of the approved number, the Authority has six hundred and twelve (612) or approximately 52% of the approved establishment, thus resulting to a variance (understaffing) of five hundred and sixty-one (561) or approximately 48% of the approved establishment.

In the circumstances, the effectiveness of Management to achieve its mandate 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 the Management and the Board of Management

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 Authority'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 Management 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