

# **REPORT OF THE AUDITOR-GENERAL ON COAST WATER SERVICES BOARD FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Coast Water Services Board set out on pages 15 to 31, which comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income, 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 Coast Water Services Board as at 30 June 2017, 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, 2002.

In addition, as required by Article 229(6) of the Constitution, except for the matter described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### **Basis for Qualified Opinion**

#### **1. Property, Plant and Equipment - Excluded Assets**

As previously reported, the property, plant and equipment balance of Kshs.2,862,504,166 as at 30 June 2017 (2015/2016 – Kshs.1,356,447,793) excludes assets of undetermined value transferred to the Board from the Ministry of Water and Irrigation, and National Water Conservation and Pipeline Corporation pursuant to Legal Notice No.101 of 12<sup>th</sup> August, 2005. Further, the land and office buildings acquired while undertaking various Water and Sanitation Services Improvement Project (WaSSIP) and institutional projects such as Mkanda Dam of at least 53.79 hectares and acquired at a cost of Kshs.10,832,423 have been excluded in these financial statements and have also not been updated in the fixed assets register. In addition, scrutiny of land status report revealed that approximately more than one third of Coast Water Services Board land has been encroached by private developers, including 22 acres of land occupied by staff houses in Shanzu, Mombasa. The land has been apportioned into 42 title deeds

and issued to private developers. This is an indicative that the management has not played its custodial role and the Board's assets have not been properly safeguarded in accordance with Section 72(1) (a) (b) of Public Finance Management Act, 2012 which states that the Accounting Officer for National Government entity shall be responsible for the management of the entity's assets and liabilities and manage those assets in a way which ensures that the national entity achieves value for money in acquiring, using and disposing of those assets.

In the circumstances it has not been possible to ascertain the accuracy, validity and completeness of Kshs.2,862,504,166 as at 30 June 2017 and that the property, plant and equipment balance is fairly stated.

## 2. Trade and Other Receivables

As previously reported, the trade and other receivables balance of Kshs.3,100,800,147 as at 30 June 2017 (2015/2016 Kshs.2,532,953,026) includes Kshs.5,386,485 relating to overdue outstanding imprest. As reported previously, no reason has been provided for the failure to have the receivables recovered. Further and as previously reported, the Water Service Providers balances reflected in the Board's financial statements as at 30 June 2017 differ by Kshs.720,375,283 from the books of the respective water service providers as detailed below:

<b>Water Service Provider</b>	<b>Balance as per Board (Kshs)</b>	<b>Balance as per Water Company (Kshs)</b>	<b>Difference (Kshs)</b>
Mombasa Water and Sewerage Company	1,319,455,995	1,079,672,847	239,783,148
Malindi Water and Sewerage Company	466,207,577	414,349,446	51,858,131
Kilifi-Mariakani Water and Sewerage Company	526,107,235	440,561,048	85,546,187
Kwale Water and Sewerage Company	354,543,112	87,866,104	266,677,008
Taita/Taveta Water and Sewerage Company	411,412,349	337,711,817	73,700,532
Lamu Water and Sewerage Company	8,356,686	5,546,409	2,810,277
<b>Total</b>	<b>3,086,082,954</b>	<b>2,365,707,671</b>	<b>720,375,283</b>

The total variances amounting to Kshs.720,375,283 has not been reconciled or explained.

In the circumstances, the accuracy and valuation of the trade and other receivables balance of Kshs.3,100,800,147 as at 30 June 2017 could not be ascertained.

### **3. Trade and Other Payables**

As previously reported, included in the trade and other payables balance of Kshs.1,129,754,947 as at 30 June 2017 (2015/2016 –Kshs.961,148,142) are unremitted statutory and other deductions totaling to Kshs.54,587,916 and Kshs.92,741,592 in respect of the Paymaster General and Ukulima Sacco Society Limited and other deductions respectively. No explanation has been provided for the non-settlement of these statutory deductions.

In addition, no provision in respect of penalties and interest resulting from non-payment of these deductions have been provided for in these financial statements.

Consequently, the accuracy and completeness of the trade and other payables balance of Kshs.1,129,754,947 as at 30 June 2017 could not be confirmed.

### **4. World Bank Loan**

As previously reported, included in the statement of financial position as at 30 June 2017 is an amount of Kshs.9,191,715,426 (2015/2016 – Kshs.6,753,636,870) in respect of World Bank Loan as reported in note 18 to the financial statements.

In the year 2008, the Government of Kenya entered into a financing agreement with the World Bank to finance water and sanitation services in Coast Province through Coast Water Services Board and agreed to disburse Kshs.4,570,199,584.27 (USD 45,203,760) at an interest rate of 1.5 per cent per annum. The repayment period was given as thirteen (13) years with effect from 30 March, 2013, with an annual repayment being Kshs.495,570,236 (USD 4,906,636) for which the principal amount was Kshs.319,971,030 (USD 3,168,030) and interest of Kshs.175,599,206 (USD 1,738,606). Records confirming repayment of the loan were not provided for audit verification. In addition, during the year under review, it was observed that the loan under IDA-4376-KE credit was denominated in foreign currency. International Public Sector Accounting Standards (IPSAS) 4 paragraph 27 requires foreign currency monetary items to be translated using the closing rate. However, the loan balance of Kshs.9,191,715,426 was translated on transaction date rate hence foreign exchange gain/loss was not determined. Further, the accounting policy on translation of foreign denominated transactions and balances was not disclosed in the notes to the financial statements.

Consequently, it has not been possible to confirm whether the management is in conformity with the terms of the loan and that the loan balance of Kshs.9,191,715,426 as at 30 June, 2017 is fairly stated and disclosed.

### **5. Board Expenses**

The statement of comprehensive income for the year ended 30 June 2017 reflects Kshs.24,656,710 as board expenses against a budget of Kshs.20,000,000. The approval of the excess expenditure of Kshs.4,656,710 was not availed for audit

verification. Further, payment vouchers availed for audit verification amounted to Kshs.23,625,199, resulting to unsupported expenditure of Kshs.1,031,511.

Consequently, accuracy, regularity and completeness of the board expenses amount of Kshs.24,656,710 for the year ended 30 June 2017 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Coast Water Services Board in accordance with ISSAI 30 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.

### 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 matter described in the Basis for Qualified Opinion and Other Matter sections, I have determined that there are no Key Audit Matters to communicate in my report.

### Other Matter

#### 1.0. Budget Control and Performance

#### 1.1. Revenue Budget

During the year under review, the Board's revenue budget was Kshs.1,411,185,216 against actual collections of Kshs.2,063,618,780 (146%), thus resulting to over collection of Kshs.652,433,564 as detailed below:

Item	Budgeted Amount for 2016/2017 (Kshs)	Actual Amount Collected for 2016/2017 (Kshs)	Over Collection in Kshs	Over Collection in%
Bulk Water Sales	876,000,000	918,687,205	42,687,205	5
Administration Fees	169,021,166	173,216,550	4,195,384	02
Grants from GoK	362,000,000	963,676,066	601,676,066	166
Total Other Income	4,164,050	8,038,959	3,874,909	93
<b>Total</b>	<b>1,411,185,216</b>	<b>2,063,618,780</b>	<b>652,433,564</b>	<b>46</b>

From the above table, grants received from the Government was more than double the budget amount by Kshs.601,676,066 or 166%. Also, total other incomes exceeded the budgeted amount by Kshs.3,874,909 or 93%. This is a rare occurrence where actual revenue exceeds the budgeted amount and this could point out to lack of proper

budgeting. There is a need, therefore, to review the budgeting process to ensure that it is as realistic as possible.

## 1.2. Expenditure Budget

During the year under review, the Board had budgeted to spend a total of Kshs.1,487,463,891 on its various programs and activities. However, the Board spent Kshs.1,741,801,426, thus exceeding the overall budget expenditure by Kshs.254,337,535 or 17%. Below is a summary of over expenditures and under expenditures during the year under review:

### 1.2.1. Over Expenditure

During the year under review, the Board had budgeted to spend Kshs.15,948,000 on four (4) activities and programs but ended up actually spending Kshs.245,075,285, resulting to over absorption of Kshs.229,127,285 or 1,437% as detailed below:

Detail	Budget (Kshs)	Actual Expenditure (Kshs)	Over Absorption (Kshs)	Over Absorption (%)
Contracted professional services	6,000,000	182,940,486	176,940,486	2,949,008
World Bank operations	5,000,000	49,929,924	44,929,924	899
Employer WSIP Pension		6,329,840	6,329,840	100
Stationery office	3,000,000	3,528,035	528,035	18
Airtime Allowance	1,948,000	2,347,000	399,000	20
<b>Total</b>	<b>15,948,000</b>	<b>245,075,285</b>	<b>229,127,285</b>	<b>1,437</b>

The Board has not provided a revised budget for approval of the over expenditure of Kshs.229,127,285 or 1,437%.

The over expenditure is an indication of poor planning and lack of oversight in budget implementation.

Consequently, the propriety of the excess expenditure of Kshs.229,127,285 for the year ended 30 June 2017 could not be ascertained.

### 1.2.2. Under-Expenditure

During the year under review, the Board had budgeted to spend Kshs.340,070,304 on twenty eight (28) activities and programs but ended up actually spending

Kshs.227,995,225, resulting to under absorption of Kshs.112,075,079 or 33% as detailed below:

<b>Detail</b>	<b>Actual Amount (Kshs)</b>	<b>Approved Budget Amount (Kshs)</b>	<b>Under Absorption (Kshs)</b>	<b>Under Absorption (%)</b>
Employer NSSF Contributions	545,800.00	628,000.00	82,200.00	-13%
Membership Fees, dues and subscription	16,500.00	150,000.00	133,500.00	-89%
Special Duty Allowance	276,834.00	411,000.00	134,166.00	-33%
Office electricity	403,187.00	875,450.00	472,263.00	-54%
Honoraria	487,200.00	1,044,000.00	556,800.00	-53%
Maintenance of buildings & stations	736,612.00	1,318,723.00	582,111.00	-44%
Transfer Allowance	370,009.00	1,000,000.00	629,991.00	-63%
Acting Allowance	1,271,340.00	1,925,000.00	653,660.00	-34%
Top up Allowances	1,002,296.00	1,695,224.00	692,928.00	-41%
Fuel & lubricants	5,194,700.00	5,975,906.00	781,206.00	-13%
Hire of transport, equipment & machinery	166,500.00	1,000,000.00	833,500.00	-83%
Donations	400,000.00	1,250,000.00	850,000.00	-68%
Leave Allowance	2,235,556.00	3,106,509.00	870,953.00	-28%
Laboratory expenses	19,568.00	915,000.00	895,432.00	-98%
Gratuity	1,109,808.00	2,064,153.00	954,345.00	-46%
Training expenses	793,475.00	2,000,000.00	1,206,525.00	-60%
Resettlement Compensation	8,485,177.00	10,000,000.00	1,514,823.00	-15%
Hospitality	1,890,514.00	3,471,552.00	1,581,038.00	-46%
Travelling and accomm foreign	3,198,136.00	5,000,000.00	1,801,864.00	-36%
Bank charges & commissions	390,449.00	2,339,787.00	1,949,338.00	-83%
Advertising & publicity	13,610,236.00	16,000,000.00	2,389,764.00	-15%
Medical Cover	7,127,382.00	10,500,000.00	3,372,618.00	-32%
Legal fees & related expenses	5,964,055.00	10,000,000.00	4,035,945.00	-40%

Security expenses	10,202,701.00	15,000,000.00	4,797,299.00	-32%
Employer Pension Contributions	5,006,540.00	15,000,000.00	9,993,460.00	-67%
Trade show & exhibitions	3,828.00	10,000,000.00	9,996,172.00	-100%
World Bank staff Training	5,790,056.00	20,000,000.00	14,209,944.00	-71%
Bank interest	151,296,766.00	203,400,000.00	52,103,234.00	-26%
<b>Total</b>	<b>227,995,225</b>	<b>340,070,304</b>	<b>112,075,079</b>	<b>33</b>

The management has not provided satisfactory explanation for the failure to utilize all approved budgetary provisions. Underutilization of budget results in non-implementation of planned activities and programs, resulting to unfinished work/activities/programs to the detriment of delivery of goods and services to the citizens of the Coast region.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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 such 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.

In preparing the financial statements, management is responsible for assessing the Board'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 the management either intends to liquidate the Board's or cease operations, or have no realistic alternative but to do so.

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.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or

error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. 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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.



I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**16 March 2018**