

REPORT OF THE AUDITOR-GENERAL ON KENYA WATER INSTITUTE FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Water Institute set out on pages 1 to 31, which comprise the statement of financial position as at 30 June 2018, 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 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 Kenya Water Institute as at 30 June, 2018, and of its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Water Institute Act, 2001 (revised 2012) and the State Corporations Act, Cap 446 of the laws of Kenya.

Basis for Qualified Opinion

1. Property, Plant and Equipment

The Institute's financial statements reflect property, plant and equipment with a net book value of Kshs.1,532,822,538, as disclosed in note 17A. Included in this figure is land with a book value of Kshs.1,044,642,000. This land further includes two (2) parcels which belong to the Institute, but for which management does not have ownership documents - the land at Nairobi South C has only an allotment letter, while the land on which the Institute's Kitui campus is located, has no documents to proof its ownership.

Further, the Management has not maintained a fixed assets register to indicate the cost/valuation, acquisition period, location and point of use, and safety of the fixed assets. Under the circumstances, it has not been possible to confirm the accuracy, ownership, custody, safety and completeness of property, plant and equipment balance of Kshs.1,532,822,538 as at 30 June 2018.

2. Receivables from Exchange Transactions

The receivables from exchange transactions balance reflects Kshs.74,834,770 net of provision for bad and doubtful debt of Kshs.35,839,576, as disclosed in note 15A. This amount includes long outstanding debt of Kshs.41,921,539 which is aged over 90 days. Further, the amount includes student receivables amounting to Kshs.61,361,138 which is doubtful since some of the students left the Institute over four years back. In addition, although management has made a provision for bad and doubtful debts of 35%, the

provision is inadequate since there is no evidence of recoveries made from the students who have since left the institution with debts. In the circumstances, it has not been possible to confirm the correctness and recoverability of the total receivables balance of Kshs.74,834,770 as at 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Water Institute 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 audit 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. There were no Key Audit Matters to report in the year under review.

Other Matters

1. Development Funds

The Institute in its approved budget estimates for the 2017/18 had budgeted for Grants from the National Government for Development as Kshs.31,000,000, however the National Government only disbursed Kshs.25,000,000 resulting to a deficit of Kshs.6,000,000 which is 19.35% underfunding. Further, a review of the development expenditure showed that the institute utilized only Kshs.8,432,491 of the development budget resulting to an absorption rate of 33.7% of the funds received. The underfunding may have resulted to non-implementation of planned development activities, during the year under review.

2. Delayed Project

The Institute reported Kshs.190,008,974 as work in progress. Included in this amount is construction of classes at KEWI Chiakariga Campus. According to the contract document, the project contract sum was Kshs.19,903,802. The works commenced on 27 September 2017 with a completion period of 42 weeks. An audit inspection of the site in February 2019 revealed that the project had not been completed seven (7) months after the expected completion date. Under the circumstance, project may not achieve the desired outcomes on time and may lead to project cost overrun.

3. Un Economical Drilling Activities

The financial statements reflect drilling revenue of Kshs.3,675,996, as disclosed in note 5. However, the related expenses as disclosed in note 13 was Kshs.6,427,348 resulting to a loss of Kshs.2,751,352, on the drilling activities. Although, according to management the related revenue was not recognized in the financial statements since completion certificate

for the work performed had not been granted, there were no supporting documents to ascertain the viability of the drilling activity.

4. Understaffing

A preliminary review of the Institute's human resources records availed for audit revealed existence of possible under staffing in various cadres totaling to approximately 233 vacancies. With such understaffing, the institute may not effectively achieve its objectives, and management has not demonstrated the measures they are taking to address the current situation.

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 matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing 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 P.A.Y.E Tax Withheld

The Institute made payment of allowances to members of the Governing Council totaling Kshs.8,047,245. However, by the time of concluding this report the related P.A.Y.E of Kshs.1,146,000 had not been remitted to the income tax Department as required by the law. The non-compliance may result in penalties, hence loss of funds.

2. Direct Procurement of Goods and Services

The Institute issued temporary Imprest to staff for purchase of items on cash basis totaling to Kshs.3,117,291. However, the ceiling of Kshs.30,000 for such direct cash purchases was not observed as required by the Public Procurement and Asset Disposal regulations. In addition, the related surrender documents for the imprest did not include Electronic Tax Receipts (ETR) and inspection and acceptance report. In view of the foregoing it was not possible to determine whether the institute received value for money from the above cash purchases.

3. Outstanding Imprest

The financial statements reflect receivables from non-exchange transaction amounting to Kshs.36,790,019, as disclosed in note 15 B. These receivables, which relate to outstanding imprest for staff include Kshs.29,714,449 which has been outstanding for periods of over 90 days against the requirements of section 92(5) of the Public Finance Management Act, 2015,

which requires a holder of a temporary imprest to surrender the imprest within 7 working days after returning to duty station.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance on whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities which govern them. I believe that the 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, 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 to ISSAI 1315 and 1330. The standards require that I plan and perform the audit to obtain assurance on whether effective processes and systems of internal control, risk management and governance, were operating effectively, in all material respects. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of 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 control as management determines is necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of the internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Institute'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 the management is either aware of any intention to cease operations of the Institute, 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.

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.

Those charged with governance are responsible for overseeing the Institute's financial reporting process, reviewing the effectiveness of management's systems for monitoring 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

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 which 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 and weakness 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 addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion on whether, in all material respects, 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, in accordance with the provisions of Article 229(6) of the Constitution, and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control 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 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control which might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts which would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Institute's policies and procedures may deteriorate.

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 which 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.
- 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 which may cast significant doubt on the Institute's ability to continue as a going concern. 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 Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Institute 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 which are identified during the audit.

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



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

Nairobi

8 September 2021