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REPORT

OF

THE AUDITOR-GENERAL

ON

**REGIONAL CENTRE ON GROUNDWATER
RESOURCES EDUCATION, TRAINING AND
RESEARCH IN EASTERN AFRICA**

**FOR THE YEAR ENDED
30 JUNE, 2020**





**REGIONAL CENTRE ON GROUNDWATER RESOURCES EDUCATION TRAINING
AND RESEARCH IN EASTERN AFRICA**

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2020**

**Prepared in accordance with the Accrual Basis of Accounting Method under the International
Public Sector Accounting Standards (IPSAS)**

**Regional Centre on Groundwater Resources Education Training & Research in Eastern Africa
 Annual Reports and Financial Statements
 For the Year Ended June 30, 2020**

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I. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

The Regional Centre on Groundwater Resources Education Training and Research was formed through Legal Notice No. 252 of 18th December 2015. This was the culmination of a Memorandum of Understanding signed between the Kenya Government and UNESCO to set up a Category 2 Centre in the country to spearhead research and education on groundwater resources. This is a State Corporation under the Ministry of Water, Sanitation and Irrigation. At the policy level, the Centre is headed by the Chairperson of the Board of Directors who is responsible for policy and strategic direction of the Centre

b) Principal activities

The principal activities of the Centre are to carry out research, capacity building and civic education on groundwater resources.

c) Key Management

The Regional Centre on Groundwater Resources Education Training and Research's day to day management is under the following key organs:

1. The Board of Management
2. Chief Executive Officer
3. Senior Management

d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2020 and who had direct fiduciary responsibility were:

| No. | Designation | Name |
|-----|---|----------------------|
| 1. | Ag. Chief Executive Officer (1 st July, 2019-15 th October, 2019) | Mr. John G. Nyakwaka |
| 2. | Chief Executive Officer (16 th October 2019-30 th June, 2020) | Mrs. Agnes W. Mbugua |
| 3. | In charge of Core Mandate | Mr. Thomas Kangethe |
| 4. | Supply Chain Management | Mr. Denis Ouko |
| 5. | In charge of Human Resource and Administration | Ms. Carolyn Jumba |
| 6. | In charge of ICT | Ms. Hellen Wanyaga |

e) Fiduciary Oversight Arrangements

RCGW's oversight responsibility is vested in the;

- 1) Board of Management which had 9 members.
- 2) Research, Education and Training Committee which had 4 members.
- 3) Finance and Administration Committee which had 3 members.
- 4) Audit and Risk Committee which had 4 members.

Execution of the mandate during FY 2019/2020, inter alia

As the board was constituted before the start of the financial year under review, Board and full Board committee meetings were held inline with the approved Board Calendar.

Meetings

Full Board, Special and Committee meetings were held during the reporting period.

Membership of the Audit and Risk Committee

- a. Chairperson - Independent Board Member
- b. Member - Alternate to PS. the National Treasury
- c. Member - Independent Board Member

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d. Member- Representative of KEWI Director

f) Entity Headquarters

Regional Centre on Groundwater Resources Education Training and Research
Bishop Rd, NSSF Building Blok A 16th Floor Western-Wing
P. O. Box 41156-00100
Nairobi, KENYA

g) Entity Contacts

Tel: 020 8008004
Cell No.: +254-722606830
Email: info@rcgw.go.ke
Website: www.rcgw.go.ke

h) Entity Bankers

Kenya Commercial Bank of Kenya
Moi Avenue
P.O. Box 30081
GPO 00100
Nairobi, Kenya




i) Independent Auditors

Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GPO 00100
Nairobi, Kenya

j) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

2. THE BOARD OF MANAGEMENT

| BOARD OF MANAGEMENT MEMBER | PROFILE |
|---|---|
|  <p>Amb Dr. Mary M. Khimulu, MBS Chairperson RCGW Board of Management</p> | <p>Amb. Dr. Mary Khimulu hold a Ph.D. in Human Behavior and Leadership Management, Masters in Management and Organizational Development and a BSc. Business Administration. She is a Career Diplomat and also does voluntary and humanitarian work.</p> |
|  <p>Dr. Peter Waweru Kamaku Independent Board Member</p> | <p>Dr. Peter W. Kamaku holds a PhD in Pure Mathematics from JKUAT, PgDip Educational Technology from the University of Cape town, South Africa, MSc Pure Mathematics and BSc Mathematics and Computer Science from both from JKUAT. Dr. Kamaku has 12 years' work experience and currently is a Senior Lecturer at the School of Mathematical Sciences, JKUAT. He is also a FIFA International Football Referee, CAF Elite Referee and the Director Sports and Games at the JKUAT.</p> |
|  <p>Dr. Susan Musyoka Independent Board Member</p> | <p>Hon. Dr. Susan Mbinya Musyoka is a Medical Practitioner. She holds a Master's Degree in Public Health from Leeds University and Bachelor of Medicine and Surgery from the University of Nairobi. Dr. Susan has experience in Medical and Political field. She has worked with the Government in Machakos and Embu Hospitals. She has managed and provided Health Care Services at the Machakos Medical Clinic, an Institution in Machakos Town. She also served as a member of Parliament representing Machakos County from 2013 to 2017. She has been a President of Rotary Club of Machakos 2005/2006, Member of the Kenya Red Cross, Life Member Societies for the Deaf, Blind and the Association for the Physically Disabled of Kenya and Secretary Church Board of Directors- Africa Brotherhood Church.</p> |

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**Mr. Cyrus Mwaniki
Independent Board Member**

Mr. Cyrus Mwaniki is a former Director of Ewaso Ngiro North Development Authority (ENNDA) and has previously served as a Civil Servant in various Government Ministries for a period spanning 22 years. He is also an established businessman and community leader. He holds a Diploma in Theology from Presbyterian Church of East Africa.



**Dr. Salome M. Guchu
Rep. University Education and
Research**

Dr. Salome M. Guchu is a Deputy Director-Research at the State Department of University Education and Research, Ministry of Education. She holds a PhD in Chemistry from University of Nairobi and has undertaken professional development courses in Corporate Governance and Policy Management. She has experience in research, science, technology and innovation policy and management. Her current areas of interest are in research and innovation policy management, science advice and science diplomacy.



**Mr. Moses Kanagi
Rep. Principal Secretary
The National Treasury**

Mr. Moses Kanagi is the Ag. Director Resources Mobilisation at the National Treasury. He holds a Masters of Arts degree in Economics and a BA in Management Studies. He has served in the Public Service as an Economist for 33 years in various capacity. He is the Alternate of the Principal Secretary, The National Treasury

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Mr. Paul N. Muthama
Rep. Kenya Water Institute



Mr Paul Muthama is a Deputy Director Research at the Kenya Water Institute where he has also held a Senior Lecturer position. He has a Masters in Statistics and a BSc Degree in Mathematics from Kenyatta University. He has over 23years working in the Public Sector and 7 years at the Kenya Institute of Mass Communication as a Lecturer.



Mr. Gichangi Wotuku
Rep. Principal Secretary
Ministry of Water &
Sanitation and Irrigation




Mr. Gichangi Wotuku is the Ag. Deputy Director. Groundwater Resources Division in the Department of National Water Resources, Ministry of Water and Sanitation & Irrigation. He holds a Bachelor of Science degree in Geology from the University of Nairobi. He has over 25 years' experience working as a Geologist in the Public Sector with extensive knowledge in Policy formulation on Water Resources Management, Groundwater Data Management, Hydrogeological Surveys, Drilling & Equipping of boreholes and Borehole water infrastructure development. He is the Alternate of the Principal Secretary, Ministry of Water and Sanitation & Irrigation.

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| | |
|--|---|
| Corporate Secretary | |
|  <p>Doris Mwangi Ag. Corporate Secretary RCGW</p> | <p>Ms. Doris N. Mwangi is an advocate of the High Court of Kenya having been admitted to the roll of advocates on 2nd December 2011. She holds a Bachelor of Laws degree from the Uganda Pentecostal University. She has a Post-Graduate diploma in Human Resource Management from the University of Nairobi and is currently pursuing a Masters of Law (LLM) at the university of Nairobi as well as undertaking the final section of the certified secretary's professional course.</p> <p>Ms. Mwangi is the Head of legal services at National water Harvesting and Storage Authority and Ag. Corporate Secretary at the Regional Centre on Groundwater Resources Education, Training and Research. She is also a Commissioner of oaths, a notary public and a certified arbitrator with the chartered institute of arbitrators, Kenyan Chapter. She has over 10years working experience having worked at Maina Wachira & Company Advocates, Kenya Orient Insurance Company and INVESCO Assurance Company.</p> |
|  <p>Mrs. Agnes Mbugua Chief Executive officer, Regional Centre on Groundwater Resources Education Training and Research</p> | <p>Mrs. Agnes Mbugua holds an MSc.in Hydrogeology and Groundwater Management and BSc.in Geology from UON. She is a member of Geological Society of Kenya, Geological Registration Board and Licensed Qualified Water Resource Professional (Hydrogeologist)</p> <p>She is the Chief Executive officer, Regional Centre on Groundwater Resources Education Training and Research having worked in the Water sector in the last 23years in various capacities. Previously headed the Research and Data Division as a Senior Principal Water Research Officer, coordinated several groundwater mapping programmes both at National and Regional level including borehole site investigations in various locations in the country. Held the position of the UNESCO desk officer at the Ministry of Water, Technical contact person at the office of UNESCO Special Envoy for Water in Africa (The 3rd President of Republic of Kenya), Coordinator of Isotope Hydrology activities in the water sector.</p> |

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3. MANAGEMENT TEAM

| | DESIGNATION |
|---|---|
|  Mrs. Agnes W. Mbugua | Chief Executive officer, Regional Centre on Groundwater Resources Education Training and Research |
|  CPA John Mbugua | In charge of Accounts, Deployed from the Ministry of Water & Sanitation and Irrigation |
|  Mr. Thomas Kangethe | In charge of Core Mandate Deployed from the Ministry of Water & Sanitation and Irrigation |

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| | |
|--|---|
| <p>Ms. Carolyn Jumba</p> | <p>In charge of Human Resource and Administration Deployed from the Ministry of Water & Sanitation and Irrigation</p> |
|  <p>Mr. Denis Ouko</p> | <p>Supply Chain Management, Deployed from the Ministry of Water & Sanitation and Irrigation</p> |
|  <p>Ms. Hellen W. Kabuchoru</p> | <p>In charge of ICT, Deployed from the Ministry of Water & Sanitation and Irrigation</p> |

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4. CHAIRPERSON'S STATEMENT

I write this statement as the Centre's Session Chair since the Substantive Chair for the FY 2019-2020 exited on 30th June, 2020. It therefore gives me great pleasure to present Centre's Financial Report and Financial Statement for the year ending 30th June 2020. The Centre had a good performance for an organization that is about three years old. We made a milestone despite having a limited budget and the COVID 19 Global Pandemic challenges.

The Board and its organs

The board of Management was fully constituted with its 3 (three) Board Committees as follows:

- Research, Education and Training Committee
- Finance and Administration Committee
- Audit and Risk Committee

Corporate Performance

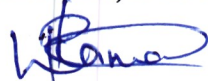
During the period under review the Centre was able to achieve the following.

- a) The Centre maintained the bank account which it opened with authority from the National Treasury. This afforded the Centre a level of autonomy since it manages its own expenditure albeit with a bit of support from the ministry.
- b) The Centre had a Budget of Ksh 35 Million with an additional 10 Million from the Ministry for new offices refurbishment. The Ministry transferred Ksh 45million to the Centre. The same was eventually released to the Centre in monthly tranches. With this support the Centre was able to support meetings of Board of Directors. The Board of Directors met regularly to discuss matters of the Centre.
- c) Participation in Mid Term Expenditure Framework Planning meetings organized by the Ministry of Finance to prepare for the third MTP. This was to ensure the Centre was captured in the Government Financial Planning Cycle for 2020/2021 financial year.
- d) Recruitment of a substantive CEO on 15th October, 2019
- e) Engagement of temporary staff on an interim basis awaiting recruitment of permanent staff as the budget grows.
- f) Recruitment of interns in keeping with the Government policy of exposing youths to practical work experience.
- g) The Centre implemented its second Performance Contract successfully by adhering to the set PC guideline under cycle 16.

Acknowledgement

I would like to extend my appreciation to the Cabinet Secretary and Principal Secretary for their guidance and support. I would also want to commend the Board of Directors, the Ag.CEO, the substantive CEO and the Centre's staff for their dedicated service which enabled the Centre to operate despite of many challenges.

Dr. Peter W. Kamaku
Session Chairman, Board of Management



Date:

25/5/21

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5. REPORT OF THE CHIEF EXECUTIVE OFFICER

I present the Regional Centre on Groundwater Resources Education Training & Research in Eastern Africa Report and Financial Statements for the FY 2019/2020. During this period, the Centre fared reasonably well as disbursements from the Government was received although sometimes, late. The biggest challenge that was faced by the Centre was Budgetary constrain since the Centre moved to new offices that triggered to increased rent and low staffing levels. I am pleased to report that the Centre Management handled these challenges well through strict planning and prudent utilisation of the available resources namely, Human, Systems, Financial and Physical Facilities; this was supported by technical backstopping of the Parent Ministry.

Financial Results

The Centre during the reporting period experienced not limited to below challenges:

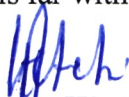
- Inadequate funding: During the reporting year, the Centre received Ksh. 35,000,000 for recurrent budget and Ksh. 10,000,000 under special request from the Ministry and there wasn't development budget allocation. With this allocation, the Centre is unable implement its core mandate programmes. It has therefore been limited to Board activities, laying the foundation for staff recruitment and core mandate. The Centre needs enough space and resources to operationalise its training facilities such as GIS computer and rock and water quality laboratories. This is hampered by lack of funds.
- Inadequate staffing: Currently the CEO is the only substantive staff working with 7 staff deployed from the Parent Ministry, 4 interns and 5 contracted staff. The Centre has planned for recruitment of its own staff subject to the availability of a budget to support personnel emoluments. This will enable the Centre to become fully operational and minimize some of the shortcomings noted in the management level.

Future Outlook

In the short time that the Centre has been in the existence, we take cognisant of the progressive allocation of recurrent budget including the creation of development vote head during the FY 2020/2021. Moving forward, this progressive allocation will enhance human resources capacity and initiate capital project. However, allocation for implementation of programmes and development/improvement of infrastructure which is crucial for effective fulfilment of the Centre's mandate was not addressed as expected.

Acknowledgement

I thank the Government through the Ministry of Water, Sanitation, and Irrigation for the continued financial and technical support. I would like to thank the Centre's board of Management for their leadership and direction. I appreciate the contribution and support made by the Centre's development partners and stakeholders in the implementation of the programmes. Finally, we could not have come this far without the staff teamwork hence their cooperation is highly appreciated.



Agnes W. Mbugua (Mrs.)

Chief Executive Officer,

Regional Centre on Groundwater Resources Education Training and Research

Date:..... 22/05/2021

6. REVIEW OF REGIONAL CENTRE ON GROUNDWATER RESOURCES EDUCATION TRAINING AND RESEARCH PERFORMANCE FOR FY 2019/2020

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the national government entity's performance against predetermined objectives.

Regional Centre on Groundwater Resources Education Training and Research has four strategic pillars and objectives within its Strategic Plan for the FY 2018/2019- 2022/2023. These strategic pillars are as follows:

- i. Training and Outreach
- ii. Research and Consultancy
- iii. Institutional Capacity
- iv. Partnerships and Collaboration

Regional Centre on Groundwater Resources Education Training and Research develops its annual work plans based on the above four pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Centre achieved its performance targets set for the FY 2019/2020 period for its four strategic pillars

7. CORPORATE GOVERNANCE STATEMENT

The Governing Board of the Centre as established through Legal Notice No. 252 of 18th December, 2015 is made up of three independent Board members and a Chairperson, appointed by name. The Board membership also comprises alternates of the Principal Secretaries for the Ministry of Water and Sanitation, Ministry of Education, Ministry of the Treasury and Planning, and the Kenya Water Institute. The Chief Executive Officer is an *ex officio* member of the Board.

In considering nominations to the Board, Professional qualifications, gender, experience, and diversity is considered. The Board exercises prudent management, leadership, integrity, innovativeness, and judgement in managing the Centre.

The Directors are provided with all the available appropriate and timely information that enables them to exercise full and effective control over strategic, financial, operational and compliance issues.

The daily operations of the Centre are done by the Chief Executive Officer who is ably supported by a dedicated team of deployed staff from the Ministry. They are responsible for establishing and maintaining internal controls for the realization of the Centre's mandate.

All the members of the Board are taken through a comprehensive induction programme and the SCAC Mwingozo training. They are further trained on their roles through various corporate governance trainings locally and internationally. The Board, the Committees and individual Directors are expected to be evaluated by an independent body against targets agreed to at the beginning of the year.

Board Committees:

The Board is assisted in its work by Board Committees attending to specific issues. The Committees report to and are accountable to the Board. The Board Committees main task is to deal more in detail with matters and cascade the same upwards to the Board for further deliberation and ruling.

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The Board has four standing committees which should meet at least quarterly under terms of reference set by the Board. The functioning of these committees was affected by the small number of independent members to chair these committees.

The committees constitute as follows: -

Education and Training Committee

The primary responsibility of this committee is to oversee the development of training programmes and guidelines. It reviews all training needs assessments done and advises the Board on how to source for resources and expertise to carry out the trainings and capacity building.

Research Committee

This committee is charged with responsibility of developing research guidelines, seeking partnerships, and funding for research, and coordinating all research activities to ensure quality and prevent plagiarism. It advises the Board on how to leverage research and consultancy.

Finance and Administration Committee

This committee guides the Management in the preparation of annual budgets, work plans and procurement plans. It reviews the Centre's long term financial needs and ensures they are well captured in the various planning cycles for incorporation in future budgets. It also reviews expenditure on behalf of the Board to ensure optimal utilization of funds.

Audit and Risk Committee

This committee is responsible to the Board for the establishment of internal control and risk management systems. It meets quarterly to review expenditure and to ensure adherence to laid down regulations with regard to the management of public funds. They also audit reports and guide the Management on continual improvement and elimination of qualified audits.

Role of the Board of Directors

The role of the Board of Directors, as guided by the State Corporations Act is to provide overall policy direction and leadership by reviewing the Centre's long and short term plans and strategizing on how to mobilize resources. It provides effective leadership and control to ensure realization of the Centre's mandate and the country's long term development goals. It monitors the Centre's plans and strategies. It ensures prudent management of the Centre's resources, reviews the risk management strategies in place while ensuring adherence to laid down government regulations and policies.

The Board also guides the Centre's Human Resource Management plans and determines appointment to top level management positions. It also determines remuneration and career progression of staff to ensure uninterrupted operations at the Centre.

Every quarter, the Board meets to deliberate reports from the committees. The Board has an annual calendar of scheduled meetings which is developed at the beginning of the year.

Board evaluation

It is a statutory requirement to have the Board evaluated. The Board was evaluated during the review period. This is vital in improving Board performance.

Directors' remunerations

In accordance with the State Corporations Act and SCAC guidelines, the Directors are paid a taxable sitting allowance for every meeting attended. They are further paid accommodation and mileage allowance where applicable. The Chairperson is paid a taxable monthly honorarium.

Statement of Compliance

The Board of Directors confirm that the Centre has throughout the year under review complied with statutory and regulatory requirements and that the Centre has been managed in accordance with the principles of corporate governance.

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Internal control and risk management

The Directors are responsible for reviewing the effectiveness of the Centre's system of internal control which is designed to provide reasonable but not absolute assurance regarding the safeguarding of assets against unauthorized use or disposition and maintenance of proper accounting records and reliability of financial information used within the business or for publication. These controls are designed to manage rather than to eliminate the risk of failure to achieve business objectives due to circumstances which may be reasonably foreseen and can only provide reasonable but not absolute assurance against material misstatement or loss.

Organization structure

The Centre has an organization structure which clearly defines lines of authority and responsibility. The professionalism and competence of staff will be maintained through a rigorous program of training and performance appraisal. Training plans will be developed to ensure staff acquire and maintain relevant skills to ensure professional management of the Centre.

Strategic Plan

The Centre developed a five-year strategic plan. The strategic plan will form the basis for the development of annual budgets and work plans while maintaining strategic focus to ensure realization of the Centre's long term goals.

Internal control framework

The Centre will continue to review its internal control mechanisms to ensure it maintains a strong and effective internal control environment. Business processes and controls will be reviewed on an ongoing basis. A risk base audit plan which provides assurance over key business processes and operational financial risks facing the Centre will be approved by the Audit and Risk Management Committee. Where risks are identified the Audit Committee will ensure the Management takes appropriate action.

Risk Management

The Centre will have a structure to help identify, assess and manage risks. This process was not available during the review period. The Management team will review all the identified risks and update the risk register and ensure that all new and emerging risks are appropriately dealt with.

The Management team

The management team implements the Board decisions and policies through action plans. The team meets regularly to review these action plans to ensure that they are effectively and efficiently achieved. These action plans are in the form of Annual work plans, budgets, procurement plans and performance contracts.

livelihood of the citizens.

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8. MANAGEMENT DISCUSSION AND ANALYSIS

Centre has relied on grants from the Government to support its activities. The Regional Centre's mandate is to spearhead education, training, and research on groundwater resources in the region. During the review period, the Board guided the Centre in carrying out programmes geared towards implementing the Centre's Strategic Plan, 2019-2020 activities. Some of the key achievements includes:

- a) **Promotion of Knowledge on Groundwater Resources by**
 - 600 brochures developed, Printed, and distributed in various forums
 - 5 banners developed and displayed in forums and shared through website and flash drives.
 - Developed and Launched Strategic Plan, the 4 Centre guidelines (Research, Training, Civic Education and Consultancy), status report and disseminated through website, flash disks and in hard copies.
 - Trained 100 stakeholders on groundwater resources.
 - Participated in ten (10) National and Regional forums to promote sustainable groundwater management
- b) **Build capacity on Managed Aquifer Recharge by:**
 - Collecting preliminary data to determine Managed Aquifer Recharge (MAR) potential Athi Catchment basin.
 - Conducting two virtual training sessions at National and Regional level. The two sessions were aimed at equipping the Groundwater professionals with knowledge on Managed Aquifer Recharge (MAR) technology geared towards initiating pilot projects at National and Regional Level.
- c) **Establishment of Linkages and Collaboration with leading Universities and other research institutes**
 - Established MoU with International Center for Water Security and Sustainable Management (UNESCO_i-WSSM).The Memorandum of Understanding between RCGW and International Centre for Water Security and Sustainable Management (i-WSSM) was formulated awaiting signing.
 - Collaborative frameworks with Jomo Kenyatta University of Agriculture and Technology (JKUAT) and University of Nairobi Institute of Nuclear Science were developed.
- d) **Undertaking sustainable water security for human settlement in developing countries under climate change- Kenya project**
 - Identified key project stakeholders - policy makers, local Research Institutes by designating focal points in groundwater, water resources management and water services providers' institutions
 - Capacity build stakeholders
 - The Centre completed data collection and data consolidation exercise on Nairobi Aquifer. The Centre has cooperated and networked with Kenya towns Sustainable Water Supply and Sanitation program through Ministry of Water, Sanitation and Irrigation for resource mobilization by presenting two proposal documents. The Memorandum of Understanding between RCGW and International Centre for Water Security and Sustainable Management (i-WSSM) has been formulated awaiting signing.
 - Developing follow up projects and engage Development Partners and beneficiaries for resource mobilization

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e) Implementation of comprehensive Water Sector Assessment towards the Sustainable Management of Water Resources:

The Centre managed to identify the hydrological information gaps, human capacity gaps, technological and infrastructural gaps at national and basin level and optimum methodology for utilizing nuclear science applications in groundwater resources assessment ie use of isotope hydrology techniques

Major risks facing the Centre

Operational risk: - staff shortage and limited office space

Finance risk: - limited resources and inadequate funding from the government and partners

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**9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY
REPORTING**

Regarding Corporate Social Responsibility, the Centre view it as a self-regulation approach that has developed alongside greater public awareness of ethical and environmental issues and most importantly a force for good thus incorporating it as part of its activities towards implementing its mandate.

The Centre participated in the Kenya Water and Sanitation Conference with an exhibition aiming at educating the public on groundwater occurrence, conservation, and protection. This was part of the corporate social responsibility and in future the Centre plans to conduct groundwater public awareness programmes giving priorities to the stakeholders' depending on groundwater resources for water supply.

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10. REPORT OF THE DIRECTORS

The Directors submitted their report together with the audited financial statements for the year ended June 30, 2020 which show the state of the Centre's affairs.

Principal activities

The principal activity of the Board is to guide the Regional Centre in fulfilling its mandate of education, training and research on groundwater resources.

Results

The results of the Centre for the year ended June 30, 2020 are set out on page 1.

Directors

The members of the Board Directors who served during the year are shown in the table below. During

| S/N | Name | Organization | Appointment Date | Designation |
|-----|------------------------------------|-----------------------|--------------------------------|----------------------------|
| 1 | Ambassador Dr. Mary M. Khimulu MBS | Independent | 3rd May 2019 | Chairperson |
| 2 | Cyrus Mwaniki | Independent | 3 rd May 2019 | Member |
| 3 | Dr. Susan M. Musyoka | Independent | 3 rd May 2019 | Member |
| 4 | Dr Peter Waweru Kamaku | Independent | 3 rd May 2019 | Member |
| 5 | Dr. Salome Guchu | Ministry of Education | 29 th March 2016 | Member |
| 6 | Mr. Moses Kanagi | National Treasury | 29 th March 2016 | Member |
| 7 | Mr. Gichangi Wotuku | MWS&I | 12 th July 2019 | Member |
| 8 | Paul N Muthama | Kenya Water Institute | 14 th August 2019 | Member |
| 9 | Doris Mwangi | NWH&SA | 30 th November 2019 | Secretary to the Governing |

Auditors

The Auditor General is responsible for the statutory audit of the Regional Centre on Groundwater Resources Education, Training and Research in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the year/period ended June 30, 2020.

By Order of the Board



Doris Mwangi
Ag. Corporate Secretary
Regional Centre on Groundwater
Resources Education Training and Research

Date: 25.5.2021

**Regional Centre on Groundwater Resources Education Training & Research in Eastern Africa
Annual Reports and Financial Statements
For the Year Ended June 30, 2020**

11. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and (*section 14 of the State Corporations Act*) require the Board of Management to prepare financial statements in respect of Regional Centre on Groundwater Resources Education Training and Research, which give a true and fair view of the state of affairs of the Institution at the end of the financial year/period and the operating results of the Centre for that year/period. The Board of Management Members are also required to ensure that the Centre keeps proper accounting records which disclose with reasonable accuracy the financial position of the Centre. The Chief Executive Officer is also responsible for safeguarding the assets of the Centre.

In this regard RCGW Board of Management caused preparation of these financial statements in conformity with the applicable laws and guidelines. The Centre has also ensured that proper records which disclose reasonable accuracy and financial position of the institution have been provided. The Centre accepts responsibility of its financial statements and confirm the appropriateness of the accounting policies applied.

Nothing has come to the attention of the Chief Executive Officer to indicate that the Centre will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Centre's financial statements were approved by the Board on 22/09/ 2020 and signed on its behalf by:



**Dr. Peter W. Kamaku
Chairperson, Board of Management**

Date:.....25/5/21.....

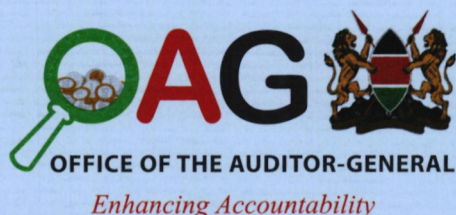


**Agnes W. Mbugua.
CEO RCGW**

Date:.....25/05/2021.....

REPUBLIC OF KENYA

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Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON REGIONAL CENTRE ON GROUNDWATER RESOURCES EDUCATION, TRAINING AND RESEARCH IN EASTERN AFRICA FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Regional Centre on Groundwater Resources Education, Training and Research in Eastern Africa set out on pages 1 to 20, which comprise the statement of financial position as at 30 June, 2020 and the statement of financial performance, statement of changes in net assets, statement of cash flows, 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 the Regional Centre on Groundwater Resources Education, Training and Research in Eastern Africa as at 30 June, 2020 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 Regional Center on Groundwater Resources Education Training and Research in Eastern Africa 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 opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, are of most significance in the audit of the financial statements of the current year. There are no key audit matters to report in the year under review.

Other Matter

Budget Performance

The statement of comparison of budget and actual amount reflects final budget and actual on comparable basis of Kshs.45,000,000 and Kshs.35,539,872 respectively resulting in an under expenditure of Kshs.9,460,128 or 21%. The underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

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, I confirm that, 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

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 about whether the activities, financial transactions and information reflected in the financial statements are in compliance, 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, 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 control, risk management and 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 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 Centre'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 Management is aware of the intention to terminate the Centre or 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 Centre'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

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 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 audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements comply with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) 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 that 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 that 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 noncompliance. 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 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 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.
- 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 applicable 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 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 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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the 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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

27 January, 2022

Regional Centre on Groundwater Resources Education Training & Research in Eastern Africa
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13. STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2020

| | Note | 2019-2020 | 2018-2019 |
|---|------|-------------------|--------------------|
| | | Kshs | Kshs |
| Revenue from non-exchange transactions | | | |
| Transfers from Ministries, Departments and Agencies | 7 | 45,000,000 | 22,591,699 |
| Total revenue | | 45,000,000 | 22,591,699 |
| Expenses | | | |
| Use of goods and services | 8 | 15,246,126 | 11,934,799 |
| Employee costs | 9 | 13,005,258 | 5,434,240 |
| Remuneration of Directors | 10 | 6,212,104 | 7,028,167 |
| Depreciation and amortization expense | 11 | 678,900 | 570,248 |
| Repairs and maintenance | 12 | 192,744 | 29,850 |
| Contracted services | 13 | 204,740 | - |
| Total expenses | | 35,539,872 | 24,997,304 |
| Surplus (Deficit) for the Year | | 9,460,128 | (2,405,605) |

The notes set out on pages 6 to 20 form an integral part of these Financial Statements

**Regional Centre on Groundwater Resources Education Training & Research in Eastern Africa
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For the Year Ended June 30, 2020**

**14. STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020**

| | Note | 2019-2020 | 2018-2019 |
|---|------|-------------------|------------------|
| | | Kshs | Kshs |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 14 | 10,229,563 | 2,941,884 |
| Total Current Assets | | 10,229,563 | 2,941,884 |
| Non-current assets | | | |
| Property, plant and equipment | 20 | 3,199,337 | 1,511,807 |
| Total Non- Current Assets | | 3,199,337 | 1,511,807 |
| Total assets | | 13,428,900 | 4,453,691 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables from exchange transactions | 15 | 1,551,990 | 1,340,909 |
| Total liabilities | | 1,551,990 | 1,340,909 |
| Net assets | | | |
| Revenue reserves | | 11,876,910 | 3,112,782 |
| Total net assets | | 11,876,910 | 3,112,782 |
| Total net assets and liabilities | | 13,428,900 | 4,453,691 |

The Financial Statements set out on pages 1 to 5 were signed on behalf of the Board of Management by:



Chief Executive Officer
Agnes W. Mbugua

Date... 25/05/2021



PA
John Mbugua
ICPAK Member Number: 12614

Date... 25/05/2021



Chair, Board of Management
Dr. Peter W. Kamaku

Date... 25/5/21

Regional Centre on Groundwater Resources Education Training & Research in Eastern Africa
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15. STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2020

| | Note | Revenue Reserves | Total |
|---------------------------------------|------|-------------------|-------------------|
| | | Kshs | Kshs |
| At July 1, 2018 | | 5,941,512 | 5,941,512 |
| Addition for the period | | - | - |
| Surplus/(deficit) for the period | | (2,405,605) | (2,405,605) |
| Transfers to/from accumulated surplus | | - | - |
| At June 30, 2019 | | 3,535,907 | 3,535,907 |
| Prior year Adjustment | | (423,125) | (423,125) |
| Transfers to/from accumulated surplus | | 3,112,782 | 3,112,782 |
| At July 1, 2019 | | 3,112,782 | 3,112,782 |
| Addition for the period | | - | - |
| Surplus/(deficit) for the period | | 9,460,128 | 9,460,128 |
| Audit fee adjustment | 16 | (696,000) | (696,000) |
| At June 30, 2020 | | 11,876,910 | 11,876,910 |

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16. STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | 2019-2020 | 2018-2019 |
|--|-------|-------------------|--------------------|
| | | Kshs | Kshs |
| Cash flow from Operating Activities before changes in working capital | | | |
| Net profit/(Loss) for the year | | 9,460,128 | (2,405,605) |
| Cashbook adjustment | | (696,000) | (348,000) |
| Adjustment for Depreciation | 11 | 678,900 | 570,248 |
| | | 9,443,028 | (2,183,357) |
| Changes in working capital | | | |
| Increase in Payables | | 211,081 | 1,340,909 |
| Net Cash flow generated from operating activities | 17 | 9,654,109 | (842,448) |
| Cash flow from Investing Activities | | | |
| Acquisition of Property, Plant and Equipment | 18 | (2,366,430) | (210,690) |
| | | 7,287,679 | (1,053,138) |
| Net Decrease in Cash and Cash equivalents | | 7,287,679 | (1,053,138) |
| Cash and cash equivalents at the start of year | | 2,941,884 | 3,995,022 |
| Cash and cash equivalents at end of year | | 10,229,563 | 2,941,884 |

17. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR 30 JUNE 2020

| | Original Budget | | Adjustments | | Final Budget | | Actual on Comparable Basis | | Performance Difference | | Difference in % | Explanation |
|---------------------------------------|-------------------|------|-------------------|------|-------------------|------|----------------------------|------|------------------------|------|-----------------|-------------|
| | 2019-2020 | Kshs | 2019-2020 | Kshs | 2019-2020 | Kshs | 2019-2020 | Kshs | 2019-2020 | Kshs | | |
| Revenue | | | | | | | | | | | | |
| Government grants and Other Donations | 35,000,000 | | 10,000,000 | | 45,000,000 | | 45,000,000 | | | | | |
| Total income | 35,000,000 | | 10,000,000 | | 45,000,000 | | 45,000,000 | | | | | |
| Expenses | | | | | | | | | | | | |
| Use of goods and services II | 15,414,420 | | 4,600,000 | | 20,014,420 | | 8,652,124 | | (11,362,296) | | (57%) | a) |
| Compensation of employees | 12,021,284 | | - | | 12,021,284 | | 13,005,258 | | 983,974 | | 8% | |
| Remuneration of Board of Directors | 5,784,296 | | - | | 5,784,296 | | 6,212,104 | | 427,808 | | 7% | |
| Rent paid | 1,280,000 | | 5,400,000 | | 6,680,000 | | 6,594,002 | | (85,998) | | (1%) | |
| Repairs and maintenance | 500,000 | | - | | 500,000 | | 192,744 | | (307,256) | | (61%) | b) |
| Contracted services | - | | - | | - | | 204,740 | | 204,740 | | 100% | c) |
| Depreciation & Amortization | - | | - | | - | | 678,900 | | 678,900 | | 100% | d) |
| Total expenditure | 35,000,000 | | 10,000,000 | | 45,000,000 | | 35,539,872 | | (9,460,128) | | | |
| Surplus for the period | | | | | | | 9,460,128 | | | | | |

Explanations

- a) The Variance resulted from funds initially budgeted for Vehicle purchase reallocated to rent expense and funds for refurbishment of office and laboratory were disbursed towards end of the fourth quarter.
- b) The budgeted vehicle not acquired, and office repairs done by Building management agent.
- c) Unanticipated necessary expense incurred (cleaning) since the Centre moved to new office.
- d) Unbudgeted depreciation expense.

**Regional Centre on Groundwater Resources Education Training & Research in Eastern Africa
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18. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Regional Centre on Groundwater Resource Education Training and Research is established by and derives its authority and accountability from public finance management Act. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's Principal activity is to carry out research, capacity building and civic education on groundwater resources.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The RCGW financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity and all values are rounded to the nearest Shilling (Ksh). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost modified to include the revaluation of certain classes of assets and estimation of extra useful life of the fully depreciated assets unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

| Standard | Impact |
|--|--|
| IPSAS 40: Public Sector Combinations | Applicable: 1st January 2019 The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations. |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 ADOPTION OF NEW AND REVISED STANDARDS (Continued)

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020

| Standard | Effective date and impact: |
|---|--|
| IPSAS 41: Financial Instruments | <p>Applicable: 1st January 2022:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. |
| IPSAS 42: Social Benefits | <p>Applicable: 1st January 2022</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the entity;</p> <p>(b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</p> |
| Amendments to Other IPSAS resulting from | <p>Applicable: 1st January 2022:</p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> |

Regional Centre on Groundwater Resources Education Training & Research in Eastern Africa
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| Standard | Effective date and impact: |
|---------------------------------------|---|
| IPSAS 41, Financial Instruments | <ul style="list-style-type: none"> b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p> |
| Other Improvements to IPSAS | <p>Applicable: 1st January 2021:</p> <ul style="list-style-type: none"> a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets. d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard |

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2020.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

b) Budget information

The original budget for FY 2019-2020 was approved by the National Assembly. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

The Centre's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actual as per the statement of financial performance has been presented on page 5 of these financial statements and report.

c) Revenue from exchange transactions

These are revenues received from non- arms- length transactions. They include recurrent grants from the Government, as well as donations from development partners. These are recognized when received.

d) Property, Plant and Equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and

Regional Centre on Groundwater Resources Education Training & Research in Eastern Africa
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

e) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

f) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

g) Receivables

These comprise of; receivables from exchange transactions, that is, trade receivables, student receivables and prepayments; and receivables from non-exchange transactions - staff receivables. The receivables from exchange transactions are aged into; 1-30, 31-60, 61-90 and > 90 days. They are recognized when earned and accounted for, net of provision for bad and doubtful debts

h) Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements.

i) Employee benefits

Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

j) Related parties

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

k) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

l) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2020.

**Regional Centre on Groundwater Resources Education Training & Research in Eastern Africa
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For the Year Ended June 30, 2020**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. State all judgements, estimates and assumptions made: e.g

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- a) The condition of the asset based on the assessment of experts employed by the Entity
- b) The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- c) The nature of the processes in which the asset is deployed
- d) Availability of funding to replace the asset
- e) Changes in the market in relation to the asset

6. RELATED PARTIES

The Centre is wholly owned and controlled by the government. Hence, no subsidiaries and Chief Executive Officers do not have shares.

Details of other related parties are as follows;

a) National Government

The Centre is under the Ministry of Water and sanitation and grants of Ksh. 45,000,000 were received; recurrent grant of Ksh. 35,000,000 and special request disbursement of Ksh. 10,000,000. Besides this, the ministry has deployed staff to the Centre.

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b) County Governments

The Centre is keen in future partnership with County Governments
Centre will offers groundwater outreach programmes and research.

- c) **Board of Management:** This is the body entrusted with the overall management of the Centre. The members do not earn a salary except the chair who earns honoraria of Ksh. 80,000 per month. The other Centre members only benefit from sitting and other applicable allowances.

| | 2019-2020 | 2018-2019 |
|---|-------------------|-------------------|
| | Shs | Shs |
| 7. Revenue from non-exchange transactions | | |
| Recurrent Grants (Ministry of Water, Sanitation, and Irrigation) | 45,000,000 | 22,591,699 |
| Total | 45,000,000 | 22,591,699 |
| 8 Use of goods and services | | |
| Advertising | 940,382 | 1,113,992 |
| Admin fees | 1,124,571 | 155,134 |
| Audit fees | 348,000 | 348,000 |
| Conferences and delegations | 1,807,066 | 3,467,366 |
| Consulting fees | 500,000 | 267,600 |
| Consumables/Hospitality | 448,070 | 648,000 |
| Local travel/Subsistence | 648,400 | 3,627,465 |
| Fuel and oil | 150,000 | 100,000 |
| Subscription to professional body | 25,200 | - |
| Training | 90,000 | 553,710 |
| Telecommunication | 29,500 | 155,400 |
| Postage | - | 20,032 |
| Printing and stationery | 672,654 | 617,195 |
| Rental | 6,594,002 | 840,000 |
| Bank charges | 27,679 | 20,905 |
| Medical insurance Cover | 1,840,602 | - |
| Total | 15,246,126 | 11,934,799 |
| 9. Employee Costs | | |
| Salaries & Wages | 6,460,698 | 3,538,414 |
| Employee related costs - contributions to pensions and medical aids | 590,881 | 37,700 |
| Travel Motorcar, accommodation subsistence and other allowances | 5,254,034 | 1,474,126 |
| Housing allowances | 699,645 | 384,000 |
| Total | 13,005,258 | 5,434,240 |

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| | | |
|--|-------------------|-------------------|
| 10. Remuneration Directors | | |
| Chairperson's Honoraria | 960,000 | 704,519 |
| Directors emoluments | - | 6,310,640 |
| Sitting allowance | 3,534,400 | - |
| Mileage allowance | 547,219 | - |
| Subsistence allowance and meetings facilitation | 1,170,485 | - |
| Other allowances | - | 13,008 |
| Total | 6,212,104 | 7,028,167 |
| 11. Depreciation and amortization expense | | |
| Computers | 406,601 | 386,196 |
| Furniture and equipment | 272,299 | 184,052 |
| Total depreciation and amortization | 678,900 | 570,248 |
| 12. Repairs and maintenance | | |
| Maintenance of Motor vehicles | 192,744 | 29,850 |
| Total | 192,744 | 29,850 |
| 13. Contracted services | | |
| Contracted Cleaning Services | 204,740 | - |
| Total | 204,740 | - |
| 14. Cash and cash equivalents | | |
| Account with Kenya Commercial Bank-current | 10,228,663 | 2,657,584 |
| Cash in Hand | 900 | 284,300 |
| Total | 10,229,563 | 2,941,884 |
| 15. Trade and other payables from exchange transactions | | |
| Accrued Rent | - | 280,000 |
| Accrued Audit fees | 696,000 | 696,000 |
| Accrued WHT | 113,149 | 37,983 |
| Accrued PAYE | | 326,926 |
| Salaries | 577,352 | - |
| Employee related cost | 70,489 | - |
| Directors Emoluments | 95,000 | - |
| Total | 1,551,990 | 1,340,909 |
| 16. Years Adjustment | | |
| Prepaid Fuel | - | 75,125.00 |
| Prior year Adjustment | - | 348,000.00 |
| Audit fee | (696,000) | |
| Total | (696,000) | 423,125.00 |
| 17. Net cash flows from operating activities | | |

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| | | |
|--|------------------|--------------------|
| Surplus for the year before tax | 9,460,128 | (2,405,605) |
| Adjusted for: | | |
| Prior year Audit fee | (696,000) | (348,000) |
| Depreciation | 678,900 | (570,248) |
| Increase in payables | 211,081 | 1,340,909 |
| Net cash flow from operating activities | 9,654,109 | (842,448) |
| | | |
| 18. Acquisition of Assets | | |
| Furniture & Fittings | 2,121,570 | 210,690 |
| Computer | 244,860 | - |
| Total | 2,366,430 | 210,690 |
| | | |
| 19. Rent | | |
| Kenya Water Institute | 350,000 | - |
| NSSF Building | 6,244,002 | - |
| | 6,594,002 | - |

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| | Furniture and fittings | Computers | Total |
|---|-----------------------------------|------------------|------------------|
| 20. Property, plant, and equipment | | | |
| Cost | Shs | Shs | Shs |
| At 1st July 2018 | 1,437,300 | 1,158,600 | 2,595,900 |
| Additions | 210,690 | - | 210,690 |
| Disposals | - | - | - |
| Transfers/adjustments | - | - | - |
| At June 2019 | 1,647,990 | 1,158,600 | 2,806,590 |
| Additions | 2,121,570 | 244,860 | 2,366,430 |
| Disposals | - | - | - |
| At 30th June 2020 | 3,769,560 | 1,403,460 | 5,173,020 |
| Depreciation and impairment | | | |
| At 1July 2018 | 209,607 | 514,928 | 724,535 |
| Charge for the year | 184,052 | 386,196 | 570,248 |
| At 30 June 2019 | 393,659 | 901,124 | 1,294,783 |
| At 1July 2019 | 393,659 | 901,124 | 1,294,783 |
| Charge for the year | 272,299 | 406,601 | 678,900 |
| At 30 June 2020 | 665,958 | 1,307,725 | 1,973,683 |
| Net book values | | | |
| At 30 June 2020 | 3,103,602 | 95,735 | 3,199,337 |
| | | | |
| At 30 June 2019 | 1,254,331 | 257,476 | 1,511,807 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. Board Expenses

Board expenses comprise of sitting allowance, Board Travel Expenses and Chairpersons' Honoraria

22. Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year

23. Currency

The Centre financial statements have been presented in Kenya shillings (Kshs)

24. Taxation:

The Centre's major source of income comprises of government grants. In addition, the Centre is a non-commercial entity, thus, exempt from paying corporation taxes. However, the Centre is a withholding agent for VAT, Withholding income tax and PAYE.

25. Government Grants:

The government grants are recognized when realized and spread throughout the financial year. Recurrent grants constitute 100% of the Centres revenue.

26. Composition, Nature, and Purpose of Reserves:

The reserves comprise of accumulated revenue and capital reserves as set out in the Statement of changes in the Owners' Funds.

27. RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial Risk Management

Financial risk management is the process of understanding and managing the financial risks that your business might be facing either now or in the future. The idea is to understand what risks organisation is willing to take, what risks you would rather avoid, and how organisation is going to develop a strategy based on your risk appetite.

The key to any financial risk management strategy is the plan of action. These are the practices, procedures and policies your business will use to ensure it does not take on more risk than it is prepared for. In other words, the plan will make it clear to staff what they can and cannot do what decisions need escalating, and who has overall responsibility for any risk that might arise.

Risk is inherent in any business operation and good risk management is essential if organisation is going to identify and stop revenue leakage. Of the various types of risks an organisation might face,

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financial risk has the most immediate impact on your cash flows and going concerns. One can anticipate these risks and head them off at the pass with a solid financial risk management plan. Anything that relates to **money flowing in and out of the business is a financial risk**. Since the list of potential risks is so long, most analysts place them into one of four categories as market, credit, liquidity and operational risk. The Centre is exposed to these risks in course of executing its mandate. The Centre's risk policy focuses on mitigating the adverse effects in the event that the said risks crystallises. The Board of Management through the Audit and Risk Committee gives policy direction on the overall risk management and sets the risk appetite levels. The Management is responsible for assessing and profiling the various risks, their treatment and overall risk Management.

1. MARKET RISKS

As the name implies, a market risk is any risk that comes out of the marketplace in which your organisation operates. More generally and whatever sector you're in, every business runs the risk of being outpaced by competitors. If organisation does not keep up with consumer trends and pricing demands, then it is likely to lose market share. The objective of market risk management policy is to protect and enhance the Statements of Financial Position and performance by managing and controlling market risk exposures within acceptable parameters. The Centre is exposed to the following market risks: -

(a) Foreign exchange risk

Most of the carrying amounts of the Centre currency is denominated in local currency, Kenya Shillings. Thus, changes in the Kenya Shilling, any appreciation or depreciation against the other currencies will have no direct impact on the Centre's reporting. During the financial year 2019/2020, the foreign exchange loss was insignificant.

(b) Interest rate risk

The Centre's financial condition may be adversely affected as a result of changes in interest rate levels. The interest rate risk is minimal as the Centre does not have any borrowings. Equally, the Centre does not hold investment that would be subject to interest rate risk; hence this risk does not apply.

(c) Liquidity risk

Also known as funding risk, this category covers all the risks you encounter when trying to sell assets or raise funds. If something is negatively affecting in the ways of raising cash fast, then it is classified as a liquidity risk. Liquidity risk also includes **currency risk** and **interest rate risk**. What would happen to cash flows if the exchange rate or interest rates were to suddenly change? In RCGW prospective risk can arise that the Centre is unable to meet its short-term obligation and long-term maturing obligations when they fall due. The Centre's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when

due, under both normal and stressed operations, without incurring unacceptable losses. The Centre has a list of all liabilities and assets in maturity date order.

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The analysis below shows the financial liabilities that will be settled on the remaining maturity date as of the financial statements date to the contractual maturity date.

| | Less than 1 month | Between 1-3 months | Over 5 months | Total |
|-------------------------------|------------------------------|-------------------------------|--------------------------|------------------|
| | Kshs | Kshs | Kshs | Kshs |
| At 30 June 2020 | | | | |
| Trade payables | 1,551,990 | 0 | 0 | 1,551,990 |
| Current portion of borrowings | 0 | 0 | 0 | 0 |
| Provisions | 0 | 0 | 0 | 0 |
| Deferred income | 0 | 0 | 0 | 0 |
| Employee benefit obligation | 0 | 0 | 0 | 0 |
| Total | 1,551,990 | 0 | 0 | 1,551,990 |
| At 30 June 2019 | | | | |
| Trade payables | 1,340,909 | 0 | 0 | 1,340,909 |
| Current portion of borrowings | 0 | 0 | 0 | 0 |
| Provisions | 0 | 0 | 0 | 0 |
| Deferred income | 0 | 0 | 0 | 0 |
| Employee benefit obligation | 0 | 0 | 0 | 0 |
| Total | 1,340,909 | 0 | 0 | 1,340,909 |

(d) Credit Risk

Credit risk is the possibility that the organisation will lose money because someone fails to perform according to the terms of a contract. Organisations must retain sufficient cash reserves to cover their accounts payable or they are going to experience serious cash flow problems.

Credit risk is the risk of financial loss to the Centre when customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the operations and that a counterparty will be unable to pay amounts in full when due. There is an implied credit rating when dealing with various customers based on the amount and previous experience.

The Centre manages, limits and controls concentration of credit risks periodically against internal and regulatory requirements with respect to individual parties

The Centre establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables by providing for bad and doubtful debts.

(e) Capital Risk

The objective of the entity's capital risk management is to safeguard the Board's ability to continue as a going concern. The entity capital structure comprises of the following funds:

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| | 2019-2020 | 2018-2019 |
|---|-------------------|------------------|
| | Kshs | Kshs |
| Revaluation reserve | 0 | 0 |
| Retained earnings | 11,876,910 | 3,112,782 |
| Capital reserve | 0 | 0 |
| Total funds | 11,876,910 | 3,112,782 |
| Total borrowings | 0 | 0 |
| Less: cash and bank balances | (10,229,563) | (2,941,884) |
| Net debt/(excess cash and cash equivalents) | 0 | 0 |
| Gearing | 0% | 0% |

2. OPERATIONAL RISKS

Operational risk is a term that covers all the other risks an organisation might encounter in its daily operations. Staff turnover, theft, fraud, lawsuits, unrealistic financial projections, poor budgeting and inaccurate marketing plans can all pose a risk to the going concern line if they are not anticipated and handled correctly.

Operational risk is the risk of direct or indirect losses arising from a wide variety of causes associated with the Centre's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risk arising from legal and statutory requirement. The Centre seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks. The Management has the overall responsibility of ensuring compliance to operational risk policies and procedures.

a. Legal risks

The likelihood of the potential loss arising from the uncertainty of legal proceedings, including reputational loss, arising from defective transactions or contracts, labor disputes, claims being made or some other event resulting in a liability or the loss for the Centre. The Centre doesn't have active legal case.

b. Compliance and regulatory risk

Compliance and regulatory risk include the risk of non-compliance with regulatory requirements. The Centre has complied with all externally imposed requirements throughout the year.

19. APPENDICES

APPENDIX 1: PROGRESS REPORTS ON AUDITORS RECOMMENDATIONS

| Audit basis | Management response to Audit opinion | Status |
|--------------------|---|---------------|
| | | |

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APPENDIX II: INTER-ENTITY TRANSFERS

| THE REGIONAL CENTRE ON GROUNDWATER RESOURCES EDUCATION TRAINING AND RESEARCH | | | | |
|---|---------------------------|----------------------------|-----------------------------|---|
| Break down of Transfers from the State Department of Water and Sanitation | | | | |
| FY 2019/2020 | | | | |
| a. | Recurrent Grants | Bank Statement Date | <u>Amount (KShs)</u> | The Amounts relate to FY 2019/2020 |
| | | 14/08/2019 | 2,916,667 | 2019/2020 |
| | | 05/09/2019 | 2,916,667 | 2019/2020 |
| | | 04/10/2019 | 2,916,666 | 2019/2020 |
| | | 05/11/2019 | 2,916,667 | 2019/2020 |
| | | 09/12/2019 | 2,916,667 | 2019/2020 |
| | | 24/12/2019 | 2,916,667 | 2019/2020 |
| | | 10/02/2020 | 2,916,666 | 2019/2020 |
| | | 04/03/2020 | 2,916,667 | 2019/2020 |
| | | 02/04/2020 | 2,916,666 | 2019/2020 |
| | | 28/05/2020 | 2,916,666 | 2019/2020 |
| | | 03/06/2020 | 2,916,667 | 2019/2020 |
| | | 29/06/2020 | 2,916,667 | 2019/2020 |
| | | Total | 35,000,000 | |
| b. | Development Grants | Bank Statement Date | <u>Amount (KShs)</u> | The Amounts relate to FY 2019/2020 |
| | | 12/06/2020 | 10,000,000 | 2019/2020 |
| | | Total | 10,000,000 | |

The above amounts have been communicated to and reconciled with the parent Ministry

Accounting Officer
Regional Centre on Groundwater
Resources Education Training and Research

Head of Accounting Unit
Ministry of Water, Sanitation and
Irrigation

Sign: 

Sign: 