

REPUBLIC OF KENYA



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By the LDM, Hon. Aden
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REPORT

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THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA WATER INSTITUTE

FOR THE YEAR ENDED
30 JUNE 2016



KENYA WATER INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

KENYA WATER INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2016

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

KENYA WATER INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

Kenya Water Institute (KEWI) is a Semi-Autonomous Government Agency (SAGA) established through the Kenya Water Institute Act 2001. The Institute is currently under the Ministry of Water and irrigation. The Institute is a body corporate with perpetual succession and a common seal. Its governance, control and administration are vested in the Council.

(b) Principal Activities

The mandate of KEWI is as follows:

a) To provide directly or in collaboration with other institutions of higher learning, services in human resource development, consultancy, research and development in the water sector on a commercial basis to the public sector, state corporations, local authorities, the private sector and all other persons (local or foreign) who may request for such services from the institute;

(b) To provide training programmes, seminars and workshops and produce publications aimed at maintaining standards in the water sector;

(c) To provide a forum for effective collaboration between the public and private sectors and other interested parties for the development of the water sector; and

(d) To conduct examinations and award diplomas, certificates and other awards to successful candidates.

(c) Key Management

Kenya Water Institute's management is under the following key organs:

1. The Governing Council
2. Senior Management
3. The Academic Board

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2016 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Director	Dr. Leunita A. Sumba
2.	Deputy Director Academic Affairs	Mr. David K. Ngetich
3.	Deputy Director Management Services	Mr. John K. Gatiri
4.	Deputy Director Research	Mr. Paul N. Muthama

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(e) Fiduciary Oversight Arrangements

KEWI's oversight responsibility is vested in the Governing Council and the Audit Committee of the Institute. In addition the Audit and Risk department is responsible for risk assessment and internal control systems.

(f) Entity Headquarters

Kenya Water Institute
Nairobi South C
Ole Shapara Avenue
P.O. Box 60013 – 00200
Nairobi, Kenya

(g) Entity Contacts

Tel: 254-20-6003893/6003905/6007433/25
CELL No: 0722-207757
Fax No: 254-20-6006718
Email: inquiries@kewi.or.ke
info@kewi.or.ke
Website: www.kewi.or.ke

(h) Entity Bankers

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

(i) Independent Auditors

Auditor General
Kenya National Audit Office
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

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II. THE GOVERNING COUNCIL

GOVERNING COUNCIL MEMBER	PROFILE
 <p>Col. Benjamin Muema <i>Chair KEWI Governing Council</i></p>	<p>Col. Benjamin Muema is a retired Colonel of the Kenya Army. Col. Muema served in the Military for 17 years before his retirement in 1993. During his time in the army, Col. Muema undertook military training in various countries, including United Kingdom (Royal Military Academy) the United States of America among others. Col. Muema is a qualified pilot, flight instructor and examiner.</p> <p>He has held senior positions in the corporate world and served in various leadership capacities, both locally and internationally. He was the Secretary General of New Ford Kenya.</p> <p>Col. Muema has wide experience in training. He was in charge of administrative, logistics, training, operational, planning and coordination at Armed Forces Training College and its satellite colleges as well as in the Cadets Training School, where he was second in command.</p>
 <p>Dr Kamau Thugge <i>Principal Secretary, The National Treasury</i></p>	<p>Dr. Kamau Thugge is a distinguished economist with a PhD in Economics from Johns Hopkins University. He has previously worked in the Ministry of Finance as Head of Fiscal and Monetary Affairs Department, Economic Secretary and as Senior Economic Advisor.</p> <p>Before joining the Ministry of Finance he worked with the International Monetary Fund (IMF) as an Economist/Senior Economist and Deputy Division Chief.</p> <p>Dr. Thugge holds a Bachelor of Arts (Economics) from Colorado College, USA; Masters in Economics from Johns Hopkins University, USA; and a Doctor of Philosophy (PhD) in Economics, also from Johns Hopkins.</p>
 <p>Eng. Lawrence. N. Simitu <i>Director Water Services</i></p>	<p>Eng. Lawrence N. Simitu is the Ag. Secretary of Water Services. He holds a Master of Science Degree in Civil Engineering. He is a registered Engineer with Engineers Registration Board and a Corporate member of Institute of Engineers of Kenya.</p> <p>Eng. Simitu has served in the water sector in various capacities; Director Water Services, Provincial Water Officer, District Water Engineer among others.</p> <p>Eng. Simitu has a wide experience in the field of water supply and sanitation</p>

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**Ms Mwanamaka Amani
Mabruki**

*Principal Secretary, Ministry of
Devolution and Planning*

Ms. Mwanamaka Amani Mabruki is the Principal Secretary for the State Department of Devolution. Prior to this, she was the Principal Secretary, East African Affairs, a position she held since she was appointed Principal Secretary in the Jubilee Government in July, 2013.

Ms Mabruki has worked as the Managing Director of the Kenya National Shipping Line. During her tenure at the Shipping Line, she developed the first strategic and business plans which aimed at positioning the company as a world class shipping line.

Prior to joining the National Shipping Line, Ms Mabruki was the Head of Corporate Development at the Kenya Ports Authority with the main responsibility for strategic planning and policy development at the Authority. She played a key role in the development of the second container terminal and in the implementation of the National Single Window Community Based System Project. In addition, she was a key member of the team that managed the feasibility study on the Lamu Port, Southern Sudan, Ethiopia Transport Corridor (LAPSSET) Project.

Ms. Mwanamaka holds Master's and Bachelor's degrees in Economics, both from the University of Nairobi. She has also attended several professional and senior management workshops, seminars and courses locally and internationally.



Ms. Lilian Janice Plapan
Member

Ms. Lilian Janice Plapan is a holder of a Masters of Arts Degree in Rural Social Development from the University of Reading (UK). She worked as a Town Clerk in Eldoret, Iten, Nandi Hills, West Pokot and Webuye.

She lectured for ten years in the University of Nairobi- Extra Mural Center Kapenguria. She is a Human Resources Management specialist.

Founder member of STAT and founder and coordinator of SETAT Women's Organization. She is a member of Court Users Committee West Pokot, and member of District Anti corruption Overseers Committee. She is also a visiting Justice to Kapenguria Prison, and the Chairperson and founder for African Coalition on Traditional Practices (ACTPEW).

On the Council, she represents registered Water Users Association.

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Prof. Wilson N. Ngecu
Member

Prof. Wilson N. Ngecu holds a PhD Degree from the University of Nairobi. He teaches Geology in the same Institution. Previously Prof. Ngecu has been Chairman of Geology Department, University of Nairobi. He was also the previous manager of the Students' Welfare Authority in charge of Chiromo campus and at one stage he was the secretary to the Geology Society of Kenya.

Prof. Ngecu is a consulting hydrologist, a lead NEMA Environmental Expert and a lead member of the Kenya Environmental Institute.

Prof. Ngecu is a registered geologist and a member of Geological Society of Kenya. He has published widely in the water environment issues.

On the KEWI Governing Council, he represents professional bodies, the activities of which relates to the water sector.



Dr. Christopher M. Nyamai
Member

Prof. Christopher M. Nyamai holds a Doctor of Philosophy degree from the University of Nairobi. He is the Ag. Dean, School of Physical Sciences, University of Nairobi. Prof. Nyamai has researched widely and published in the field of geology and geochemistry.

On the KEWI Governing Council, he is a representative of the public universities.



David Kamene M'alaine
Member

Mr. David K. M'alaine is the Chairman Bwathonaro Water Users Association, an association he has managed successfully for the last seven years.

On the KEWI Governing Council, Mr. Kamene represents Private Sector managers of community based water and sanitation programmes.




Ms. Catherine Akinyi Mwango
Member

Mrs. Catherine A. Mwango holds a Masters Degree in Management studies for Developing Countries from University of Leeds (UK).





She is the Executive Director of Kenya Water for Health Organization (KWAHO). Mrs. Mwango has served on a number of boards including Lake Victoria Water Services Board. She is a member of Sector Wide Approach under the auspices of the Ministry of Water and Irrigation. She is the National Convener of the Technical working group on household water treatment and safe storage. She is also a member of the Programme Management Committee on Global Sanitation Fund.

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	<p>On the KEWI Governing Council, Mrs. Mwango represents Non-Governmental Organizations involved in activities related to the water sector.</p>
 <p>Dr. Leunita A. Sumba <i>Director/CEO</i> <i>Kenya Water Institute</i></p>	<p>Dr. Sumba holds a PhD in Biology and a postgraduate Diploma in Integrated Water Resources Management. She has published in a number of refereed journals. Dr. Sumba is currently working on Ceramic filters as household water treatment solutions.</p> <p>Dr. Leunita Asande Sumba is the Director/CEO of the Kenya Water Institute. She has served in Kenya Water Institute for 20 years in various capacities. Previously she was a Lecturer, Principal Water Research Officer and the Head of the Water Resources Management Department.</p> <p>Her academic and research interests include: Drinking Water Quality; Environmental Water Quality, Integrated Water Resources Management; Gender and Water governance; Rainwater harvesting; interactions between Water, Environment, Health, and Sanitation including the epidemiology of waterborne and water-related diseases.</p>

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III. MANAGEMENT TEAM

	DESIGNATION
 Dr. Leunita A. Sumba <i>(Ph.D –Biology; Pg.Dip. Integrated Water Resources Management)</i>	Director, Kenya Water Institute
 David K. Ngetich <i>(MPhil. in Geography)</i>	Deputy Director Academic Affairs
 Paul N. Muthama <i>(MSc. Statistics)</i>	Deputy Director Research
 John K. Gatiri <i>(Executive MBA)</i>	Deputy Director Management Services

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Isaac Agevi (*BA. Economics, MBA*)

Corporate Affairs Manager



James Kande (*B.Com. Accounting, CPA(K)*)

Audit and Risk Manager



Kennedy O. Riaga (*BA. Economics, CPA(K), CISA*)

Finance Manager

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**IV. CHAIRPERSON'S STATEMENT**

It gives me great pleasure to present to you the 2015-2016 Kenya Water Institute Annual Report and Financial Statements. KEWI strives to be a world class leader in Training, Research, Consultancy and Outreach Services. This will be achieved through a deliberately well planned, carefully and transparently executed investment in Human Resource, teaching and learning systems and well developed physical facilities for both learners and trainers.

Financial Results:

The Institute during the year that has just ended experienced a number of challenges majorly due to insufficient direct GoK budgetary allocations. The Institute received Ksh. 132,804,046 for personnel emoluments and Ksh. 90,000,000.00 for Development against the expected Ksh. 180,000,000 and Ksh. 150,000,000.00 respectively. The Institute generated Ksh. 127 Million in Appropriation in Aid (AiA) compared to the previous year where Ksh. 109 Million was generated. This translates into 16.5 % increase in AiA generation.

Future Outlook:

The current challenges in Water and Irrigation sector in the country, places KEWI in a strategic position to play a critical role in capacity development for the sector. The Government focus on irrigated agriculture as a key strategy for addressing persistent food shortages provides the Institute with a massive opportunity to be a critical player in the chain of food security. It is in this regard that KEWI embarked on the process of constructing a Water Resource Center to act as hub of water knowledge in the region. In the same line the institute is in the process of sourcing for funds to develop a school for irrigation. It is envisaged that the school will enhance training for irrigation practitioners for the country and the region. This will widen the customer base and enhance service delivery in Training, Research and provision of Consultancy services for the water and irrigation sub-sectors and in turn leverage the revenue base of the institute with an aim of reducing dependence on the exchequer.

Acknowledgement:

As we soldier on in our quest to fulfil the Institute's mandate of providing Training, Research, Consultancy and Outreach services to the Kenyan populace, it is my sincere appeal to the Government of Kenya to continue supporting the Council to make KEWI the fountain of water Knowledge.



Col. Benjamin Muema
Chairman, Governing Council
Date: 8th September, 2016

KENYA WATER INSTITUTE

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V. REPORT OF THE DIRECTOR, KENYA WATER INSTITUTE

I present the 2015-2016 Kenya Water Institute Annual Report and Financial Statements. During this period, the Institute faced financial challenges among others. Nonetheless, I am pleased to report that KEWI Management handled these challenges well through planning and prudent utilisation of the available resources namely; Human Resource, Systems, Financial, Physical Facilities and the technical backstopping of the parent Ministry.

Financial Results:

The Institute during the year that has just ended experienced a number of challenges majorly due to insufficient direct GoK budgetary allocations. The Institute received Ksh. 132,804,046 for personnel emoluments and Ksh. 90,000,000.00 for Development against the expected Ksh. 180,000,000 and Ksh. 150,000,000.00 respectively. The Institute generated Ksh. 127 Million in Appropriation in Aid (AiA) compared to the previous year where Ksh. 109 Million was generated. This translates into 16.5 % increase in AiA generation.

Future Outlook:

Over the years KEWI has been unable to sufficiently enhance its human resources capacity in terms of numbers, programmes and infrastructure in order to effectively fulfil its mandate of capacity building, training, research and consultancy in the water sector. This has been due to inadequate budgetary allocation from the National Treasury. For instance, in the period under review, KEWI received direct GoK budgetary allocation of Ksh. 222,804,046 against the budgeted requirement of Ksh. 2.1 Billion.

KEWI plans to initiate a number of projects, programmes and activities with an aim of diversifying her revenue streams so as to reduce the financing gap. In the next one year KEWI will complete the construction of the Water Resource Centre (WRC) at the headquarters in Nairobi. This Centre is expected to support the water sector institutions by serving as a water knowledge hub. It will be dedicated to promoting sustainable development and management of water resources, and wastewater.

Other programmes aimed at enhancing service delivery include the establishment of e-learning infrastructure, curriculum review and development, development of facilities in Kisumu, Kitui and Chiakariga campuses, and the initiation of programmes in other counties as stated in the strategic plan 2016-2020. In addition, KEWI is already taking advantage of the Public Private Partnership to bridge the budgetary deficit it has faced over period of time.

It is envisaged that these projects and programmes will strengthen KEWI's commercial and revenue centres thus reducing her over reliance on the exchequer.

Acknowledgement:

I would like to thank the Government through the Ministry of Water and irrigation for the continued financial support to KEWI. My heartfelt gratitude goes the Cabinet Secretary, Ministry of Water and irrigation and the Principal Secretary for their tireless support. I would like to thank the Governing Council for their leadership and direction. I appreciate the contribution made by our development partners and other stakeholders in order to improve

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KEWI. To the management team, employees, students and guardians: I appreciate your cooperation and ideas, which have led to improved performance in service delivery during the year. Last but not least I acknowledge the value added by the Kenya National Audit Office in ensuring that the financial report represents a true and fair view of the Institute's position.

It is my sincere hope that you will all continue supporting KEWI in the coming years as she endeavours to deliver training, research, consultancy and outreach service in the water sector.



Leunita A. Sumba PhD.
Director Kenya Water Institute
8th September, 2016

VI. CORPORATE GOVERNANCE STATEMENT

The Institute's governance, control and administration are vested in the Governing Council, whose members are nominated by the Cabinet Secretary in charge of water and is composed of Government representatives from key Ministries and independent members drawn from different but relevant professional fields. The Governing Council is responsible for ensuring that Kenya Water Institute embraces and upholds good corporate governance and practices. The Council is accountable to Government through the Ministry of Water and Irrigation and is responsible for ensuring that the Institute complies with the highest standards of corporate governance and business ethics. The activities in the Institute are conducted with integrity and in accordance with generally accepted corporate practice and principles.

The Governing Council was in place during the start of the reporting period. The Governing Council ensured that corporate governance and good business ethics were practised at all times during the reporting period. This enabled the Management to deliver on the Institute's strategic objectives and maintain effective control of the financial, operational and compliance issues.

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

KEWI defines Corporate Social Responsibility as the business strategy that defines the values underpinning the Institute's mission and the choices made each day by its staff as they engage with society. We believe in maximizing benefit of the resources bestowed to us, being accountable in whatever we do and responsive to stakeholders.

Our corporate social responsibility (CSR) encompasses the economic, environmental and social aspects of our business.

Under our economic view of CRS, we ensure costing of our products like charging college fee, drilling of boreholes and offering consultancy in the water sector is set at a point that does not exclude the under privileged. It will also be noted that KEWI takes sharing of water knowledge as a moral obligation as such creating an environment that allows wide spread of the same is key to its operations. This in essence has become the foundation of KEWI's programming which is rooted in corporate social responsibility principle.

Environment- KEWI being a training and research institution for the water sector, sustainable management of the water resource is the backbone of the institute, our training programmes on water resource management is specifically designed to enable the trainees acquire the knowledge of managing the water resources sustainably.

Our social aspect of CSR in KEWI places emphasis on Responsibility and Accountability. KEWI take the issue of CSR seriously as evidenced in our daily dealings, for instance when an employee is dealing with customer(s) the Institution expects him/her to behave in an honest and ethical manner. In that regard the issue of corporate social responsibility is quickly moving from a "nice to have" to an "absolutely must have."

As KEWI's mandate is offer training, research, consultancy and outreach most of our specific CRS activities revolve around the water and natural resources, as will be seen from some of the activities undertaken and mention below;

Every year the institute has always undertaken servicing of community boreholes in selected ASAL areas like Taraka Nithi with an aim of working with communities on repairing key sources of their livelihood and at the same time transferring knowledge and or developing vital skills. KEWI also on annual basis participates in the Nakaini marathon, cleaning of the rivers banks and the general surroundings in areas we operate. Most of these activities are made possible through partnerships and collaborations

KEWI has also a mentorship programme, this programme targets school going girls, with an aim of mentoring them to be responsible students. The key focus of the programme is on encouraging girls to take science subjects, this was informed by the hitherto stereotype believe of science subjects/ courses being a preserve of men.

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VIII. REPORT OF THE DIRECTORS

The Governing Council Members submit their report and the Financial Statements for the year ended 30th June 2016, which show the state of Institute's financial affairs.

1. Principal activities

The principal activities of the Institute are to provide quality Training, Research, Consultancy and Outreach Services.

2. Results

The results of the Institute for the year are set out on pages 1 to 2

3. Reserves

The movements in the Institute's reserves are as shown on page 4

Director/ Governing Council Members who served during the year and to the date of this report were:

S/No	Name	Organization	Appointment Date	Designation
1	Amb. Mary Khimilu	Independent	Appointment Date - 20.2.2015	Chairperson
	Col. Benjamin Muema	Independent	Date of appointment: 20.2.2015	Chairperson
2	Prof. Wilson M. Ngecu	Professional bodies	Appointment Date - 20.2.2015	Member
3	Dr. Christopher Munyai Nyamai	University of Nairobi	Appointment Date - 20.2.2015	Member
4	Ms. Catherine A. Mwango	Kenya Water for Health Organization (Independent)	Appointment Date - 20.2.2015	Member
5	Ms. Lilian Janice Plapan	Chair of African Coalition on Traditional Practices (Independent)	Appointment Date - 20.2.2015	Member
6	Mr. David Kamene M'alaine	Bwathonaro Water Users Association (Independent)	Appointment Date - 20.2.2015	Member
7	Amb. Felistas V. Khayumbi	Ministry of Devolution and Planning	Appointment Date - 20.2.2015	Alternate Member
	Ms. Lesley Khayadi		Appointment date: 21 st January 2016	Alternate Member
8	Ms. Jane W. Wambugu	National Treasury	Appointment Date - 20.2.2015	Alternate Member

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9	Ms. Mary C. Kemunto	Ministry of Water & Irrigation Att. Director Water Services	Appointment Date - 20.2.2015	Member
10	Dr. Leunita A. Sumba	KEWI	Appointment Date - 20.2.2015	Secretary to the Governing Council

4. Auditors

The Auditor General, as amended by the new Constitution of Kenya, commenced audit of the Institute's accounting records in accordance with the Public Audit Act of 2003.

KENYA WATER INSTITUTE

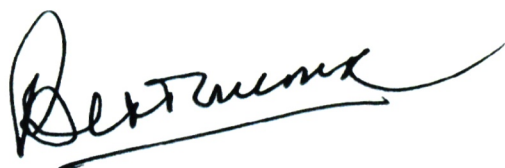
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IX. STATEMENT OF GOVERNING COUNCIL RESPONSIBILITIES

The Kenya Water Institute Act 2001 requires the Governing Council to prepare Financial Statements for each financial year which gives a true and fair view of the state of affairs of the Institute as at the end of the financial year and of its operating results for that year. It also requires the Governing Council to ensure that the Institute keeps proper accounting records which disclose with reasonable accuracy the financial position of the Institute. The Governing Council is also tasked with the responsibility of safeguarding the assets of the Institute.

The Kenya Water Institute Governing Council accepts responsibility for the Annual report and Financial Statements for the year ended 30th June, 2016. These reports are prepared in line with appropriate accounting policies, based on prudent judgments and estimates consistent with previous years, and are in conformity with International Public Sector Accounting Standards (IPSAS). Governing Council is of the opinion that the financial statements herein give a true and fair view of the state of the financial affairs of the Institute and of its operating results. Governing Council further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Governing Council to indicate that the Institute will not remain a going concern for at least the next twelve months from the date of this statement.



Col. Benjamin Muema
Chair, Governing Council
8th September, 2016

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X. STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The Kenya Water Institute Act 2001 requires the Governing Council to prepare Financial Statements for each financial year which gives a true and fair view of the state of affairs of the Institute as at the end of the financial year and of its operating results for that year. It also requires the Governing Council to ensure that the Institute keeps proper accounting records which disclose with reasonable accuracy the financial position of the Institute. The Governing Council is also tasked with the responsibility of safeguarding the assets of the Institute

The Kenya Water Institute Management accepts responsibility for the Annual Financial Statements. These reports are prepared in line with appropriate accounting policies, based on prudent judgments and estimates consistent with previous years, and are in conformity with International Public Sector Accounting Standards (IPSAS). Management is of the opinion that the financial statements herein give a true and fair view of the state of the financial affairs of the Institute and of its operating results. Management further accepts responsibility for the maintenance of accounting records as well as adequate systems of internal financial control, which may be relied upon in the preparation of the financial statements.

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



Leunita A. Sumba PhD.
Director Kenya Water Institute
8th September, 2016

KENYA WATER INSTITUTE

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**XI. REPORT OF THE INDEPENDENT AUDITORS ON KENYA WATER INSTITUTE
FINANCIAL REPORT YEAR 2015/2016**

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.oagkenya.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA WATER INSTITUTE FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Water Institute set out on pages 1 to 17, which comprise the statement of financial position as at 30 June 2016, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report 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. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

Report of the Auditor-General on the Financial Statements of Kenya Water Institute for the year ended 30 June 2016

circumstances but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1. Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.1,585,155,219 as at 30 June 2016. However and as reported in previous years, the balance includes the value of land in Nairobi, Chiakariga in Tharaka-Nthi and Kitui valued at Kshs.972,092,000, Kshs.2,550,000 and Kshs.40,000,000 respectively for which the Institute has not acquired title documents.

In the circumstances, the accuracy and ownership of the property, plant and equipment balance of Kshs.1,585,155,219 as at 30 June 2016 could not be ascertained.

2. Cash and Cash Equivalents

The cash and cash equivalents balance of Kshs.9,580,561 as at 30 June 2016 is not supported with bank reconciliation statements. Further, management did not prepare bank reconciliation statements for all their bank accounts. As a result, it has not been possible to ascertain the accuracy and completeness of the cash and cash equivalents balance of Kshs.9,580,561 as at 30 June 2016.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kenya Water Institute as at 30 June 2016, 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 Kenya Water Institute Act, 2001.

Other Matter

1. Financial Performance

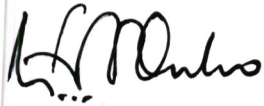
The statement of receipts and payments reflects a deficit of Kshs.70,225,712 (2015: Kshs.126,915,249) as at 30 June 2016. No reason has been given for the huge deficit that may negatively impact on service sustainability of the Institute.

2. Over expenditure

The Institute overspent on compensation to employees and remuneration to governing council as follows:-

	Budget (Kshs.)	Actual (Kshs.)	Variance (Kshs.)	%
Compensation to employees	152,926,000	179,755,611	(26,829,611)	(18)
Remuneration of governing Council	3,000,000	10,322,380	(7,322,380)	(244)

No explanation has been given for this anomaly.



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

Nairobi

06 July 2017

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**XII. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED
30 JUNE 2016**

	Note	2015/2016 Kshs	2014/2015 Kshs
Revenue from non exchange transactions			
Government grants & Other Donations	4	225,004,046	330,880,000
		225,004,046	330,880,000
Revenue from exchange transactions			
Rendering of services	5	123,219,708	107,298,984
Rental revenue from facilities and equipment	6	711,345	713,634
Other income	7	449,682	558,470
		124,380,735	108,571,088
Total revenue		349,384,781	439,451,088
Expenses			
Employee costs	8	179,755,611	166,875,604
Remuneration of Governing Council	9	10,322,380	792,084
Depreciation and amortization expense	10	31,271,289	24,381,890
Repairs and maintenance	11	10,796,086	11,722,103
Contracted services	12	4,902,442	4,051,512
General expenses	13	182,562,683	104,712,646
Total expenses		419,610,493	312,535,839
Surplus(Deficit) for the Year		(70,225,712)	126,915,249

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XIII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

Assets	Notes	2015-2016 Ksh	2014-2015 Ksh
Current assets			
Cash and cash equivalents	14	9,580,561	76,922,374
Receivables from exchange transactions	15	50,131,639	118,442,867
Receivables from Non- exchange transactions	15B	9,604,616	10,582,457
Inventories	16	1,604,426	1,850,280
Total Current Assets		70,921,241	207,797,979
Non-current assets			
Property, plant and equipment	17	1,585,155,219	1,565,812,314
Intangible assets	18	-	1,855,348
Work In Progress	19	181,711,828	126,489,250
Total Non- Current Assets		1,766,867,047	1,694,156,912
Total assets		1,837,788,288	1,901,954,891
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	20	34,158,943	37,953,492
Refundable deposits from students	21	6,809,200	250,970
Provisions for Audit fees		630,000	537,602
VAT Payable		1,168,536	-
Deferred income	22	9,766,007	7,731,513
Total liabilities		52,532,686	46,473,577
Net assets			
Capital Reserves		144,184,894	144,184,894
Revaluation Reserves		1,393,516,687	1,393,516,687
Revenue Reserves		247,554,021	317,779,733
Total net assets		1,785,255,602	1,855,481,314
Total net assets and liabilities		1,837,788,288	1,901,954,891



Leunita A. Sumba, PhD
8th September, 2016
Director



Col. Benjamin Muema
8th September, 2016
Chair, Governing Council

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XIV. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2016

	Capital Reserves Ksh	Revaluation Reserves Ksh	Revenue Reserves Ksh	Total Ksh
Balance as at 1st July 2014	144,184,894	1,393,516,687	190,864,482	1,728,566,063
Revaluation Gain(Loss)	-	-	-	-
Surplus/(deficit) for the period	-	-	126,915,251	126,915,251
Transfers to/from accumulated surplus	-	-	-	-
Balance as at 30 JUNE 2015	144,184,894	1,393,516,687	317,779,733	1,855,481,314
Surplus for the period	-	-	(70,255,712)	(70,255,712)
Transfers to/from accumulated surplus	-	-	-	-
Balance as at 30 JUNE 2016	144,184,894	1,393,516,687	247,554,021	1,785,255,602

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XV. STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30TH JUNE 2016

	Notes	2015/16 Ksh	2014/2015 Ksh
Cash flow from Operating Activities before changes in working capital			
Deficit for the year		(70,225,712)	126,915,251
Adjustment for Depreciation	10	31,271,289	24,381,890
Prior year adjustment for Depreciation		-	(642,526)
		(38,954,423)	150,654,615
Changes in working capital			
Decrease in Receivables	15&15B	69,289,070	(72,446,462)
Decrease in Inventories	16	245,854	2,006,141
Increase in Payables	20&21	6,059,109	13,077,167
Net Cash flow generated from operating activities		75,594,033	(57,363,155)
Cash flow from Investing Activities			
Acquisition of Property, Plant and Equipment & WIP	17&19	(103,981,424)	(132,843,440)
		(103,981,424)	(132,843,440)
Net Cash flow from financing activities		-	-
Net Decrease in Cash and Cash equivalents		(67,341,813)	(39,551,980)
Cash and cash equivalents at the start of year		76,922,374	116,474,354
Cash and cash equivalents at end of year		9,580,561	76,922,374

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XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR 2015/2016

		Budget	Actual		Explanation of material variances
	Notes	2015/2016	2015/2016 Ksh	Variance Ksh	
Revenue					
Government grants and Other Donations	4	310,880,000	225,004,046	(85,875,954)	-38%
Rendering of services	5	98,200,000	123,219,708	25,019,708	20%
Rental revenue from facilities and equipment	6	800,000	711,345	(88,655)	-12%
Other income	7	1,000,000	449,682	(550,318)	-122%
Total income		410,880,000	349,384,781	(61,495,219)	-18%
Expenses					
Compensation of employees	8	152,926,000	179,755,611	(26,829,611)	-18%
Remuneration of Governing Council	9	3,000,000	10,322,380	(7,322,380)	-244%
Rent paid		3,400,000	3,725,848	(325,848)	-10%
Repairs and maintenance	11	9,500,000	10,796,086	(1,296,086)	-14%
Contracted services	12	4,700,000	4,902,442	(202,442)	-4%
General expenses	13	88,854,000	96,370,672	(7,516,672)	-8%
Non-Cash Expenses					
Bad Debts		-	82,466,164	-	
Depreciation & Amortization		-	31,271,289	-	
Total expenditure		262,380,000	419,610,493	(43,493,040)	-17%
Surplus/(Deficit) for the period		148,500,000	(70,225,712)	(104,988,259)	

- a) The variance is due to under disbursement of grants from GOK visa a vis the printed estimates; the amount being Ksh.68M
- b) The positive variance is due to increased student population and the number of short courses offered during the reporting period.
- c) The movement was due to reduction in grants to the Government institutions (they are the major clients)
- d) The movement is due re-classification of other incomes into mainstream incomes
- e) This came as a result of new courses/units that were introduced due to market demand, hence the need to engage more part time lecturers.
- f) The movement was due to various activities in the programmes committee, which involved development of strategic plan and restructuring the organizational structure. In addition to this, there were two adhoc committees set up.

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- g) The Machines & Equipment and the motor vehicle fleet are very old but replacement is not possible due to lack of funds. The prefabricated buildings need constant maintenance.

XVII. NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation – IPSAS 1

The KEWI 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 unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

2. Summary of significant accounting policies

a) Revenue recognition

Fees represent invoiced value of services rendered during the year in relation to training, consultancy and miscellaneous revenue taking care of the deferred income. However, grants are recognized when received.

b) Employee Benefit

The Institute has sponsored a defined contribution pension scheme for permanent staff whereby it contributes 15% while the employees contribute 7.5% of the basic salary. For employees on contract, the Institute pays gratuity at the expiry of the contract, which is calculated at the rate of 31% of the basic salary. The Institute has a medical cover for all permanent employees.

c) Property, Plant and Equipment

Fixed assets are stated at cost less accumulated depreciation.

The first KEWI audited accounts for the FY 2003/2004 shows that the original valuation of KEWI Property, Plant and Equipment to the tune of Ksh. 141,627,439 was carried out by a valuation firm in the year 2000 and Ksh. 125,578,337 valuation by an inter-ministerial technical committee on transition of KEWI to a Semi-Autonomous Government Agency. These valuations have been used to come up with the reported capital reserves of Ksh.144, 184,894.

Depreciation is calculated on a straight-line basis at annual rates estimated to write off carrying values of the assets over their expected useful lives at the rates below:

Buildings	2.00%
Plant and Equipment	12.50%

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Furniture	10.00%
Motor Vehicles	20.00%
Computers	30.00%
Software	20.00%

d) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost comprises expenditure incurred in the normal course of business, including direct material costs on a weighted average basis. Net realizable value is the price at which the stock can be realized in the normal course of business after allowing for the costs of the realization and, where appropriate, the cost of conversion from its existing state to a realizable condition. Provision is made for obsolete, slow moving and defective stocks as and when determined.

e) Bad and doubtful debts

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success. The institute's policy on provision for bad debts is 15%, 20%, 25% and 35% for debts aged, 1-30, 31-60, 61-90 and > 90 days respectively.

f) Deferred Income

The Institute defers incomes that have been received but not yet earned.

g) Subsequent events

The Institute is committed to making disclosures for any significant changes that occur after the closure of the financial period, that are likely to influence decision making.

3. Related Parties

The institute is wholly owned and controlled by the government. Hence, no subsidiaries and directors do not have shares.

Details of other related parties are as follows;

a) National Government

The institute is under the Ministry of Water and Irrigation and a grants of Ksh. 222, 804,046 were received; recurrent grant of Ksh. 132,804,046 and development grant of Ksh. 90,000,000. Besides, the ministry also sponsor their technical staff to be trained in the institute.

b) County Governments

The institute actively trains the technical staff of water companies from the County Governments. In addition, the counties sponsor students on long term courses.

Kenya Water Institute offers consultancy and outreach programmes to the same institutions mentioned above, the main client being the Nairobi City Water and Sewerage Company, Taita Taveta and Turkana County Governments.

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c) Governing Council

This is the body entrusted with the overall management of the institute. The members do not earn a salary except the chair who earns honoraria of Ksh. 80,000 per month. The other council members only benefits from sitting and other applicable allowances.

	2015-2016	2014-2015
	Ksh.	Ksh.
Remuneration of Governing Council	10,322,380	792,084

d) Senior Management

Out of the employees cost of approx. Ksh. 180 million, the 7 senior management members get a share of 12% .

	2015-2016	2014-2015
	Ksh.	Ksh.
Remuneration of Senior Management	21,436,319	19,232,807

4. Revenue from non exchange transactions

	2015-2016	2014-2015
	Ksh	Ksh
Development Grants - Capital(Ministry of Water & Irrigation)	90,000,000	190,000,000
Personal Emoluments (Ministry of Water & Irrigation)	132,804,046	140,880,000
Other Donations (Tharaka Nithi County Government)	2,200,000	-
Total	225,004,046	330,880,000

5. Rendering of services

	2015-2016	2014-2015
	Ksh	Ksh
Tuition fees - Students	65,450,697	51,513,927
Registration fees-500004	386,500	256,640
ID Card	388,700	257,440
Examination Fee-500007	6,399,530	6,018,190
Accomodation-500001	29,384,400	32,062,926
Kitchen Cash Sales	746,825	844,550
Graduation fees	593,000	307,000
Student Refers	676,950	504,250
Students lunch fee	301,850	257,900
Lab analysis	794,526	997,730
Consultancy fee	730,180	3,513,610
Application fee	437,000	524,300
Seminars and Workshops	2,814,328	1,039,791
Short Courses	12,081,862	9,200,730
Drilling Revenue	2,033,360	-
Total	123,219,708	107,298,984

6. Rental revenue from facilities and equipment

Hire of Conference Facilities	711,345	713,634
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7. Other Revenues

Miscellaneous Income	385,510	467,387
Sale of Tender Documents	5,000	35,000
Library fines and Staff Surcharges	59,172	56,083
Total	449,682	558,470

8. Employee costs

Salaries & Wages	166,283,228	153,637,912
Pension & Gratuity	13,472,383	13,237,693
Total	179,755,611	166,875,604

9. Remuneration of Governing Council

Chairman's Honoraria	800,000	100,000
Other allowances	9,522,380	692,084
Total Governing Council Emoluments	10,322,380	792,084

10. Depreciation and amortization expense

Property, plant and equipment (see note 17)	29,415,941	22,526,542
Intangible assets (see note 18)	1,855,348	1,855,348
Total depreciation and amortization	31,271,289	24,381,890

11. Repairs and maintenance

Maintenance of Motor vehicles	4,140,769	3,637,489
Maintenance of computers	96,005	1,704,271
Maintenance of buildings & stations	4,587,873	4,070,063
Maintenance of office furniture	19,601	180,700
Maintenance of Plant & machinery	1,774,539	1,466,922
Refurbishment of buildings	177,300	662,659
Total	10,796,086	11,722,103

12. Contracted services

Contracted Guards	4,899,122	4,002,716
Contracted Technical Services	3,320	48,796
Total	4,902,442	4,051,512

13. General expenses

Electricity	7,602,101	6,154,341
Water & Connections	2,871,309	1,894,084
Gas Expenses	2,853,573	3,339,023
Telephone Expenses	1,932,177	1,442,234
Internet Connections	2,252,915	567,599
Postal & Courier	114,377	62,020
Travel Costs-Domestic	3,000	282,375
Accommodation-Domestic	613,215	1,134,801
Daily Subsistence-Domestic	12,576,305	10,086,663
Travel Costs(Airlines)-Foreign	374,570	551,341
Accommodation-Foreign	203,669	246,073
Daily Subsistence Allowance- Foreign	2,063,448	1,404,279
Publishing & Printing	577,847	228,819
Subscription To Newspapers	381,663	475,611
Advertising	4,558,640	4,117,815

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Trade Shows	211,610	760,565
Payment Of Rent & Rates	3,725,848	2,058,000
Training Expenses	58,774	11,520
Graduation Expenses	-	536,359
Catering Expense	2,808,757	2,737,754
Group Personal Insurance	9,600	131,404
Plant, Equip & Machinery Insurance	-	679,224
Motor Vehicle Insurance	1,051,236	1,300,082
Medical Insurance	14,422,360	10,511,105
Fungicides	282,470	259,615
Purchase of W/Shop Tools	223,790	522,027
Lab Materials & Supplies	762,313	1,817,012
Education & Lib Supplies	281,150	169,603
Food & Rations	11,509,461	863,770
Purchase of Staff Uniforms	33,414	-
Purchase of Beddings	99,450	-
General Office Supplies	1,115,860	1,475,644
Supplies & Accessories	815,013	148,149
Sanitary & Cleaning Materials	877,571	866,504
Refined Fuels - transport	3,610,436	4,503,829
Other fuels	141,125	-
Bank Charges	569,355	516,197
Membership Fees, Dues	366,150	2,318,954
Legal Fees	-	230,000
Audit Fees	630,000	1,081,602
Bad Debts	82,466,164	17,326,329
Research Expenses	4,110,222	969,350
Pre-Feasibility	6,588,954	8,907,853
Capacity Building	3,926,420	3,592,164
Drilling Expense	2,886,371	-
Total	182,562,683	104,712,644
14. Cash and cash equivalents		
Account with Kenya Commercial Bank-current	7,014,099	75,560,186
Account with Kenya Commercial Bank-savings	114,865	115,522
Account with Kenya Commercial Bank -guarantee	-	1,000,000
Account with Kenya Commercial Bank -Project Account	2,451,597	-
Cash in Hand	-	246,666
Total	9,580,561	76,922,374
15. Receivables from exchange transactions		
Trade Receivables	65,091,227	165,657,602
Less: Prov. For bad debts	- 19,708,792	- 56,270,829
Net Receivables	45,382,435	109,386,773
Prepayments	4,749,204	9,056,094
Total	50,131,639	118,442,867
15B. Receivables from Non- exchange transactions		
Staff Receivables	13,573,023	15,435,349
Less: Prov. For bad debts	-3,968,408	-4,852,892
Net Receivables		

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	9,604,616	10,582,457
16. Inventories		
Main Campus	1,050,079	1,627,308
Chiakariga Campus	526,800	192,764
Kitui Campus	27,547	30,208
Total	1,604,426	1,850,280

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	Land	Buildings	Motor vehicles	Furniture and fittings	Plant and Equipment	Computers	Total
17. Property, plant and equipment							
Cost	Ksh		Ksh	Ksh	Ksh	Ksh	Ksh
At 1 July 2014	1,044,642,000	485,738,475	17,700,000	8,615,997	37,740,179	9,117,010	1,603,553,661
Additions	-	-	-	959,400	4,324,740	1,070,050	6,354,190
Disposals	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-
At 30 June 2015	1,044,642,000	485,738,475	17,700,000	9,575,397	42,064,919	10,187,060	1,609,907,851
Additions	-	-	6,000,000	-	40,790,027	1,968,819	48,758,846
Disposals	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-
At end of year -30 June 2016	1,044,642,000	485,738,475	23,700,000	9,575,397	82,854,946	12,155,879	1,658,666,697
Depreciation							
At 1 July 2014	-	9,714,770	3,540,000	861,600	4,717,522	2,735,103	21,568,995
Depreciation	-	9,714,770	3,540,000	957,540	5,258,115	3,056,118	22,526,542
On Disposals	-	-	-	-	-	-	-
At 30 June 2015	-	19,429,540	7,080,000	1,819,140	9,975,637	5,791,221	44,095,537
Depreciation	-	9,714,770	4,740,000	957,540	10,356,868	3,646,764	29,415,941
On Disposals	-	-	-	-	-	-	-
At 30 June 2016	-	29,144,309	11,820,000	2,776,679	20,332,505	9,437,985	73,511,478
Net book values							
At 30 June 2016	1,044,642,000	456,594,166	11,880,000	6,798,718	62,522,441	2,717,894	1,585,155,219
At 30 June 2015	1,044,642,000	466,308,936	10,620,000	7,756,257	32,089,282	4,395,839	1,565,812,314
Rates	Nil	2%	20%	10%	12.50%	30%	

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18. INTANGIBLE ASSETS	Ksh
Cost	
At beginning July 2015	9,276,740
Additions	-
At end of June 2016	9,276,740
Amortization	
At beginning of July 2015	7,421,392
Amortization	1,855,348
At end of June 2016	9,276,740
Net Book Value	-
Rate	0.2

19. WIP

Relates to Water Resource Centre, Mechanical Production Unit & Kitui Fencing

WIP b/f	126,489,250	-
Additional WIP for the year	55,222,578	126,489,250
Total	181,711,828	126,489,250

20. Trade and other payables from exchange transactions

Staff Payables	5,165,783	-
Student Payables	14,022,890	185,559
Trade Payables	9,952,538	11,103,722
Retention Fee	5,017,732	26,664,211
Total	34,158,943	37,953,492

21. Refundable Deposits from Students

Caution Money	1,450,000	32,840
Medical funds	5,000,000	218,130
Welfare funds	359,200	-
Total	6,809,200	250,970

22. Deferred Income

Tuition fee	6,436,740	4,902,367
Accommodation fee	3,329,267	2,829,147
Total	9,766,007	7,731,513

23. Prepayments

VENDOR NAME	CONTRACT PERIOD	VALUE	REMARKS	PREPAYMENTS
BRITISH AMERICAN INSURANCE COMPANY(K) LTD.	1.03.2016 TO 28.02.17	5,809,760	Staff Medical Cover	3,873,174
BRITISH AMERICAN INSURANCE COMPANY(K) LTD.	22.04.2016 TO 21.04.17	1,051,236	Motor Vehicle Insurance	876,030
TOTAL				4,749,204

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24: The Construction Work in Progress of Ksh. 181,711,828 is in respect of Water Resource Centre, Mechanical Production Unit and Kitui Campus Fencing.

25. Board Expenses

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

26. Refundable Deposits from students

The Institute has had a liquidity challenge due to the failure by the parent ministry to disburse grants as per the printed estimates, in the financial year 2015/2016. This led the Institute not to honour some of her obligations including students' welfare funds, medical funds and caution money; hence the variance from the previous financial.

27. Comparatives

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

28. Capital commitments

Capital commitments this financial year are in respect of the following approved projects:

Commitments	Ksh
a) Construction of Water Resource Centre	87,000,000
b) Expansion in Campuses	120,000,000
Total	207,000,000

28. Currency

The Institute financial statements have been presented in Kenya shillings (Ksh)

29. Taxation:

The Institute major source of income comprises of government grants. In addition, the Institute is a non-commercial entity. The Institute is exempted from paying corporation taxes.

30. Government Grants:

The government grants are recognized when realized and spread throughout the financial year. Grants constitute 63.8% of the Institutes revenue.

31. Leave Pay:

The leave allowances are recognized when the employees take the leave. There exist no material outstanding leave allowances to warrant alternative treatment.

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32. Contingent liabilities:

The former Director Eng Mwalimu Musau has taken the Institute to court claiming damages of approximately Ksh. 39 Million for wrongful termination of employment. The case is pending determination in High court of Kenya.

33. 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.

34. RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial Risk Management

The institute is exposed to various risks in course of executing its mandate which include liquidity risk, credit risk and market risk. The Institute's risk policy focuses on mitigating the adverse effects in the event that the said risks crystallises.

The Governing Council 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.

(a) Liquidity risk

Liquidity risk is current or prospective risk that the Institute is unable to meet its short term obligation and long-term maturing obligations when they fall due. The Institute'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 Institute has a list of all liabilities and assets in maturity date order.

To mitigate this risk,

- i. The Institute has ensured that all revenues and government grants are timely collected and disbursed, through the finance function
- ii. There is a good working capital management where all payables are known and planned for safe for the real emergency once which is rare. This is managed through innovative entering into contracts that are negotiated to be paid 30 days after delivery or completion of the assignment

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- iii. For all trainings and consultancies, the customer pays deposits of 50% before the commencement of the assignment, while students pay their two thirds of their fees before admission
- iv. There Fidelity guarantee of officers handling cash and insurance of cash in the office and in transit

The table below shows cash flows on the Institute's current assets and liabilities

	Notes	2015/2016 Ksh.'000'	2014/2015 Ksh.'000'
Total Current Assets	14,15,16	137,679,499	207,797,979
Total Current Liabilities	20,21,22	51,081,088	46,473,577
Net current Asset		86,598,411	161,324,402
Liquidity ratio (Current ratio)		2.7	4.5

If the ratio is higher than one, it shows that the Institute is capable of paying its obligations as it has a larger proportion of its asset value relative to the value of its liabilities.

(b) Credit Risk

Credit risk is the risk of financial loss to the Institute, 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 Institute manages, limits and controls concentration of credit risks periodically against internal and regulatory requirements with respect to individual parties

- i. Salary advance and salary in advance to staff
- ii. Amounts due from customers' and government grants
- iii. Imprest accounting

The Institute 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.

To mitigate credit risk,

The Management is responsible for oversight of the Institute's credit risk through

- i. Ensuring compliance with regulatory and statutory requirements
- ii. Establishing approval to granting credit to students and customers

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FOR THE YEAR ENDED 30 JUNE 2016**35. PROGRESS REPORTS ON AUDITORS RECOMMENDATIONS**

No.	Issue	status	Way Forward
1	Ownership and Accuracy of the financial statements	The Institute has acquired title deed for its Kisumu campus and has registered with the Ministry of Lands to acquire other titles for other campuses The fixed assets' register is now in place	Still to acquire titles for other campuses
2	Receivables from Exchange Transactions	The Management is in the process of engaging the services of Debt collectors	To complete the procurement process

