

REPUBLIC OF KENYA



**KENYA NATIONAL AUDIT OFFICE**

PARLIAMENT  
OF KENYA  
LIBRARY

*Paper laid*  
*By Hon. A. Susie, Leader of*  
*the Majority Party on*  
*Wed. 19.08.2015 (PM)*  
*MMW*

**REPORT**

**OF**

TABLE OFFICE  
S/Nr.....  
19 AUG 2015  
Sign.....  
PAPER LAID

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
LAKE VICTORIA NORTH WATER  
SERVICES BOARD**

**FOR THE YEAR ENDED  
30 JUNE 2014**







---

**LAKE VICTORIA NORTH WATER SERVICES BOARD**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2014**

---

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



Table of Content

Page

- I. KEY BOARD INFORMATION AND MANAGEMENT..... ii
- II. THE BOARD OF DIRECTORS.....v
- III. MANAGEMENT TEAM.....vi
- IV. CHAIRMAN'S STATEMENT .....viii
- V. REPORT OF THE CHIEF EXECUTIVE OFFICER.....x
- VI. CORPORATE GOVERNANCE STATEMENT .....xii
- VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT .....xiv
- VIII. REPORT OF THE DIRECTORS .....xv
- IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES .....xvi
- X. REPORT OF THE INDEPENDENT AUDITORS ON THE *BOARD (LAKE VICTORIA NORTH WATER SERVICES BOARD)* ..... xvii
- XI. STATEMENT OF FINANCIAL PERFORMANCE..... 1
- XII. STATEMENT OF FINANCIAL POSITION ..... 2
- XIII. STATEMENT OF CHANGES IN NET ASSETS..... 2
- XIV. STATEMENT OF CASH FLOWS..... 4
- XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS ..... 5
- XVI. NOTES TO THE FINANCIAL STATEMENTS..... 6
- XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS..... 21



## **I. KEY BOARD INFORMATION AND MANAGEMENT**

### **(a) Background information**

Lake Victoria North Water Services Board (LVNWSB) is one of the eight Water Services Boards established under the Water Act 2002, as part of the reforms in the water sector. The Board was established vide gazette notice No. 1717 dated 12<sup>th</sup> March 2004. The mandate of the Board is to contract, monitor and enforce agreements between the Board and Water Service Providers in accordance with regulations set by the Water Services Regulatory Board; ensure effective and economical provision of water services; monitor and acquire assets; plan, manage and develop water and sewerage services; and take custody of water services provision assets. The Board became fully operational in January 2005.

Lake Victoria North Water Services Board covers the entire Bungoma county, Busia County, Vihiga County, Kakamega county, Trans Nzoia County, Uasin Gishu County, part of Markwet-Keiyo county and Nandi county. The total coverage of the districts in the area of the Board's mandate is 24,420 sq. kms, with population of 6,629,888 (2009 National Population Census).

### **(b) Principal Activities**

The core businesses as set out in its strategic plan are:

- (a) Plan, develop and manage water supply and sanitation assets.
- (b) Entering into service provision agreements with WSPs and monitoring their performance;
- (c) Supporting communities in the Board's area of responsibility, in the provision of water and sanitation.

#### **Vision**

To be the leading WSB in Kenya in the provision of accessible, adequate and quality water and sanitation services

#### **Mission**

To ensure sustainable provision of adequate, quality and affordable water and sanitation services.

#### **Core Values**

- (a) Good quality services; the board will endeavour to provide services that meet the expectations of its customers.
- (b) Good governance: the board will conduct its affairs in a transparent and accountable manner; and seek stakeholder participation in decision making process.

- (c) Transparency in staff employment: the board will at all times endeavour to appoint, reward and engage staff on merit basis.
- (d) Affirmative Gender Policy: the board will be an equal opportunity employer and will be sensitive to gender parity.
- (e) Teamwork and disciplined staff: the board will seek to have an organisation built on team work and high level of discipline.
- (f) Continuous learning: The board will be committed to continuous learning
- (g) Environmental Protection: The Board will remain a committed advocate of sustainable environment in all its dealings.

### (c) Key Management

The LVNWSB'S day-to-day management is under the following key organs:

- Board of Directors
- Finance and Administration committee
- Audit Committee
- Technical and Environment committee
- The management

### (d) Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2014 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	CEO	George Kwedho
2.	Chief Manager Finance Strategy	Anthony Kisaka
3.	Chief Manager Technical Services	Peter Ouma

### (e) Fiduciary Oversight Arrangements

Finance and general purpose Committee, whose main duties are: - to review financial statements and annual budgets; periodic review of staff remuneration and terms of service; appointments and disciplinary actions for senior staff; and general welfare of the Board's employees.

Audit Committee, whose main duty is to ensure that the systems of internal control are effective and complied with.

Technical Committee, whose focus is on issues arising from LVNWSB stewardship of essential water infrastructure and has a duty of reviewing the conditions and performance of technical assets including projects. The committee is also tasked with ensuring safeguarding the environment.

#### **Development partner oversight activities**

For projects funded by external development partners, quarterly reports are submitted. The funds are audited by external auditors appointed by the donors on an annual basis.

**(f) Board Headquarters**

Kenfinco Complex  
Kakamega-Kisumu Road  
P.O Box 673 - 50100  
**KAKAMEGA**

Tel: 254- 56-30795

Fax: 254-056-31506

E-mail: [info@lvnwsb.go.ke](mailto:info@lvnwsb.go.ke)

Website: [www.lvnwsb.go.ke](http://www.lvnwsb.go.ke)

**(g) Bankers**

Kenya Commercial Bank  
Kakamega Branch  
P.O Box 152 - 50100  
**KAKAMEGA**

Cooperative Bank  
Kakamega Branch  
P.O Box 595- 50100  
**KAKAMEGA**

Standard chartered bank  
Kakamega Branch  
PO BOX 292-50100  
**KAKAMEGA**

**(h) Independent Auditors**









Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084  
GOP 00100  
Nairobi, Kenya

**(i) Principal Legal Adviser**

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














**II. THE BOARD OF DIRECTORS**

<p>1. Director Beatrice Sabana (Chairman)</p> 	
<p>2. Lorna Kimaiga (Chairman, Audit &amp; Risk Committee)</p> 	
<p>3. Thomas Kiplagat Tuitoek Chairman, Finance &amp; Administration Committee</p> 	
<p>4. Eng. Andrew M. Makokha Chairman, Technical &amp; Environmental Committee</p> 	
<p>5. Joanne M. Tabuke Director</p> 	
<p>6. Prof. Catherine Muhoma Director</p> 	
<p>7. Michael Lugalia Director</p> 	
<p>8. Eng. Gatere Kuria Alt. Director, PS, State Department of Water Ministry of Environment, Water &amp; Natural Resources</p> 	<p>Alt. Director to Permanent Secretary Ministry of Finance</p>
<p>9. Charles Mutiso Alt. Director PS, National Treasury</p>	<p>Alt. Director to Permanent Secretary Ministry of Environment Water and Natural resources</p>

10. George Kwedho	Chief Executive Officer
-------------------	-------------------------

### III. MANAGEMENT TEAM

1. Dr. George Kwedho (PhD)		Chief Executive Officer
2. CPA Anthony C Kisaka		Chief Manager Finance & Strategy
3. Eng Peter Ouma		Chief Manager Technical Services
4. CPA Fredrick T Musungu		Manager Finance
5. Mr Peter Bett		Manager Procurement
6. Ms Naomi Jelimo		Manager Human Capital, Planning and Development
7. Ms Nelly Mkoko		Technical Manager Community Development
8. Mr Daniel Owino		Manager Corporate Affairs
9. Mr Christopher Bwire		Technical Manager Infrastructure Development
10. Mr Julius Nyang'or		Manager ICT
11. Mr Polycarp K Tindi		Manager Legal & Compliance

*Lake Victoria North Water Services Board*

12. Mr. Wellington Magoi	Manager Internal Audit
13. Mr Isaac Ruto	Technical Manager Water Services



#### IV. CHAIRMAN'S STATEMENT



I am pleased to present to you the Lake Victoria North Water Services Board Financial Report for the year ended 30<sup>th</sup> June 2014. This was indeed a very good year for the Board as is reflected in the ongoing infrastructural growth momentum, and progress made towards establishing LVNWSB as a critical player in the provision of water and sanitation services in the jurisdiction area of the Board as per the Water Act 2002.

The Lake Victoria North Water Services Board (LVNWSB) is one of the eight Water Service Boards established in March 2004, under the Water Act 2002, as part of the reforms in the water sector. The Board is responsible for the efficient and economical provision of water and sewerage services within eight counties, i.e. Bungoma, Kakamega, Vihiga, Busia, Uasin Gishu, Trans-Nzoia, and parts of Nandi and Elgeyo Marakwet counties.

In undertaking our activities as per the Board's mandate, we are guided by a five Strategic Plan for the period 2012 - 2017, the Water Act 2002 and the Constitution of Kenya 2010. The Constitution places water services provision function under the county governments, leaving Major infrastructural developments within the purview of the national government.

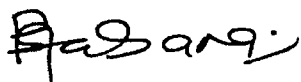
During the period under review, the Board continued intensify its infrastructural investments geared towards expanding service provision to our people in order to keep up with the growing demand for our services. The projects have been distributed evenly within the Board coverage area, with almost all the major towns having their supply systems either improved or new ones developed, resulting in close to one million new consumers who hitherto did not have access to the precious commodity now being guaranteed of regular and uninterrupted supply.

*Lake Victoria North Water Services Board*

Many water supplies, majorly implemented in various locations within the Board area under the Water and Sanitation Services improvement programme WaSSIP and financed by the World Bank and the Government of Kenya, were completed and operationalised. In addition, there were a number of small water supplies financed by the Water Services Trust Fund and UNICEF which were also operationalised during the period. The projects majorly target the rural population which apparently form the bulk of our stakeholders. This meant that more of our target population were accessed during the period.

The enormous success during the period under review as can be seen in the statement can be attributed to the sound management infrastructure existing at the Board. This can be attested by the recertification to the KEBS Quality Management and Environmental Management Systems ISO 9001:2008 and ISO 14001:2004 respectively. The Board has now embarked on the integration of the two systems to Integrated Management System, for more synergy and efficiency in the management of the Board's functions. The result of this will definitely be evident in the years to come.

I thank the Government of Kenya through the Ministry of Environment, Water and Natural resources for its support, Development partners and other stakeholders for their support and co-operation. Finally I thank the Board of Directors for their continued commitment and support for providing the necessary oversight that has steered LVNWSB in the right direction; the Management and staff for their dedication and hard work without which this exemplary performance could not have been achieved. I look forward to your continued support as we look forward to expanding the access adequate, quality, and affordable water and sanitation services within our area of service.



**Ms. Beatrice Sabana**

**Chairman**

**Lake Victoria North Water Services Board**

## V. REPORT OF THE CHIEF EXECUTIVE OFFICER



The year ending 30<sup>th</sup> June 2014 was one of the most successful ones in the history of the Lake Victoria North Water Services Board, as can be seen in this Financial Report.

This year saw the completion of the major water supply projects in various locations within the Board area. Majority of these projects were implemented under the Nzoia Cluster Phase III of the Long Term Water and Sanitation improvement programme, implemented with financial support from the World Bank and the Government of Kenya through the Ministry of Environment, Water and Natural Resources.

Some of the projects which were completed and operationalised during the year ending 30<sup>th</sup> June, 2014 include: Water and Sanitation Supplies in Lumakanda, Kipkaren, Lessos and Expansion Eldoret Water Supply and in Uasin Gishu County; Kapcherop and Kapsowar Water Supplies in Elgeyo Marakwet County; Kaimosi, Jeptulu, Serem, Mbale and Vihiga in Vihiga County. The Mumias Water Supply which has now been completed and is in operation was in the final stages to completion by the close of the financial year.

With majority of the major towns now covered, we have now embarked on the small and upcoming growth urban centres. Our strategic plan now gives more attention to these towns and we are constantly sourcing for partnerships with our development partners to roll them out as soon as funds become available.

During the same period, the Board completed several small water supply schemes and point sources appropriate for supply in the rural areas with financial support from the Water Services Trust Fund, Unicef, Danida, and the Government of Kenya. These projects have had remarkable impact on the livelihoods of the beneficiaries.



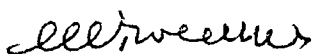
*Lake Victoria North Water Services Board*

With regard to provision of water and sanitation services, the Board has contracted Water service provision agents as provided for in the Water Act 2002, to undertake the actual provision of water and sanitation services. The main providers include: Nzoia Water Services Company Ltd; the Kakamega Busia Water Supply; the Amatsi Water Services Company Ltd; Eldoret Water and Sanitation Company Ltd; and Kapsabet Nandi Water and Sanitation Company. The five Water Service Providers manage over 17 main water supply schemes serving the major urban centers. The other schemes are operated by Interim Water Service Providers (DWOs) 25; Community Water Supplies 145; and 79 Institutional Water Supplies.

Looking forward, the board recently launched a five year strategic plan for 2012-2017. The plan presents strategic direction for the attainment of the Board's mandate. In the years to come, the Board targets to systematically increase water and sewerage coverage to 75% and 60% respectively.

In order to achieve this, the Board has lined up a number of projects for implementation in future. These include: Kipkarren Dam, Elligirini Dam, Funyula, Sio Port, Port Victoria, Butere, Musanda, Navakholo Rehabilitation of Mbale, Kaimosi and Maseno, Malaba Malakisi, Greater Lessos, Teldet Sosoi, Cherangani, Chesumei Yala, Mosongo and Kamoi Water Projects. We are privileged to have already identified some development partners to help us roll out some of the projects, including the World Bank, which is extending its funding to us under WaSSIP Additional Financing, the Korean and the Belgium governments.

The Board will continue to work in partnership with all stakeholders to ensure that the goals and aspirations set out in the Board's strategic plan and constitution are achieved in an efficient and prudent manner.



**George Kwedho**

**Chief Executive Officer**

**Lake Victoria North Water Services Board**

## **VI. CORPORATE GOVERNANCE STATEMENT**

The Lake Victoria North Water Services Board is committed to the values and principles of good corporate governance. The Board of Directors and Management of the Board regard corporate governance as pivotal to the success of the Board and are committed to ensuring that the Board adheres to the highest standards of conduct and accountability in accordance with the best practice and principles of corporate governance. These principles are applied throughout all levels of the corporation.

### **The Role of the Board**

The role of the board of Directors is to set the policy and strategy, to monitor the attainment of board's objectives and to ensure that the Board meets its obligations to stakeholders. The Directors are also responsible for overseeing the Board's assets and ensure the reliability of financial information used within the corporation. The Directors are also responsible for overseeing the Board's internal control system. These controls are designed both to safeguard the Board's assets and ensure reliability of financial information used within the corporation's business.

### **Board Committees**

In line with guidelines issued by the Government, the board has delegated its authority to committees to deal with specific aspects of its responsibilities. These committees have specific terms of reference and reports to the full Board meeting. LVNWSB has the following Board committees:-

1. Finance and general purpose Committee, whose main duties are: - to review financial statements and annual budgets; periodic review of staff remuneration and terms of service; appointments and disciplinary actions for senior staff; and general welfare of the Board's employees.
2. Audit Committee, whose main duty is to ensure that the systems of internal control are effective and complied with.
3. Technical Committee, whose focus is on issues arising from LVNWSB stewardship of essential water infrastructure and has a duty of reviewing the conditions and performance of technical assets including projects. The committee is also tasked with ensuring safeguarding the environment.

### **Meetings of the Board**

The Board of Directors and Board committees met at least four times during the year.

### **Organisation Structure**

Lake Victoria North Water Services Board has a clearly defined organisation structure within which individual responsibilities are identified in relation to internal financial controls. The structure is complimented by policies and management operates the business in compliance with these policies.

*Lake Victoria North Water Services Board*

**Management Team**

The Chief Executive Officer chairs the Management team which comprises heads of department and other senior staff. The team deals with operation matters and coordinates activities across the boards various departments/divisions, water schemes and water services providers.

## VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Lake Victoria North Water Services Board recognizes its obligations to act responsibly, ethically and with integrity in its dealings with staff, customers, neighbours and the environment as a whole.

To this end: -

1. The Board minimizes health and safety risks to staff and visitors through the implementation and adherence to Work place occupational safety and health policy and the Government of Kenya's OHSAS 18001:2007.
2. The Board has a separate environmental policy statement clarifying its commitment to delivering a net positive impact on the environment.
3. The Board is proud that its management is recognized through ISO9001 and ISO14001; The Board is certified to the ISO 9001:2008 and ISO 14001:2008.
4. The Board has established a Corporate Social Responsibility budget line within its annual budget through which it supports its social responsibility objectives.
5. The Board donates water tanks, buckets, mosquito nets and sanitary equipment to promote sustainability mainly in institutions of the disadvantaged including orphanages, homes for the old and special needs schools.
6. The Board undertakes annual health and safety workplace audits



## VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2014 which show the state of the *LVNWSB's* affairs.

### Principal activities

The mandate of the LVNWSB is to provide water and sewerage services in the eight counties under its jurisdiction. The principal activities are to contract water service providers (WSPs), asset development and maintenance.

### Results

The results of the Board for the year ended June 30, 2014 are set out on page

**Kshs**

Surplus/(Deficit) before depreciation and finance costs	3,903,912
Less: Depreciation	<u>(232,269,357)</u>
Surplus/(Deficit) before finance costs	(228,365,445)
Net Finance costs	-
Net surplus/(Deficit) for the period	<u>(228,365,445)</u>

### Net deficit for the period

The Board registered a Deficit of **Ksh. 228,365,445** during the year.

### Directors

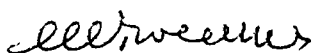
The members of the Board of Directors who served during the year are shown on page V. No Board members retired during the financial year.

### Auditors

The Auditor General is responsible for the statutory audit of the *Board* in accordance with the Section 68 of the Public Finance Management (PFM) Act, 2012.

Auditor General to carry out the audit of the *LVNWSB* for the year/period ended June 30, 2014.

By Order of the Board



**Chief Executive Officer**

Date: 26th September, 2014

## IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 68 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act 446, require the Directors to prepare financial statements in respect of the *LVNWSB*, which give a true and fair view of the state of affairs of the *LVNWSB* at the end of the financial year/period and the operating results of the *LVNWSB* for that year/period. The Directors are also required to ensure that the *LVNWSB* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *LVNWSB*. The Directors are also responsible for safeguarding the assets of the *LVNWSB*.

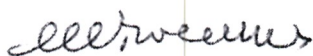
The Directors are responsible for the preparation and presentation of the *LVNWSB*'s financial statements, which give a true and fair view of the state of affairs of the *LVNWSB* for and as at the end of the financial year (period) ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Board; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *LVNWSB*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *LVNWSB*'s financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the *LVNWSB*'s financial statements give a true and fair view of the state of *LVNWSB*'s transactions during the financial year ended June 30, 2014, and of the *LVNWSB*'s financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *LVNWSB*, which have been relied upon in the preparation of the *LVNWSB*'s financial statements as well as the adequacy of the systems of internal financial control.

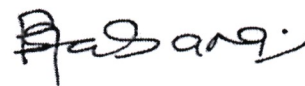
Nothing has come to the attention of the Directors to indicate that the *LVNWSB* will not remain a going concern for at least the next twelve months from the date of this statement.

### Approval of the financial statements

The *Board's* financial statements were approved by the Board on 26<sup>th</sup> September, 2014 and signed on its behalf by:



Director



Director



# REPUBLIC OF KENYA

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

P.O. Box 30084-00100  
NAIROBI



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON LAKE VICTORIA NORTH WATER SERVICES BOARD FOR THE YEAR ENDED 30 JUNE 2014

#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Lake Victoria North Water Services Board set out on pages 1-21 which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement accumulated funds and statement of cash flows 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 14 of the Public Audit Act, 2003. 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**

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards 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 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on the financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with the International Standards on Auditing. 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 risks 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 circumstances, but not for the purpose of expressing



an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of 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 Qualification Opinion**

#### **Non-Current Assets**

As similarly reported in 2012/2013, the Board inherited Non-Current Assets of undetermined value previously owned by the Ministry of Water and Irrigations and National Water Conservation and Pipeline Corporation in respect of water distribution infrastructure which have not been incorporated in these financial statements. This situation is indicative of significant impairment on some of the properties.

Consequently, in light of the above paragraph, it is not possible to confirm whether the carrying values as stated in the financial statements reflect the fair values of the properties as at the statement of financial position date.

#### **Qualified Opinion**

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Lake Victoria North Water Services Board as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards and comply with the Water Act, 2002.

#### **Other Matter**

#### **Financial Performance**

The statement of receipts and payments reflects a deficit for the year ended 30 June 2014 of Kshs.228,365,445 (2013: Deficit of Kshs.214,226,831). The Board's performance is therefore declining over the years. Management has not indicated steps being taken to address this anomaly.

In the circumstance, the negative performance of the Board may affect service delivery to the public. My opinion is not qualified in respect to this matter.

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

**Nairobi**

**16 July 2015**



*Lake Victoria North Water Services Board*

**X. STATEMENT OF FINANCIAL PERFORMANCE**  
**For the year ended 30 June 2014**

	Note	2013-2014 Kshs	2012-2013 Kshs
<b>Revenue from non-exchange transactions</b>			
Transfers from other Governments-gifts and services-in-kind	3	69,587,832	88,389,877
Levy Income from WSPs	4	83,153,070	129,138,572
		<b>152,740,902</b>	<b>217,528,449</b>
<b>Revenue from exchange transactions</b>			
Other Income	5	8,640,461	5,327,199
Finance Income	6	16,072,515	1,802,336
		<b>24,712,976</b>	<b>7,129,535</b>
<b>Total revenue</b>		<b>177,453,878</b>	<b>224,657,984</b>
<b>Expenses</b>			
Employee costs	8	63,554,367	65,181,508
Remuneration of Directors	9	10,767,190	11,674,338
Depreciation and amortization expense	10	232,269,357	233,287,967
Repairs and maintenance	11	9,958,564	8,523,220
Supply and services	12	7,575,826	8,733,473
Transport Costs	13	5,515,685	5,720,725
Kazi Kwa Vijana	14	-	459,500
General expenses	15	26,358,283	22,426,824
Rural water supply Development	17	49,820,050	82,877,260
<b>Total expenses</b>		<b>405,819,323</b>	<b>438,884,815</b>
<b>Other gains/(losses)</b>			
Gain on sale of assets		-	-
Gain on foreign exchange transactions		-	-
Unrealized gain on fair value of investments		-	-
Impairment loss		-	-
<b>Surplus before tax</b>		<b>(228,365,445)</b>	<b>(214,226,831)</b>
Taxation		-	-
<b>Surplus for the period</b>		<b>(228,365,445)</b>	<b>(214,226,831)</b>

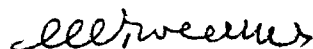
The notes set out on pages 6 to 20 form an integral part of the Financial Statements



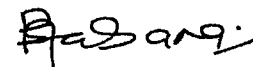
**XII. STATEMENT OF FINANCIAL POSITION**  
**As at 30 June 2014**

	Note	2013-2014 Kshs	2012-2013 Kshs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	18	464,690,800	602,273,991
Receivables from exchange transactions	19	281,870,844	238,430,288
Receivables from non-exchange transactions	20	26,716,669	23,027,937
Inventories	21	676,529	621,527
		<b>773,954,841</b>	<b>864,353,743</b>
<b>Non-current assets</b>			
Property, plant and equipment	22	6,402,462,862	6,615,660,234
Capital Works In Progress	23	4,215,395,935	3,361,745,876
		<b>10,617,858,797</b>	<b>9,977,406,110</b>
<b>Total assets</b>		<b>11,391,813,638</b>	<b>10,841,759,853</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	24	183,750,493	337,147,893
Provisions	25	5,112,802	5,112,802
Deferred income	26	41,226,294	77,116,594
Employee benefit obligation	27	3,933,665	2,669,100
Taxation	28	5,817,134	5,276,612
		<b>239,840,387</b>	<b>427,323,001</b>
<b>Non-current liabilities</b>			
Borrowings	29	9,911,046,170	9,288,472,212
		<b>9,911,046,170</b>	<b>9,288,472,212</b>
<b>Total liabilities</b>		<b>10,150,886,557</b>	<b>9,715,795,213</b>
<b>Net assets</b>			
Reserves		<b>1,240,927,081</b>	<b>1,125,964,640</b>
Accumulated surplus/deficit		1,684,777,118	1,341,449,232
		<b>(443,850,037)</b>	<b>(215,484,592)</b>
<b>Total net assets and liabilities</b>		<b>1,240,927,081</b>	<b>1,125,964,640</b>

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



Chief Executive Officer  
 26<sup>th</sup> September, 2014



Chairman of the Board  
 26<sup>th</sup> September, 2014

**II. STATEMENT OF CHANGES IN NET ASSETS**  
**For the year ended 30 June 2014**

	Grants Kshs '000	Capital replacement development reserve Kshs '000	Grants KIDDP Kshs '000	Grants KFW Kshs '000	Accumulated surplus Kshs '000	Grants GOK Kshs '000	Total Kshs '000
<b>Balance as at 30 JUNE 2012</b>	25,924,938		141,284,011	221,783,948	(4,164,807)	749,691,923	1,134,520,013
Transfers to/from during the period	-	-	-	-	-	-	-
Prior year Adjustment	-	45,764,413	-	-	2,907,045	157,000,000	202,764,413
Surplus/(deficit) for the period	-	-	-	-	-	-	2,907,045
<b>Balance as at 30 JUNE 2013</b>	25,924,938		187,048,424	221,783,948	(214,226,830)	906,691,923	(214,226,830)
Transfers to/from during the period	-	-	-	-	-	343,327,886	343,327,886
Surplus for the period	-	-	-	-	-	-	-
Transfers to/from accumulated surplus	-	-	-	-	(228,365,445)	-	(228,365,445)
<b>Balance as at 30 JUNE 2014</b>	25,924,938		187,048,424	221,783,948	(443,850,037)	1,250,019,809	1,240,927,082

IV., STATEMENT OF CASH FLOWS

	Note	2013-2014 Kshs	2012-2013 Kshs
<b>Cash flows from operating activities</b>			
Excess of income over Expenditure		(228,365,445)	(214,226,830)
Adjustment Depreciation		232,269,357	233,287,967
<b>Operating Surplus</b>		<b>3,903,912</b>	<b>19,061,137</b>
Increase in debtors		(47,129,287)	372,751,801
Increase in stores		(55,002)	(40,691)
Decrease in Creditors		(187,487,614)	73,500,944
<b>Net working capital</b>		<b>(234,671,903)</b>	<b>446,212,054</b>
<b>Net Cash flows from operating activities</b>		<b>(230,767,991)</b>	<b>465,273,191</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment and intangible assets		(872,722,044)	(1,420,605,494)
Proceeds from sale of property, plant and equipment		-	-
Decrease in non-current receivables		-	-
Increase in investments		-	-
<b>Net cash flows used in investing activities</b>		<b>(872,722,044)</b>	<b>(1,420,605,494)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		622,573,958	850,797,161
Repayment of borrowings		-	-
Increase in deposits		343,327,886	201,317,163
<b>Net cash flows used in financing activities</b>		<b>965,901,844</b>	<b>1,052,114,324</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(137,583,191)</b>	<b>96,782,021</b>
Cash and cash equivalents at 1 JULY	18	602,273,991	505,491,970
<b>Cash and cash equivalents at 30 JUNE</b>	<b>18</b>	<b>464,690,800</b>	<b>602,273,991</b>

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget 2013-2014 Kshs '000	Adjustments 2013-2014 Kshs '000	Final budget 2013-2014 Kshs '000	Actual on comparable basis 2013-2014 Kshs '000	Performance difference 2013-2014 Kshs '000
<b>Revenue</b>					
Government Grants	30,000,000	(7,500,000)	22,500,000	22,500,000	-
WSTF Grants	3,000,000	-	3,000,000	1,717,970	(1,282,030)
UNICEF Grants	70,221,100	-	70,221,100	9,479,561	(60,741,539)
Other Revenues	3,000,000	-	3,000,000	8,640,461	5,640,461
Levy Income from WSPs	116,060,600	(32,930,399)	83,130,201	83,153,070	22,870
Interest Income	3,000,000	-	3,000,000	16,072,515	13,072,515
<b>Total income</b>	<b>225,281,700</b>	<b>(40,430,399)</b>	<b>184,851,301</b>	<b>141,563,578</b>	<b>(43,287,723)</b>
<b>Expenses</b>					
Employee costs	84,762,887	-	84,762,887	63,554,367	21,208,520
Remuneration of Directors	12,469,937	-	10,516,000	10,767,190	(251,190)
Repairs and maintenance	11,264,604	-	11,264,604	9,958,564	1,306,040
Supply and services	17,558,084	-	17,558,084	7,575,826	9,982,258
Transport Costs	6,392,584	-	6,392,584	5,515,685	876,899
General expenses	26,365,516	-	26,365,516	26,358,283	7,233
Rural water supply Development	73,221,100	-	73,221,100	49,820,050	23,401,050
<b>Total expenditure</b>	<b>232,034,712</b>	<b>-</b>	<b>230,080,775</b>	<b>173,549,966</b>	<b>56,530,809</b>
<b>Surplus for the period</b>	<b>(6,753,012)</b>	<b>(40,430,399)</b>	<b>(45,229,474)</b>	<b>(31,986,388)</b>	<b>(99,818,532)</b>

## **XVI. NOTES TO THE FINANCIAL STATEMENTS**

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

The Board's 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 Board and all values are rounded to the nearest thousand (Ksh000). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

The Public Finance Management (PFM) Act 2012 Section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for state organs operating as Commercial Business Entities and The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, the Lake Victoria North Water Services Board has adopted the pronouncements made by the IPSAS board in preparation of its current year financial statements.

### **2. Summary of significant accounting policies**

#### **a) Revenue recognition**

##### **i) Revenue from non-exchange transactions – IPSAS 23**

#### **Fees, taxes and fines**

The Board recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Board and the fair value of the asset can be measured reliably.

#### **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 Board and can be measured reliably.

##### **ii) Revenue from exchange transactions – IPSAS 9**

#### ***Rendering of services***

The Board recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.



## ***Lake Victoria North Water Services Board***

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

### ***Sale of goods***

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Board.

### ***Interest income***

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

### ***Rental income***

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

## **b) Budget information – IPSAS 24**

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Board. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Board differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

## **d) Investment property – IPSAS 16**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

## **e) Property, plant and equipment – IPSAS 17**

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 Board recognizes such parts as individual assets with specific useful lives and 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.

**f) Leases – IPSAS 13**

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Board. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Board also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Board will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Board. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

**g) Intangible assets – IPSAS 31**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

**i) Research and development costs**

The Board expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Board can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

## *Lake Victoria North Water Services Board*

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

### **h) Financial instruments – IPSAS 29**

#### *Financial assets*

##### *Initial recognition and measurement*

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Board determines the classification of its financial assets at initial recognition.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

##### *Held-to-maturity*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Board has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

##### *Impairment of financial assets*

The Board assesses at each reporting date whether there is objective evidence that a financial asset or a Board of financial assets is impaired. A financial asset or a Board of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Board of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a Board of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

**ii) Financial liabilities**

***Initial recognition and measurement***

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Board determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

***Loans and borrowing***

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

**IPSAS 29.65**

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

**i) Inventories – IPSAS 12**

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 Board.

**j) Provisions – IPSAS 19**

Provisions are recognized when the Board has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

## ***Lake Victoria North Water Services Board***

Where the Board expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

### ***Contingent liabilities***

The Board does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

### ***Contingent assets***

The Board does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Board in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

### **k) Nature and purpose of reserves**

The Board creates and maintains reserves in terms of specific requirements. Board to state the reserves maintained and appropriate policies adopted.

### **l) Changes in accounting policies and estimates – IPSAS 3**

The Board recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

### **m) Employee benefits – IPSAS 25**

#### **Retirement benefit plans**

The Board provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an Board pays fixed contributions into a separate Board (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.



**n) Foreign currency transactions – IPSAS 4**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

**o) Borrowing costs – IPSAS 5**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

**p) Related parties – IPSAS 20**

The Board 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 Board, or vice versa. Members of key management are regarded as related parties and comprise the Board of Directors, CEO, Chief managers.

**q) Service concession arrangements – IPSAS 32**

The Board analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Board recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Board also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

**r) 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.

**s) Comparative figures**

## ***Lake Victoria North Water Services Board***

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

### **t) Significant judgments and sources of estimation uncertainty – IPSAS 1**

The preparation of the Board'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 Board 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 Board. 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:

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

#### ***Provisions***

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 36.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Assumptions were used in determining the provision for rehabilitation of landfill sites. Landfill areas are

rehabilitated over years and the assumption was made that the areas stay the same in size for a number of years.

Provision is made for the estimated cost to be incurred on the long-term environmental obligations, comprising expenditure on pollution control and closure over the estimated life of the landfill. The provision is based on the advice and judgment of qualified engineers.



The estimates are discounted at a pre-tax discount rate that reflect current market assessments of the time value of money.

The increase in the rehabilitation provision due to passage of time is recognized as finance cost in the statement of financial performance.

The cost of ongoing programs to prevent and control pollution and rehabilitate the environment is recognized as an expense when incurred.

**u) Subsequent events – IPSAS 14**

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, 2014.

**3. Transfers from other Governments-gifts and services-in-kind**

**Unconditional Grants**

**Government Grants**

	<b>2014</b>	<b>2013</b>
<b>Actual</b>	<b>Shs 000</b>	<b>Shs 000</b>
Recurrent	22,500,000	27,400,000
Development	35,890,300	-
<b>Total Government Grants</b>	<b>58,390,300</b>	<b>27,400,000</b>

**Conditional Grants**

**Rural Water Supply Development Grants**

	<b>2014</b>	<b>2013</b>
	<b>Shs 000</b>	<b>Shs 000</b>
KWSP	1,717,970	1,418,794
UNICEF	9,479,561	59,571,083
<b>Total</b>	<b>11,197,532</b>	<b>60,989,877</b>
<b>Total Government grants and subsidies</b>	<b>69,587,832</b>	<b>88,389,877</b>

**4. Levy Income from WSPs**

	<b>2014</b>	<b>2013</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Billed revenue from WSPs	83,153,070	129,138,572
<b>Total transfers and sponsorships</b>	<b>83,153,070</b>	<b>129,138,572</b>

**5. Other Income**

	<b>2014</b>	<b>2013</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Sale of tenders, Water bowsers services & Other income	8,640,461	5,327,199
<b>Total</b>	<b>8,640,461</b>	<b>5,327,199</b>

**6. Finance Income**

	<b>2014</b>	<b>2013</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Interest from WaSSIP funds	16,072,515	1,802,336
<b>Total revenue from the sale of goods</b>	<b>16,072,515</b>	<b>1,802,336</b>

*Lake Victoria North Water Services Board*

**8. Employee costs**

	<b>2014</b>	<b>2013</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Basic salary and house allowance	45,803,682	41,962,028
Other allowances	2,479,600	2,224,739
Staff recruitment expenses	722,925	2,341,212
Staff welfare expenses	591,432	657,129
Commuter allowance	4,969,428	5,094,000
Medical allowance/expenses	1,728,609	4,887,710
Contributions to pensions/NSSF	5,994,811	5,713,998
Leave allowance&Accrued leave expense	1,263,880	1,595,508
Group life insurance/Personal accident cover	-	705,184
<b>Employee costs</b>	<b>63,554,367</b>	<b>65,181,508</b>

**9. Remuneration of directors**

	<b>2014</b>	<b>2013</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Board committee & conference	9,807,190	10,714,338
Honoraria for chairman	960,000	960,000
<b>Total Board remuneration</b>	<b>10,767,190</b>	<b>11,674,338</b>

**10. Depreciation and amortization expense**

	<b>2014</b>	<b>2013</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Furniture, Office equipment and fittings	175,448	410,270
Computers and related equipments	469,028	292,609
Motor Vehicles	13,249,125	14,576,374
Plant, Machinery and equipments	31,024,874	31,024,874
Water supply infrastructure	187,350,882	186,983,841
<b>Total depreciation and amortization</b>	<b>232,269,357</b>	<b>233,287,967</b>

**11. Repairs and maintenance**

	<b>2014</b>	<b>2013</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Laboratory/quality control expenses	1,105,073	132,577
Maintenance of equipments	91,395	186,043
Minor alteration to building	41,050	412,065
Maintenance of water supplies	51,100	139,265
Maintenance of computers	253,845	-
Electricity expenses-Interim WSPs	3,605,718	3,065,281
Operations and Maintenance - Kapsabet	313,648	-
Transport operating costs-Hire of transport	-	-
Monitoring and evaluation	3,802,917	2,747,325
Support to water service providers	693,818	1,840,664
<b>Total repairs and maintenance</b>	<b>9,958,564</b>	<b>8,523,220</b>

**12. Supplies and Services**

## Lake Victoria North Water Services Board

	2014	2013
	Shs 000	Shs 000
Advertisement and publicity	59,000	26,000
Computers stationery and accessories	1,350,412	984,346
Courier and postal services	252,054	244,410
General office supplies	1,338,976	1,686,980
Internet connections/ICT Expenses	1,728,661	1,152,496
Legal and professional services	1,120,200	2,802,409
Hospitality supplies & services	119,000	433,532
Professional subscriptions and membership		
Publishing & printing services	55,120	42,050
Purchase of uniforms	-	-
Sanitary and cleaning materials	16,340	11,319
Subscription to newspapers	388,720	480,227
Telephone, Fax and mobile phones	110,661	128,299
Tender/Seek quotations	1,036,682	741,406
<b>Total contracted services</b>	<b>7,575,826</b>	<b>8,733,473</b>

### 13. Transport Costs

	2014	2013
	Shs 000	Shs 000
Transport operating costs-MV Maintenance	3,125,091	3,947,700
Motor vehicle insurance	1,342,557	400,381
Fuels and oils for motor vehicle	1,048,037	1,372,644
<b>Total grants and subsidies</b>	<b>5,515,685</b>	<b>5,720,725</b>

### 14. Kazi Kwa Vijana

	2014	2013
	Shs 000	Shs 000
Kazi Kwa Vijana	-	459,500
<b>Total</b>	<b>-</b>	<b>459,500</b>

### 15. General Expenses

	2014	2013
	Shs 000	Shs 000
Electricity&	1,003,034	612,517
Trade shows & exhibitions	95,210	72,000
National Celebrations	152,900	38,795
Training expenses	3,651,392	1,487,205
Workshops and meeting expenses	4,157,298	1,812,627
Contracted guards & cleaning services	1,244,050	1,172,654
Corporate social responsinbilty,publicity	1,109,820	26,280
Library	-	13,650
Audit and accountancy	142,760	225,500
Staff travel and accommodations	6,832,962	3,463,011
Board establishment costs	-	1,273,950
Board Capacity Development	229,055	2,523,092
Reserch and development	89,640	237,010
ISO Preparation and acquisition expenses	1,360,696	960,601
Work environment survey/safety	1,036,120	176,440
Adjustment on provisions of debtors	4,914,189	8,032,668
Bank Charges	261,407	298,824

## Lake Victoria North Water Services Board

HIV/AIDs Sensitisation programmes

Total general expenses

	77,750	-
	<u>26,358,283</u>	<u>22,426,824</u>

### 17. Rural water supply Development

Rural water supply development-KWSP  
 Rehabilitation of water supplies-UNICEF Funded  
 Rehabilitation of water supplies  
 Support WSP-rehabilitation of water supplies, Meters  
 Design and supervision - Nzoia Cluster III  
**Total**

	2014	2013
Shs 000	Shs 000	Shs 000
Rural water supply development-KWSP	2,310,343	3,037,513
Rehabilitation of water supplies-UNICEF Funded	44,126,645	76,634,698
Rehabilitation of water supplies	-	1,557,477
Support WSP-rehabilitation of water supplies, Meters	2,328,158	678,818
Design and supervision - Nzoia Cluster III	1,054,904	968,754
<b>Total</b>	<u>49,820,050</u>	<u>82,877,260</u>

### 18. Cash and cash equivalents

Bank  
 Cash-on-hand and in transit  
 Short-term deposits  
**Total cash and cash equivalents**

	2014	2013
Shs 000	Shs 000	Shs 000
Bank	464,690,800	602,273,991
Cash-on-hand and in transit	-	-
Short-term deposits	-	-
<b>Total cash and cash equivalents</b>	<u>464,690,800</u>	<u>602,273,991</u>

### 19. Receivables from exchange transactions

Current receivables

WSP Debtors

**Total current receivables**

Non-current receivables

**Total non-current receivables**

**Total receivables**

	2014	2013
Shs 000	Shs 000	Shs 000
WSP Debtors	281,870,844	238,430,288
<b>Total current receivables</b>	<u>281,870,844</u>	<u>238,430,288</u>
Non-current receivables	-	-
<b>Total non-current receivables</b>	<u>-</u>	<u>-</u>
<b>Total receivables</b>	<u>281,870,844</u>	<u>238,430,288</u>

### 20. Receivables from non-exchange contracts

Current receivables

Imprest due from staff

Salary Advances

Staff/contractor Debtors -WaSSIP-Account

WSP Debtors -Wassip support-current

Contractor Debtors - KIDDP and Unicef

Due from Amatsi Water Company

**Total current receivables**

	2014	2013
Shs 000	Shs 000	Shs 000
Imprest due from staff	1,792,380	2,298,948
Salary Advances	1,499,144	1,824,127
Staff/contractor Debtors -WaSSIP-Account	7,868,000	920,145
WSP Debtors -Wassip support-current	12,321,000	12,321,000
Contractor Debtors - KIDDP and Unicef	2,448,997	4,789,108
Due from Amatsi Water Company	787,147	874,608
<b>Total current receivables</b>	<u>26,716,669</u>	<u>23,027,936</u>

### 21. Inventories

Consumable stores

**Total inventories at the lower of cost and net realizable value**

	2014	2013
Shs 000	Shs 000	Shs 000
Consumable stores	676,529	621,527
<b>Total inventories at the lower of cost and net realizable value</b>	<u>676,529</u>	<u>621,527</u>



**Lake Victoria North Water Services Board**

22 Property, Plant and Equipments	Furniture office equipment&fittings 12.5%	Computer &Accessories 33.3%	Motor Vehicle 25%	Plant, Machinery & Equipment 20%	Water Supply Infrastructure 2.5%	Land and Buildings	Total
<b>Cost or Valuation</b>							
As at June 30,2012	4,328,256	8,195,751	61,134,216	161,135,116	6,566,082,440	222,245,323	7,023,121,102
Additions at cost	712,831	83,971,550	6,138,605				90,822,986
<b>As at June 30,2013</b>	<b>4,328,256</b>	<b>8,908,582</b>	<b>67,272,821</b>	<b>161,135,116</b>	<b>6,650,053,989</b>	<b>222,245,323</b>	<b>7,113,944,088</b>
<b>Depreciation</b>							
Balance as at June 30,2012	3,614,669	8,085,113	26,438,201	37,035,618	169,089,794	20,732,491	267,902,931
Charge for the year	410,270	292,609	14,576,374	31,024,874	166,251,350	20,732,491	233,287,967
Disposals							0
<b>Balance as at June 30,2013</b>	<b>4,024,939</b>	<b>8,377,722</b>	<b>41,014,574</b>	<b>68,060,493</b>	<b>335,341,144</b>	<b>41,464,982</b>	<b>498,283,854</b>
<b>Net book Values</b>							
As at June 30,2012	713,587	113,413	31,786,195	124,099,498	6,396,992,646	201,512,832	6,755,218,171
As at June 30,2013	303,317	530,861	26,258,246	93,074,623	6,314,712,845	180,780,342	6,615,660,234
<b>22 Property, Plant and Equipments</b>	<b>Furniture office equipment&amp;fittings 12.5%</b>	<b>Computer &amp;Accessories 33.3%</b>	<b>Motor Vehicle 25%</b>	<b>Plant, Machinery &amp; Equipment 20%</b>	<b>Water Supply Infrastructure 2.5%</b>	<b>Land and Buildings</b>	<b>Total</b>
<b>Cost or Valuation</b>							
As at1st July 30,2013	4,328,256	8,908,582	67,272,821	161,135,116	6,650,053,989	222,245,323	7,113,944,088
Additions at cost	234,895	529,788	480,000		14,938,390	3,000,000	19,183,072
As at June 30,2014	4,563,151	9,438,370	67,752,821	161,135,116	6,664,992,379	225,245,323	7,133,127,160
<b>Depreciation</b>							
Balance as at1st July 30,2013	4,024,939	8,377,722	41,014,574	68,060,493	335,452,232	41,464,982	498,394,942
Charge for the year	175,448	469,028	13,249,125	31,024,874	166,618,391	20,732,491	232,269,357
Disposals							0
<b>Balance as at June 30,2014</b>	<b>4,200,387</b>	<b>8,846,750</b>	<b>54,263,699</b>	<b>99,085,367</b>	<b>502,070,622</b>	<b>62,197,473</b>	<b>730,664,298</b>
<b>Net book Values</b>							
As at June 30,2013	303,317	530,861	26,258,246	93,074,623	6,314,712,845	180,780,342	6,615,660,234
As at June 30,2014	362,764	591,619	13,489,122	62,049,749	6,162,921,757	163,047,850	6,402,462,862

## Lake Victoria North Water Services Board

### 22. Property, Plant and Equipments continued

LVNWSB inherited non-current assets of owned by Ministry of Water and Irrigation and National Water Conservation and Pipeline Corporation in respect of water distribution infrastructure, these assets have not been included into these financial statements because no ownership documents have been passed over to LVNWSB. The estimated value of the omitted assets according to a valuation done in December 2013 is as follows;

	<b>Shs 000</b>
Valuation report	11,146,562,882
Financial Statements-Property, Plant and Equipment Omitted	(6,402,462,862)
	<b>4,744,100,020</b>

### 23. Capital Works In Progress

	<b>2014</b>	<b>2013</b>
	<b>Shs 000</b>	<b>Shs 000</b>
<b>WaSSIP</b>		
Balance at the beginning of the year	3,182,078,234	1,895,956,502
Additional during the year	803,948,747	1,286,121,732
<b>Balance as at 30 June 2014</b>	<b>3,986,026,981</b>	<b>3,182,078,234</b>
<b>KIDDP</b>		
Balance at the beginning of the year	179,667,642	136,006,866
Additional during the year	25,242,904	43,660,776
<b>Balance as at 30 June 2014</b>	<b>204,910,546</b>	<b>179,667,642</b>
<b>Pans &amp; Dams</b>		
Balance at the beginning of the year	-	-
Additional during the year	23,092,120	-
<b>Balance as at 30 June 2014</b>	<b>23,092,120</b>	<b>-</b>
<b>Total Capital Works In Progress</b>	<b>4,215,395,935</b>	<b>3,361,745,876</b>

### 24. Trade and Other payables

	<b>2014</b>	<b>2013</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Nzoia Phase II	146,548,631	146,548,631
General Suppliers	35,960,214	183,204,498
Other payables	1,236,648	7,394,763
<b>Total trade and other payables</b>	<b>183,745,493</b>	<b>337,147,892</b>

### 25. Current provisions

	<b>Shs 000</b>	<b>Shs 000</b>
Balance at the beginning of the year	5,112,802	5,112,802
Additional provisions raised	-	-
Provision utilized	-	-
Change in provision due to change in discount factor and time value of money	-	-
Transferred from non-current provisions	-	-
<b>Balance as at 30 June 2014</b>	<b>5,112,802</b>	<b>5,112,802</b>

### 26. Deferred income

**Lake Victoria North Water Services Board**

	2014 Shs 000	2013 Shs 000
Balance at the beginning of the year(National government)	77,116,594	77,116,594
Deferred Income utilized	(35,890,300)	-
Public contributions and donations	-	-
<b>Total deferred income</b>	<b>41,226,294</b>	<b>77,116,594</b>

**27. Pensions and other post-employment benefit plans**

	2014 Shs 000	2013 Shs 000
Balance at the beginning of the year	2,669,100	583,000
Non-current benefit obligation	2,265,865	2,086,100
Paid	(1,001,300)	-
Non-current benefit obligation	3,933,665	2,669,100
<b>Total employee benefit liability</b>	<b>3,933,665</b>	<b>2,669,100</b>

**28. Taxation**

	2014 Shs 000	2013 Shs 000
VAT	2,350,955	4,845,682
WHT	3,466,178	430,930
<b>Total</b>	<b>5,817,134</b>	<b>5,276,612</b>

**29. Borrowings**

	2014 Shs 000	2013 Shs 000
<b>KFW LOAN</b>		
Balance at the beginning of the year	5,957,479,502	5,957,479,502
During the year	-	-
<b>Less: total current portion of bank loans</b>	<b>-</b>	<b>-</b>
	<b>5,957,479,502</b>	<b>5,957,479,502</b>
<b>IDA LOAN</b>		
Balance at the beginning of the year	3,330,992,710	2,480,195,550
During the year	621,212,670	850,797,160
<b>Less: total current portion of bank loans</b>	<b>-</b>	<b>(-)</b>
	<b>3,952,205,380</b>	<b>3,330,992,710</b>
<b>Total non-current borrowings</b>	<b>9,909,684,882</b>	<b>9,288,472,212</b>

**30. RELATED PARTY DISCLOSURE**

**Key management compensation**

The remuneration of directors and other members of key Management during the year were as follows:

Core Management Team Salaries and other benefits	9,917,105
Directors' fees and emoluments	10,767,190
<b>Total</b>	<b>20,684,295</b>

**31. RISK MANAGEMENT**

LVNWSB's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. LVNWSB's overall risk management program me focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

Lake Victoria North Water Services Board

**XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1. Non-Current Assets	Assets previously by National Water Conservation and pipeline and the Ministry of Water and Irrigation have not been incorporated in the accounts. 12 motor vehicles and 16 motor cycles registered in the name of the contractor	The board is pursuing the transfer of ownership of the assets from National Water Conservation and pipeline and the Ministry of Water and Irrigation. Vehicles and Motor cycles already transferred to the board's name.	Manager Legal Services	Not resolved	One year
2.	Included in debtors balance of Ksh 261,458,224 are brought forward outstanding debts due from WSPs WaSSIP support current balance Ksh 12,231,000 and Ksh 874,608 from Amatsi Water Company	The board is reconciling with the WSPs the Outstanding and also it has entered in to an agreement on how the same shall be settled.	Chief Manager Finance Strategy, Manager Finance, Chief Manager Technical Services, Technical Manager Water service provision.	Not resolved	6Months

*[Signature]*  
Chief Executive Officer

*[Signature]*  
Chairman of the Board

26<sup>th</sup> September, 2014

26<sup>th</sup> September, 2014