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*on Thursday*  
*17/6/15*

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PAPER LAID

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

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

**FOR THE YEAR ENDED  
30 JUNE 2014**

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**LAKE VICTORIA SOUTH WATER SERVICES BOARD  
ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE, 30, 2014**

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**Prepared in accordance with the accrual basis of accounting method under the International Public Sector Accounting Standards (IPSAS)**

### **Mission**

To ensure the provision of safe, adequate and sustainable water and sanitation services for economic growth by developing viable Water Services Providers (WSPs) and facilities.

LVSWSBs target population is estimated at 8.5 million with a Population distribution of 21% in urban and 79% in rural areas.

### **Core Values**

- a. Good quality services, the board will endeavor 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 endeavor 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 organization 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 Board's day – to – day management is under the following key organs:

- Principal Secretary; Ministry of Environment, Water and natural resources
- Principal Secretary ; Ministry of Planning and Devolution
- Principal Secretary; The National Treasury
- Mr. Joseph Weya
- Mr. Amos Sipoi
- Mrs. Perceogende Jakoyo

**(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;

<b>Designation:</b>	<b>Name</b>
a. Ag. Chief Executive Officer	Eng. Moses Agumba
b. Ag. Chief Manager Technical Services	Eng. Sammy Mburu
c. Chief Manager Finance	CPA Jared O. Otieno (Upto 2 <sup>nd</sup> May 2014
d. Ag. Chief Manager Finance	Ms. Rosemary Chelangat (From 2 <sup>nd</sup> May, 2014 )

**(e) Fiduciary Oversight Arrangements**

- Finance Committee, whose main duties are;
- \* To review financial statements and annual budgets;

**Human Resource Committee**

- Periodic review of staff remuneration and terms of service
- Appointments and disciplinary action 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 LVSWSB 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**

Lavictors Building

• Ring Road, Milimani

P.O. Box 33 25

• Kisumu - Kenya.

Telephone (254) 57 2025127 (9)

e- Mail: [infor@lvswaterboard.go.ke](mailto:infor@lvswaterboard.go.ke) , Website: [www.lvswaterboard.go.ke](http://www.lvswaterboard.go.ke).

**(g) Bankers**

Kenya Commercial Bank

Kisumu Branch

P.O. Box 17 – 40100

**KISUMU**

Cooperative Bank

Kisumu Branch

P.O. Box 1511- 40100

**KISUMU**

Standard Chartered Bank

**Kisumu Branch**

**P.O. Box 292 – 50100**

**KISUMU**

**(h) Independent Auditors**

Kenya National Audit Office

University Towers, University Way

P.O Box 30084

GOP 00100

**NAIROBI ,KENYA**

**(i) Principal Legal Adviser**

The Attorney General

State Law Office

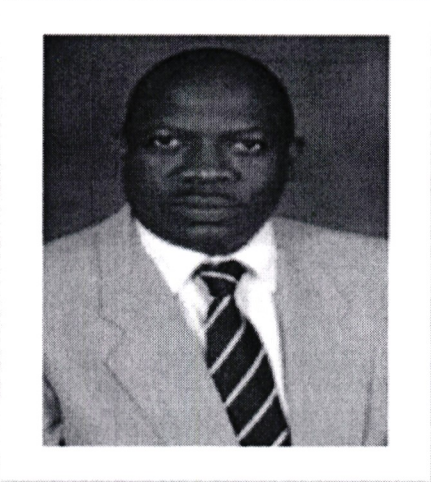
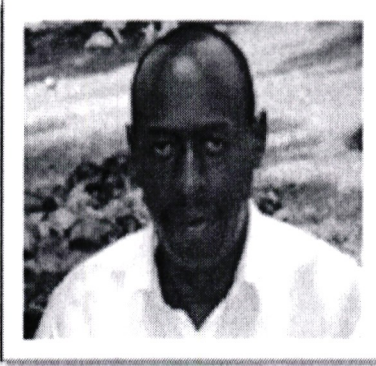
Harambee Avenue


P.O. Box 40112

City Square 00200


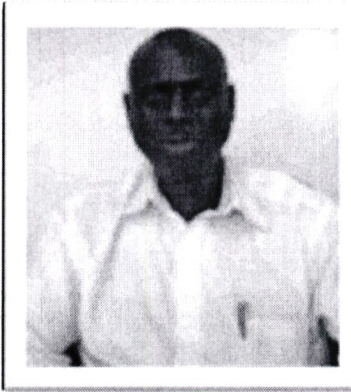

NAIROBI, Kenya


## II. THE BOARD OF DIRECTORS

Insert each Director's passport size photo and name and key professional/Academic qualifications	Provide a concise description of each Director's date of birth, key qualifications and work experience.
1. Director Joseph Weya (Chairman)  	<ul style="list-style-type: none"> <li>• 1991- <b>University of Nairobi</b> - Bachelor of Science (Mathematics and Geography)</li> </ul> <p><b>Achievements</b></p> <ul style="list-style-type: none"> <li>• Chairman Lake Victoria South Water Services Board.</li> <li>• Director of the Board of National Water Conservation and Pipeline Corporation.</li> <li>• Director of several local companies.</li> <li>• Coordinating special projects for Southern Sudan.</li> </ul> <p>Program Director of ACAI (African Community Advancement International).</p>
2. Mr. Onesmus Keter (Chairman, Audit & Risk Committee)  	<ul style="list-style-type: none"> <li>• Trained in Business Management and Administration</li> <li>• Worked with Unilever for 20 years</li> </ul>
3. Mr. Amos Sipoi Chairman, Finance Committee	<p><b>1986 – 1987 - MASTERS OF SCIENCE - Accounting</b>                      University of Illinois - Urbana-Champaign IL</p> <ul style="list-style-type: none"> <li>• Emphasis in Management Accounting, Finance and Investment.</li> </ul> <p><b>1983–1986 - BACHELOR OF</b></p>


	<p><b>SCIENCE –Business Administration (Hons)</b>                  American University – Washington DC</p> <ul style="list-style-type: none"> <li>• Major in Accounting and Finance and minor in Computer Science.</li> </ul> <p><b>1976 – 1977 - EAST AFRICAN ADVANCED CERTIFICATE OF EDUCATION ('A' Level)</b>                  Alliance High School – Kikuyu, 3 Principals and 1 Subsidiary</p> <p><b>1972 – 1975 - EAST AFRICAN CERTIFICATE OF EDUCATION ('O' Level)</b>                  Alliance High School - Kikuyu 1<sup>st</sup> Division</p>
<p>4. Mr. Jeremiah Odong, Chairman, Technical &amp; Strategy Committee</p>	<ul style="list-style-type: none"> <li>• <b>Feb. 1976 – July 1980</b> - Degree course at Khartoum University, Sudan. Graduated with a Bachelor of Science Degree in Architecture – B.Sc. (Arch)</li> <li>• Exams passed B.Sc. (Arch) Degree exam at the end of a five year course Grade obtained – upper second Class B.Sc. (Arch.) Hons.</li> <li>• Exams passed – Institute of Bankers Part I and II AND i.c. COMPUTER PROGRAMMING Examination.</li> <li>• <b>April 1970 – Nov. 1971</b> - Higher Education at Homa-Bay School in South Nyanza District, Kenya Exam passed – London G.C.E 'A' Levels.</li> <li>• <b>Feb. 1966 – Nov. 1969</b> – Secondary Education at Mangu High School, Thika, in Kiambu</li> <li>• <b>Exams passed E.A.C.E</b> (East Africa Certificate of Education) Grades obtained – Division 1 (one).</li> </ul> <p><b>January 1959</b> – Nov. 1965 – Primary Education at Sero Primary School in South Nyanza, Exam passed – K.P.E (Kenya Preliminary</p>








	Examination, Grades obtained A,A,B)
<p>5. Ms. Perece Jakoyo Director</p> 	<p><b>1969-1970:</b> Rae Girls Secondary School  <b>1966-1968:</b> Rae Girls Primary School  <b>1961-1965:</b> Chianda Primary School  <b>Other Courses:</b></p> <ul style="list-style-type: none"> <li>• Strategic Planning</li> <li>• Corporate Governance Training</li> <li>• Project Planning, Design and Managing Information Systems</li> <li>• Computer Applications to Data Management</li> <li>• Effective Report Writing and Presentation Skills Development</li> </ul> <p>Effective Supervision Course</p>
<p>6. Mr. Patrick Karanja</p> 	<p>State Officer Representing PS Ministry of Devolution</p>
<p>7. Mr. Ambrose Orwa</p> 	<p>State Officer Representing PS National Treasury</p>
<p>8. Mr. Calvins Shavanga Alt. Director,</p>	<p>State Officer Representing PS Ministry of Environment Water &amp; Natural Resources</p>

9. Mr. Chirstopher Ombega	State Officer Representing Inspectorate of State Corporations.
<p>10. Eng. Moses O. Agumba</p> 	<p>Chief Executive Officer</p> <p>Is a registered civil engineer with the Engineers' Registration Board (ERB) and Corporate Member of the Institution of Engineers of Kenya (IEK). He has over eighteen years' experience in the practice of civil engineering including planning, design, construction and supervision of civil works such as roads, bridges, city water supply, sewerage, rural water supply and sanitation works, storm water drainage technology, modern water and sewerage utility management practice, institutional issues in water, sewerage and sanitation including financial and technical management, and community based water and sanitation management.</p>

**II. MANAGEMENT TEAM**

Insert each Director's passport size photo and name and key professional/Academic qualifications	Indicate the main area of responsibility – without details
<p>1. Eng. Moses O. Agumba</p> 	Chief Executive Officer

<p>2. Eng. Sammy Mburu</p> 	<p>Ag. Chief Manager Technical Service</p>
<p>3. CPA Rosemary Chelangat</p> 	<p>Ag. Chief Manager Finance</p>
<p>4. Mr. Sammy K. Kigen</p> 	<p>Chief Manager Human Resource &amp; Admin.</p>
<p>5. Mr. Martin Mayi</p>	<p>Manager Procurement</p>
<p>6. Eng. Daniel Oronje</p>	<p>Manager Water and Sanitation</p>
<p>7. Mr. Paul Agwanda</p>	<p>Manager Asset Development</p>

<p>8. Ms. Phyllis Chepkemboi</p> 	<p>Manager Legal &amp; Corporate Affairs</p>
<p>9. Mr. Mark Mwango</p> 	<p>Internal Audit</p>
<p>10. Mr. Felix Ouma</p>	<p>System Administrator</p>

### 1. CHAIRMAN'S STATEMENT

It is with great pleasure to present to you the Lake Victoria South Water Services board Financial Report for the year ended 20<sup>th</sup> June 2014. Lake Victoria South Water Services Board is among the 8 water Service Boards established under the Water Act 2002 through Gazette Notice No. 1714 of 12<sup>th</sup> March, 2004.

Under its establishment as part of water reforms in the water sector the Board is responsible for ensuring efficient and economic provision of Water and sanitation Services within our area of jurisdiction which covers an area of 21, 720 sq. Km, and administers to the counties of Kisumu, Siaya, Migori, Homa Bay, Bomet, Kericho, Nyamira, Kisii and parts of Nandi and Narok Counties.

During the year, the board achieved significant impact in its core mandate of developing water supply and sanitation infrastructure. The success can be attributed to the support of our development partners such as AFD, AFDB, KFW, WSTF, KOICA, Kenya Italy Dept. for Development (KIDDP), JICA, World Bank and the government of Kenya, the board achieved necessary financial and technical support towards the development of the projects.

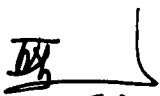
In the current year under review Migori Water supply and sanitation project, Kisumu Water Supply Project – Package 1 - Water Distribution Systems and Package 2 - Intake and Treatment Systems, 13 no water pans, all costing KES 3.5 billion were completed and operational. The completed projects now benefits 466,000 people in Migori, Kisumu and other counties.

To demonstrate its focus on quality services the board achieved ISO 9001: 2008 Certification and launched a New Strategic Plan 2013 – 2017 to guide its growth and development programs in lien with Medium term Plan II – 2013 - 2018 of the Vision 2030 and the New Constitution of Kenya 2010.

The New Constitution of Kenya 2010 has devolved water and sanitation services to the County Government. The board therefore facilitated and ensured seamless transition of the water provision services by transferring ownership of its Water Services Providers to the respective counties.

Looking forward, the board launched new programs and continued to undertake projects within its area of jurisdiction. These projects include; Water Sector Development Project financed by KfW at a cost of KES 3.4 Billion, Lake Victoria Water and Sanitation Initiative financed by AfDB at cost of Kes 1,3 Billion among others.

I wish to thank my Board OF Directors for their continued corporate and support that has steered the Lake Victoria South Water Services Board in the right direction; the Management and entire staff for their dedication and hard work without which this exemplary performance could not have been achieved and indeed all our stakeholders for their support in all our activities, I call upon all of you to uphold your support as we look forward to expanding access adequate to quality, and affordable water and sanitation services within our area of services.



**Mr. Joseph Weya**

**Chairman**

**Lake Victoria South Water Services Board.**

## **REPORT OF CHIEF EXECUTIVE OFFICER**

**LAKE VICTORIA SOUTH WATER SERVICES BOARD** HAS CONTINUED TO EXPERIENCE REMARKABLE GROWTH. The financial year 2013 – 2014 was a very significant period which witnessed transition to enactment and implementation of the New Constitution of Kenya 2010. LVSWSB rose to the occasion by aggressively up scaling consultation and engagement within its area of jurisdiction.

NOTABLY, THE Board completed and operationalized Kisumu Water Supply and sanitation project (LTAP) with the completion of Package 1 (Water Distribution Network and Reservoirs) and Package II (Kajulu Water Intake and Treatment Works), Migori Water Supply and Sanitation Project, over 45 community Rural water supply schemes spread all over the boards area. Overall, over 360,000 additional people were brought to benefit from adequate water supply. In order to drive our strategic plan and program, the board launched 8 new water supply and sanitation projects in Kericho, Kisii, Nyamira, Litein, Keroka, Isebania, Migori and Homa Bay towns. In addition, the board maintained close collaboration with stakeholders and partners resulting for instance in the launching of Waste water rehabilitation and development in Bomet and Homa Bay counties executed by the LVEMP with our Ministry of Environment and Natural Resources. We are committed to ensure prompt access to clean water and environment as enshrined in the new constitution for our citizens as a human rights issue.

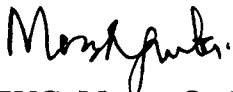
During the year, the board adhered to its key values and principles of efficiency by achieving ISO 9001: 2008 Quality Management System Certification and launching of its 2013 – 2017 Strategic Plan. With a clear plan complemented with internal quality system, the board set a stronger foundation for its current and future development and ensure its accountability to the public and responsiveness to its customers.

In our strong belief on continuous improvement and innovation, during the financial year, LVSWSB collaborated with SNV to pilot and showcase the Public Private Community partnership Concept and model in improving quality of water services in the Rural Water Schemes in Ahono Sinaga, Tachasis, Awendo, Kenyenyia, Kanyadhiang and Wandiege. These utilities are expected to embrace commercial business practices with a social face.

It is therefore our pleasure to recognize and gratefully thank our development partners such as AfDB, KfW, AfD, KOICA, World Bank KIDDP, UNICEF and the Government of Kenya for the

mutual collaboration, financial and technical support to the board and its WSPs for the achievement during the last financial year. We also appreciate the goodwill and collaboration enjoyed between LVSWSB and County Governments for their role in ensuring seamless transition of the water services and structure as provided in the new Constitution.

Overall, the board through the management of LVSWSB exceptionally performed and surpassed expectations to steer and achieve the board's development objective and targets during the year despite institutional turbulence and economic challenges occasioned by the enactment of the new constitution. We therefore look forward to continued and strengthened partnership with development partners and stakeholders in our service delivery.



**ENG. Moses. O. Agumba**

**Chief Executive Officer**

**Lake Victoria South Water Service Board.**

## II. CORPORATE GOVERNANCE STATEMENT

The Lake Victoria South Water Services Board is committed to the value and principles of good corporate governance. The Board of Directors and Management of the Board regard corporate governance as a 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 thought-out 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 the 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. LVSWSB has the following Board committees;

1. Finance Committee, whose main duties are; to review financial statements and annual budgets.
2. Human resource committee, whose mandate include; periodic review of staff remuneration and terms of service, appointments and disciplinary actions for senior staff; and general welfare of the Board's employees.
3. Audit and risk committee, whose main duty is to ensure that the systems of internal control are effective and complied with
4. Technical and strategies committee, whose focus is on issues arising from the Board's 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.



### **Meeting of the Board**

The board of directors meets four times during the year. The Board committees also meet at least every quarter in the year.

### **Ore Organization Structure**

The board has a clearly defined organization 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.

### **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.

## **III. CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

Lake Victoria South Water Servcies Board recognizes its obligations to act responsibly, ethically and with integrity in its dealings with staff, customers, neighbours nad 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 1800: 2007.
2. The board has a separate environmental policy statement clarifying tits commitment to delivery a new positive impact on the environment.
3. The Board is proud that its management is recognized through ISO 9001. The Board is certified to the ISO 9001: 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 Participates in safe water awareness campaign within its area of jurisdiction by participation in awareness marathon
6. The Board undertakes annual health and safety workplace audits.

#### **IV: REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June, 20, 2014 which show the state of the Boards affairs.

##### **Principal Activities**

The Mandate of the Board is to provide water and sewerage services in the 47 districts under its jurisdiction. He principal activities are to contract water services providers (WSPs) asset development and maintenance

##### **Result**

The results of the Board for the year ended June, 20, 2014 are set out on page.

Surplus /Defisit) before depreciation and finance costs	88,340,312
Less Depreciation	(85,896,252)
Net Finance Cost	-
Net Surplus /(Deficit) for the period	<u>2,444,060</u>
Net Deficit for the period	

The Board registered a Deficit of Kshs. 2,444,060 during the year.

##### **Directors**

The members of the Board of Directors who served during the year are shown on page V. in accordance with regulations... of the Board's Articles of Association.

##### **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 Board for the year /Period ended June, 30 2014.

By Order of the Board

## V. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

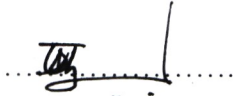
The Directors are responsible for the preparation and presentation of the Board's financial statements, which give a true and fair view of the state of affairs of the Board for and as at the end of the financial year (PERIOD) ended on June, 20, 2014. This responsibility includes; (i) maintain adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintain 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 Board (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

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

Nothing has come to the attention of the Directors to indicate that the Board 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 .....<sup>30/09</sup>.....2014 and signed on its behalf by

  
.....

Chairman

  
.....

Chief Executive officer.

# REPUBLIC OF KENYA

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Fax: +254-20-342332  
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Website: www.kenao.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

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

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Lake Victoria South Water Services Board set out on pages 19 to 42, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets 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**

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 13 of the Public Audit Act, 2003.

#### **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 15(2) of the Public Audit Act, 2003 and submit the report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards of 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 judgment, 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 adverse audit opinion.

### **Basis for Adverse Opinion**

#### **1. Inaccuracies in the financial statements**

- a) The statement of financial position reflects payables balance of Ksh.55,492,347 while note 23 reflects a balance of Ksh.57,581,302 leading to un-reconciled variance of Ksh.2,088,955.
- b) The statement of financial position reflected Ksh.5,852,621 as inventories while the stock taking sheets totalled to of Ksh.5,185,390 leading to un-reconciled variance of Ksh.667,231.
- c) The comparative balances on several components in the financial statement for the year 2012/2013 differ with the balances posted as comparative figures in the 2013/14 financial statements as follows

<b>Items</b>	<b>Comparative figures In 2013/2014 Kshs</b>	<b>Figures in 2012/2013 Kshs</b>	<b>Variance Kshs</b>
Total Revenue	550,938,363	555,077,191	4,138,828
Total Expenses	578,313,053	580,075,330	1,762,277
Total Current Assets	363,729,846	366,419,528	2,689,682
Non-Current Assets	4,619,186,248	4,749,596,383	130,410,135
Total Liabilities	953,755,440	877,984,7337	5,770,707
Total Reserves	4,029,160,655	4,238,021,177	208,860,522

Management did not pass prior year adjustments on the balances stated in 2012/2013 and in the circumstances, the accuracy of the financial statements for the year ended 30 June 2014 could not be confirmed.

#### **2. Property, Plant and Equipment**

As similarly reported in 2012/2013, the fixed assets schedule under note 27 excludes undetermined values of water supply infrastructural assets held under Kisumu Water and Sewerage Company Limited and Kericho Water and Sanitation Company Limited. Further, a computer software with a value of Kshs.3,342,555 in the 2012/13 financial statements has been omitted from the financial statements in the year under review, without any explanation for the omission.



Consequently, the accuracy and propriety of the property, plant and equipment balance of Kshs.6,091,001,891 as at 30 June 2014 could not be confirmed.

### **3. Trade and other Receivables**

Trade and other receivables balance of Kshs.164,694,355 in respect of exchange transactions disclosed under Note 20 differ with the total of Kshs.166,058,907 for respective water companies account balances as at 30 June 2014 leading to un-reconciled and unexplained variance Kshs.1,364,552. Further, the balances include Kshs.126,767,957, brought forward from previous years and not recovered in the year under review. Any provision to cater for the uncertainty of recovering such debts has not been incorporated in the financial statements. In addition, the trade and other receivables balance includes outstanding imprests totalling Kshs 8,362,203 which ought to have been accounted for or surrendered by 30 June 2014. Management did not explain why the imprests had not been accounted for by the end of the year and therefore contravened the existing regulations on issuance and accountability of imprests.

In the circumstances, the accuracy and propriety of trade and other receivables balance of Kshs.164,694,355 as at 30 June 2014 could not be confirmed.

### **4. Payroll Management**

As reported in 2012/2013, the employee costs figure of Kshs.107, 030,330 for the year included payroll expenses of Kshs.98,524,388 of which Kshs.13,221,878 was paid out as net salary to two non-staff members and one staff member who was paid three separate salaries per month using three different names. A review of the position as at 30 June 2014 revealed that another investigation was undertaken by another arm of the Government in the year under review where surcharge action was recommended.

Further, management indicated that the matter was referred to the Ethics and Anti-Corruption Commission (EACC) for further investigation and action. However, at the close of the audit no evidence was produced to confirm that surcharge or investigation by EACC had commenced.

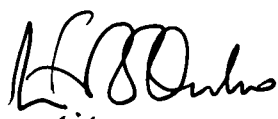
In the foregoing circumstances, it could not be determined whether management had taken appropriate action on the payroll malpractice reported in the year 2012/13.

### **5. Board Expenses**

As reported in the 2012/2013, the Board paid Ksh.375,000 to a non-gazetted board members and Ksh.612,000 lunch allowances to board members who were also paid accommodation allowances for the same days. Audit review in the year under review revealed that no recovery action had been taken by management for the irregular expenditures.

### **Adverse opinion**

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, in all material respects, the financial position of Board as at June 30, 2014, and of its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and does not comply with Water Act, 2002.



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

**Nairobi**

**29 May 2015**



## VI. STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE, 2014

		2014	2015
	NOTE	Kshs.	Kshs.
<b>Revenue from Non-Exchange Transaction</b>			
Exchequer Grants	3	610,649,560	511,158,477
Donor Grants	5	20,423,390	
<b>Total revenue from Non exchange Transaction</b>		<b>631,072,950</b>	<b>511,158,477</b>
<b>Revenue from Exchange Transactions</b>			
Tender Sales	6	277,316	1,311,250
Laboratory Income	7	321,972	655,200
WSPs Revenue	9	2,123,465	1,586,483
Asset Disposal/Sale	10	2,693,200	
<b>Total Revenue from Exchange Transaction</b>		<b>45,259,603</b>	<b>39,779,886</b>
<b>Total Revenue</b>		<b>676,332,553</b>	<b>550,938,363</b>
<b>Expenses</b>			
Operations and Maintenance Expenses	11	49,775,538	40,226,753
Supplies and Services	12	49,884,832	49,660,753
Administration and Establishment Expenses	13	60,360,655	42,512,236
Transport Costs	14	11,576,944	14,034,527
Water Supplies Development	15	307,354,046	247,029,463
Employee Costs	16	107,030,330	104,424,785
Depreciation and amortization	17	85,896,252	80,073,346
Finance Costs	18	2,009,896	352,191
<b>Total Expenses</b>		<b>673,888,493</b>	<b>578,313,053</b>
<b>Surplus (Deficit)</b>		<b>2,444,060</b>	<b>(27,374,690)</b>


The notes set out on pages from pages 24 form an integral part of the Financial Statements

**XII: STATEMENTS OF FINANCIAL POSITION AS AT 30<sup>TH</sup> JUNE 2014**

	NOTE	2014 Kshs.	2013 Kshs.
<b>ASSETS</b>			
<b>Current Assets</b>			
Inventories	19	5,852,621	6,082,758
Receivables from Exchange Transactions	20	164,694,355	134,676,682
Cash and Cash Equivalents	21	<u>144,637,197</u>	<u>222,970,406</u>
		<b>315,184,173</b>	<b>363,729,846</b>
<b>Non Current Assets</b>			
Property, plant and Equipment	22&27	<u>6,091,001,891</u>	<u>4,619,186,248</u>
		<b>6,091,001,891</b>	<b>4,619,186,248</b>
Total Assets		<u>6,406,186,064</u>	<u>4,982,916,094</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payable from Exchange Transactions	23	55,492,347	20,654,202
<b>Non Current Liabilities</b>			
Long Term Loans	24	2,136,623,305	933,101,238
<b>Total Liabilities</b>		<u>2,194,204,607</u>	<u>953,755,440</u>
<b>Net Assets</b>		<u>4,211,981,457</u>	<u>4,029,160,653</u>
<b>RESERVES</b>			
Government Grants	25	2,790,532,711	2,788,532,71
Donor Grants	26	508,678,006	418,022,746
Deferred Income		937,701,371	849,979,888
Accumulated Surplus		<u>(24,930,630)</u>	<u>(27,374,690)</u>
		<b>4,211,981,457</b>	<b>4,029,160,655</b>

The financial statements set out in pages 19- 23 were signed on behalf of the Board of Directors by:

  
 .....  
 Chief Executive Officer

  
 .....  
 Chairman of the Board

Date: 30/9/14 .....

Date: 30<sup>th</sup> Sept. 2014 .....

**XIII. STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014**

	<b>Government Grants</b>	<b>Donor Grants</b>	<b>Accumulated Surplus</b>		<b>Total</b>
	<b>Kshs.</b>	<b>Kshs.</b>	<b>Kshs.</b>	<b>Kshs.</b>	<b>Kshs.</b>
As at 1 July 2013	2,788,532,711	418,002,746	849,979,888	(27,274,690)	4,029,160,655
Government Grants	2,000,000				2,000,000
Donor Grants		90,655,260			90,655,260
Deferred Income			87,721,483		87,721,483
Accumulated Surplus				2,444,059	2,444,059
<b>As at 30<sup>th</sup> June, 2014</b>	<b>2,790,532,711</b>	<b>508,678,006</b>	<b>937,701,371</b>	<b>(24,930,630)</b>	<b>4,211,981,457</b>

**XIV STATEMENT OF CASHFLOWS**

**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2014**

	2014	2013
<b>OPERATING ACTIVITIES</b>		
Surplus (Deficit)	2,444,060	(27,374,690)
Depreciation	85,896,252	80,037,346
<b>Adjustments to Reconcile Deficit to net cash provided by operations:</b>		
Inventories	230,137	2,396,403
Receivables from Exchange Transactions	(30,017,673)	(25,316,315)
Payable from Exchange Transactions	36,927,100	(87,392,178)
<b>Net Cash Provided by Operating Activities</b>	<b>95,479,876</b>	<b>(57,614,434)</b>
<b>INVESTING ACTIVITIES</b>		
Property, Plant and Equipment	<u>(1,557,711,895)</u>	<u>(1,131,338,162)</u>
<b>Net cash provided by investing Activities</b>	<b>(1,557,711,895)</b>	<b>1,131,338,162)</b>
<b>FINANCING ACTIVITIES</b>		
Loan	1,203,522,067	933,101,238
Government Grants	2,000,000	
Donor Grants	90,655,260	419,403,353
Deferred Income	<u>87,721,483</u>	_____
<b>Net cash provided by Financing Activities</b>	<b><u>1,383,898,810</u></b>	<b><u>1,352,504,589</u></b>
Net Cash Increase for period	(78,333,209)	163,551,993
<b>Cash at beginning of period</b>	<b><u>222,970,406</u></b>	<b><u>59,418,413</u></b>
<b>Cash at end of period</b>	<b><u>144,637,198</u></b>	<b><u>222,970,406</u></b>

**XV. STATEMENT OF COMPARISON ON BUDGET AND ACTUAL AMOUNTS**

	Original budget		Adjustments		Final Budget		Actual on Comparable Basis		Performance Difference	
	2013 -2014 Kshs. '000	592,649,560	2013 -2014 Kshs.000	-	2013 – 2014 Kshs. 000	2013 - 2014 Kshs. 000	2013 - 2014 Kshs. 000	2013 – 2014 Kshs. 000		
Revenue										
Governments Grants										
Donor Grants										
Other Revenues	3,000,000	-			3,000,000	0	20,423,390	-20,423,390		
Levy Income From WSPS	35,000,000				35,000,000		3,292,488	-292,488		
Interest Income	2,000,000				2,000,000		39,84650	-4,843,650		
Total Income Expenses	632,649,560				632,649,560		2,123,465	-123,465		
Employee Costs	107,718,498				107,718,498		676,332,553	-43,682,993		
Remuneration of Directors	25,080,000				25,080,000		107,030,330	688,168		
Repairs and Maintenance	1,000,000				1,000,000		16,879,153	8,200,847		
Supply and Services	60,141,400				60,141,400		4535,000	565,000		
Transport Costs	7,656,000				7,656,000		49,884,832	10,256,568		
General Expenses	175,013,182				175,013,182		11,576,944	-3,920,944		
Rural Water Supply Development	191,204,800				191,204,800		94,831,936	80,181,246		
							307,354,046	-116,149,246		
<b>Total Expenditure</b>	<b>567,813,880</b>				<b>567,813,880</b>		<b>587,992,241</b>	<b>20,178,361</b>		
<b>Surplus for the Period</b>	<b>64,835,680</b>				<b>64,835,680</b>		<b>64,835,680</b>	<b>64,835,680</b>		

The difference of Kes. 85,896,252 is for the year 2013-2015

## **VI. 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 (Kshs. 000). 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 direct method. The financial statements are prepared on accrual basis.

### **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 reliability.

#### **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 transaction – 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 percentage of total estimated labour hours.

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 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 the asset's net carrying amount. The method applied 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**

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**

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

Investment property accrued 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 are have 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.

**c. Property, Plant and Equipment**

All property plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the 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 maintenance costs are recognized in surplus or deficit as incurred. Where an asset is



accrued in a non exchange transaction from nil or nominal consideration the asset is initially measured at its fair value.

**e. Leases – IPSAS 13**

Finance leases are leases that transfer substantially the entire 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 payment 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 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 generate intangible assets, excluding capitalized development costs, are not capitalized as 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 in tangible assets when the Board can demonstrate.

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

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. 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 instrument—IPSAS29**

**Financial assets**

**Initial recognition and measurement**

Financial assets with the scope of IPSAS 29 Financial Instrument: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held to maturity investment 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 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.

### **Impairments of financial assets**

The Board assesses to 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 arrear 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 condition are accounted for, as follows:

- Raw materials; purchase cost using the weighted average cost method
- Finished goods and work in progress; cost of direct material and labour 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. Provision – 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.

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 uncertain 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 statement 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.

**1. 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 employees benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment or 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 benefits 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 of all participating employers. The contributions and lump sum payments reduce the post employment benefit obligation.

**n. Foreign currency transaction – IPSAS 4**

Transaction in foreign currencies is 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 data. 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 borrowing 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 determine 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 that 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

arrangements. 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 in own amount so 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 propose of these financial statements, cash and cash equivalents also include short term cash impreset's and advances to authorized public officers and /or institutions which were not surrendered or accounted for at the end of the financial year.

**s. Comparative figures**

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 statement sin 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 judgments, estimates and assumptions make e.g.

**Estimate 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 amount 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 assumption 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 were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provision 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 in size for a number of years.

Provision is made for the estimated cost to be incurred on the long term environmental obligations, comprising expenditures 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 reflects current market assessments of the time value of money.

## Lake Victoria South Water Services Board

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The increase of 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.

	2014	2013
	Kshs`	Kshs
3 Exchequer Grants	610,649,560	37,621,400
4 Deferred Income Transfer	937,701,371	849,979,888
5 Donor Grants	20,423,390	
6 Tender Sales	277,316	1,311,250
7 Laboratory Income	321,972	655,200
8 Interest Income	2,123,465	1,586,483
9 WSPs Revenue	39,843,650	36,226,953
10 Asset Disposal/Sale	2,693,200	
(Assets destroyed during 2008/2009 post election violence)		
<b>11 Operations and Maintenance Expenses</b>		
Monitoring & Evaluation	27,963,212	23,594,411
Support Organization	13,891,692	6,978,208
Consultancy Fees for ADB Projects	4,974,750	
Planning & Research	1,936,216	1,831,780
Asset Valuation		300,00
Maintenance of Water Supplies	574,668	
Repairs (building & equipment)	435,000	7,522,353
<b>Total O and M Expenses</b>	<b>49,775,538</b>	<b>40,226,753</b>

<b>12</b>	<b>Supplies and services</b>		
	Computer operating expenses	3,533,200	2,392,516
	Baseline survey		326,650
	Lease fees		523,760
	Feasibility studies	2,972,845	16,948,100
	Cleaning services	3,165,225	2,308,806
	Legal services	15,675,123	5,526,026
	Security services	3,667,970	1,795,800
	Publicity & advertisement	10,098,839	9,061,940
	stationery	7,250,974	10,321,974
	Telephone & Internet	1,521,656	455,181
	EU Project – Visibility actions	2,000,000	
	<b>Total Supplies and Services</b>	<b>49,884,832</b>	<b>49,660,753</b>
<b>13</b>	<b>Administrative and Establishment Expenses</b>		
	Administrative Expenses	6,702,721	
	ISO Certification Expenses	1,358,640	529,200
	Board & committee expenses	16,879,153	14,652,938
	Electricity	2,491,892	175,482
	Periodicals, newspaper, library	401,705	93,950
	Office tea & official delivery	2,318,022	1,637,682
	Postage & delivery services	926,882	1,157,182
	Audit fees	1,044,000	1,044,000
	Conferences and shows	159,596	1,678,882
	Training & workshops	10,108,400	7,521,073

Lake Victoria South Water Services Board

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	Travel & accommodation & subsistence	13,143,248	9,352,857
	Water & conservancy WWD	991,868	528,775
	Wasreb Levy		3,221,000
	Valuation		919,215
	KRAWHT Remittances	3,646,146	
	Insurance	188,384	
	<b>Total administrative and</b>	<b>60,360,655</b>	<b>42,512,236</b>
	<b>Establishment Expenses</b>		
<b>14</b>	<b>Transport Costs</b>		
	Motor Vehicle Operating Expenses	11,576,944	14,034,527
	<b>Total transport costs</b>	<b>11,576,944</b>	<b>14,034,527</b>
<b>15</b>	<b>Water supply development</b>		
	Promotion of safe & sustainable rural water	661,559	238,250
	Drought mitigation		5,196,470
	Unicef wash activities	58,421,008	131,605,223
	EU project – support to WSPs		1,102,001
	ADB: CBO & SO Activities	168,650,197	92,105,402
	Sanitation facilities development	3,334,236	
	Drilling of borehole	76,287,046	16,782,117
	<b>Total water supplies development</b>	<b>307,354,046</b>	<b>247,029,463</b>
<b>16</b>	<b>Employee costs</b>		
	Payroll Expenses	98,524,388	94,143,577
	Insurance	8,280,952	9,028,933
	Staff welfare	224, 990	1,251,275
		<b>107,030,330</b>	<b>104,423,785</b>

<b>17</b>	<b>Depreciation and Amortization</b>	85,896,252	80,073,346
<b>18</b>	<b>Finance costs</b>		
	Bank charges & commissions	2,009,896	352,191
<b>19</b>	<b>Inventory &amp; Stores</b>	5,852,621	6,082,758
<b>20</b>	<b>Receivables from Exchange Transactions</b>		
	Gulf water services Co .Ltd	3,186,748	3,029,310
	Gusii water and sanitation co.ltd	32,472,463	25,114,875
	Kericho water and sanitation co Ltd	37,827,957	33,261,894
	Kisumu water and sewerage co. Ltd	26,447,659	17,995,649
	Mikutra Water and Sanitation Co. Ltd.	3,119,921	2,676,088
	Nyanas Water and Sanitation Co. Ltd.	4,632,698	1,253,461
	Sibo Water and Sanitaiton Co. Ltd.	18,512,021	14,409,752
	South Nyanza Water and Sanitation Col. Ltd.	8,591,086	6,550,990
	Staff Debtors	8,362,203	8,362,203
	Tilibei Water and Sanitation Col. Ltd. (Che)	21,586,598	19,022,460
		<b>164,694,355</b>	<b>134,676,682</b>
<b>21</b>	<b>Cash and Cash Equivalents</b>		
	S.C.B. – A.D.B. Fixed Dep. 4061929403	32,572,676	201,263,088
	SCB – ADB INTERST 20011929400	32,572,676	201,263,088
	NIC Dir. Allow A/C 1001445169	1,086,559	1,086,559
	NIC ADB A/c 01141295755601	97,789	97,789
	CO-OP Revenue 01141295755601	140	-
	Co-op lwatsan2 01141295755600	72	1,015,301
	KCB EU Nyakach 1118618890	442,250	-

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	KCB Main Rev. Tili 1104035642	9,274,234	3,835,242
	KCB SIDA Danida 1131125795	5,193,316	-
	KCB SIDA Danida 1104035197	26,565	63,268
	KCB KIDDIF Italy 1146676387	260,256	63,268
	KCB UNICEF Funds 116821648	137,844	3,204,875
	K.C.B. Pans % Dams 1104036320	80,884,965	31,385
	K.C.B. Recurrent 1104034395	1,576,952	1,667,365
	K.C.B. Devmnt. A/c 1104035464	418,335	10,548,228
	Cash In Hand	1,230	45
	<b>Total Cash &amp; Cash Equivalents</b>	<b>144,637,197</b>	<b>222,970,406</b>
<b>22</b>	<b>Property Plant &amp; Equipment</b>	<b>6,091,001,891</b>	<b>4,619,186,248</b>
<b>23</b>	<b>Payables from Exchange Transaction-Creditors</b>	<b>57,581,302</b>	<b>20,654,202</b>
<b>24</b>	<b>Non Current liabilities</b>		
	ADB Loan	933,101,238	933,101,238
	WSBSP Main	622,702,960	-
	Small Towns	580,819,107	-
		<b>2,136,623,305</b>	<b>933,101,238</b>
<b>25</b>	<b>Government Grants</b>		
	Government developed/Donated Assets	<b>2,790,532,711</b>	<b>2,788,532,711</b>
<b>26</b>	<b>Donor Grants - AFD</b>	<b>400,379,220</b>	<b>400,379,220</b>
	Grant LVWATSAN II	90,655,260	-
	SIDA/DANIDA	3,344,000	3,344,000
	GTZ	1,838,635	1,838,635
	JICA	521,692	521,692
	ADB	11,939,199	11,939,199
		<b>508,678,006</b>	<b>418,022,746</b>

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27. Property, Plant and Equipment

FIXED ASSET SCHEDULE										
	M/Veh & Cycles	Furniture & Fit	Office Equip.	Computers	Land building &	Work progress in	Water Infrt	supply	Total	
Rate	25%	12.5%	20%	33.3%	2.5%	0%		2.5%		
Cost	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
1 <sup>st</sup> July 2013	54,040,000	7,244,335	25,240,820	3,557,950	217,258,800	2,319,118,205	2,331,051,087		4,957,511,197	
Additions		130,596	350,000	1,732,730	35,067,127	1,520,431,442			1,557,711,895	
Disposals										
30 <sup>th</sup> June 2014	54,040,000	7,374,931	25,590,820	5,290,680	252,325,927	3,839,549,647	2,331,051,087		6,515,223,092	
Accumulated Depreciation										
1 <sup>st</sup> July 2013	13,510,000	905,542	5,048,164	1,184,797	1,148,566		316,527,880		338,324,949	
Charge for 2013/2014	13,510,000	921,866	5,118,164	1,761,796	6,308,148		58,276,277		85,896,252	
Total Acc. Dep										
30 <sup>th</sup> June 2014	27,020,000	1,827,408	10,166,328	2,946,593	7,456,714		374,804,157		424,221,201	
Next Book Value										
1 <sup>st</sup> July 2013	54,040,000	7,374,931	25,590,820	5,290,680	252,325,927	3,839,549,647	2,331,051,087		6,515,223,092	
30 <sup>th</sup> June 2014	27,020,000	5,547,523	15,424,492	2,344,087	244,869,213	3,839,549,647	1,956,246,930		6,091,001,891	

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

This 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 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	Debtors Reconciliation Bal. With WSP	The reconciliation is on going.	Finance manager	Not resolved	30 <sup>th</sup> June 2015
2					

**Guidance Notes**

- i. Use the same reference numbers as contained in the external audit report;
- ii. Obtain the Issue/Obligation and management comments, required above, from final external audit report that is signed by Management;
- iii. Before approving the report, discuss the timeframe with the appointed Focal Point person within your Board responsible for implementation of each issue;
- iv. Indicate the status of Resolved or Not Resolved by the date of submitting this report to National Treasury.

*Munyaho*

Chief Executive Office

Date *30/9/14*

*[Signature]*

Chairman of the Board

Date *30<sup>th</sup> Sept 2014*