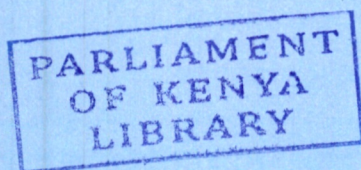


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

*Paper Laid
by Majority whip
Wednesday
Morning
25/1/2017*



REPORT

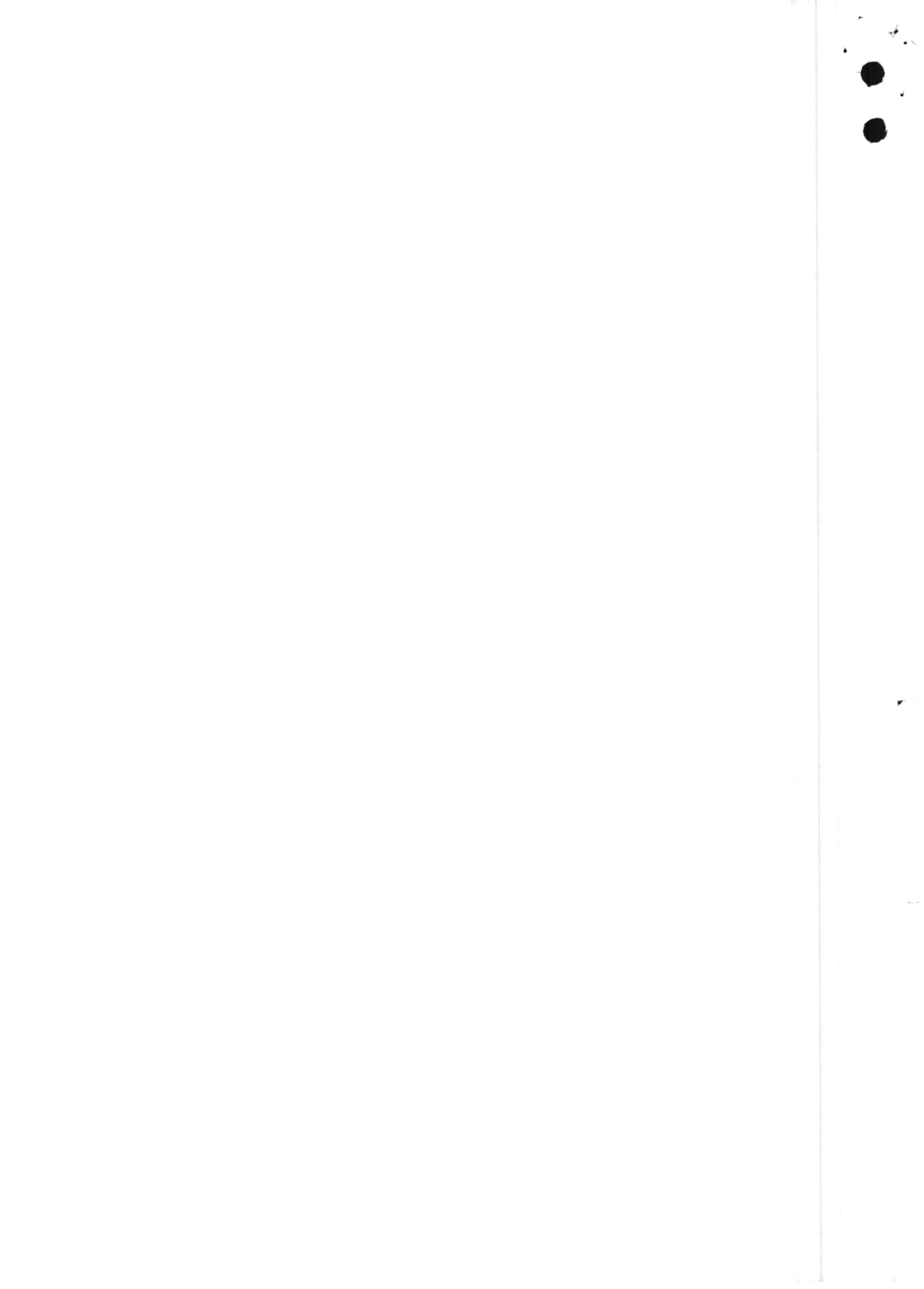
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
NATIONAL WATER CONSERVATION AND
PIPELINE CORPORATION**

**FOR THE YEAR ENDED
30 JUNE 2015**





***NATIONAL WATER CONSERVATION AND PIPELINE
CORPORATION***

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2015**

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

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KEY INFORMATION AND MANAGEMENT

Background information

National Water Conservation & Pipeline Corporation is a State Corporation established under the State Corporations Act vide Legal Notice No. 270 of 24th June 1988 Cap 446 of the Laws of Kenya. Following the implementation of the Water Act 2002, the Corporation which was previously retailing water in several water supplies across the country, is today the Implementation Arm of the Ministry of Water & Irrigation.

Principal Activities

The core mandate of the corporation is to;

- Develop state schemes and spearhead dam construction for water supplies, flood control and other multi-purpose uses, land drainage and construction of dykes.
- Carry out ground water recharge using flood water.
- Develop, retain existing and expand bulk water supply to water service boards and other water services providers.
- Drill and equip boreholes

Key Management

The Corporation's day-to-day management is under the following key organs:

- ❖ Managing Director;
- ❖ General Manager Construction & Electromechanical;
- ❖ General Manager Finance;
- ❖ General Manager Planning & Design;
- ❖ General Manager Legal Services;
- ❖ General Manager Human Resource & Administration;
- ❖ Chief Procurement Officer; and
- ❖ Chief Internal Auditor

Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2015 and who had direct fiduciary responsibility were:

- | | |
|---|--------------------------------------|
| ❖ Managing Director; | - Eng. Jacqueline Musyoki, Mrs (OGW) |
| ❖ Ag. General Manager Construction & Electromechanical; | - Mr. Ezekiah Kapkiai |
| ❖ Ag. General Manager Finance; | - CPA Margaret Kithunzi |
| ❖ Ag. General Manager Planning & Design; | - Eng. Benjamin Kiema |
| ❖ General Manager Corporate & Legal Services; | - CS. Justus Wabuyabo |
| ❖ General Manager Human Resource & Administration; | - Mr. Solomon Assava |
| ❖ Chief Procurement Officer; | - Mr. John Musyoka |
| ❖ Ag. Chief Internal Auditor | - CPA Phillip Nzengu |

Fiduciary Oversight Arrangements Committees of the Board

Human Resource & General Purposes Committee

The Committee comprises of four non-executive directors (one of them as Chairman) and the Managing Director as the Secretary.

The Board of Directors of the National Water Conservation and Pipeline Corporation has established the Human Resources and General Purposes Committee to review, and as appropriate, act on behalf of the Board, or make recommendations to the Board concerning staff, corporate communication, corporate social responsibility and legal issues.

The Committee has the following duties and responsibilities as directed by the Board:

- a) Human Resource Planning by ensuring there is a staff establishment; the right number and quality of staff with relevant skills; and succession planning
- b) Development of the Corporation's Organizational Structure
- c) Recruitment and selection and retention of staff with the relevant skills
- d) Training and development of employees to improve organizational productivity
- e) Ensure that the employees are rewarded through an Employee Merit Reward System and that the employees' salaries are constantly reviewed and they are provided with better incentives and benefits
- f) Ensure that there are disciplinary and grievance-handling procedures in place outlining how they are administered
- g) General Staff Welfare – Ensure that the employees have conducive work environment, health and safety
- h) Review and approve terms and conditions of service for Corporation employees;
- i) Handle policy issues on Human Resource and Administration; and performance management
- j) Oversee the implementation of change process plans in the organization;

- k) Ensure compliance with the State Corporations Act Cap. 446, Water Act of 2002, provisions of the Legal Notice No 270 of 1998 and any written law
- l) Interpret regulations that may be issued from time to time by the Ministry of Water and Irrigation and the Government;
- m) Handle policy issues on Corporate communications and corporate social responsibility
- n) Review all litigation matters.
- o) Promote effective communication within and with all stakeholders.

The Committee meets on quarterly or need basis.

Finance Committee

The Committee comprises of four non-executive directors (one of them as Chairman) and the Managing Director as the Secretary.

The Committee has the following duties and responsibilities as directed by the Board:

- a) Develop, review and monitor implementation of the resource mobilization strategy of the Corporation
- b) Review and make recommendations to the Board of Directors regarding the Corporation's annual financial plans;
- c) Review the financial condition of the Corporation and its requirements for funds.
- d) Review and make recommendations to the Board of Directors regarding any proposed capital project which is required to be approved by the Board of Directors;
- e) Review and make recommendations to the Board where appropriate regarding Corporation's financial and risk management policies and practices, including cash investment policies; debt limitations; annual and longer-term operating plans; long-term capital expenditure projects; financing plans; and other financial transactions or issues that management desires to have reviewed by the Committee;

Risk & Audit Committee

This Committee comprises of four non-executive directors (one of them as Chairman) excluding the Managing Director and the secretary is the Chief Internal Auditor

The Board of Directors of the National Water Conservation and Pipeline Corporation has established the Risk & Audit Committee to discharge duties related to safeguarding the Corporation's assets; operation of adequate systems; control processes and preparation of accurate financial reporting and statements in compliance with legal requirements and accounting standards

The Committee shall have the following duties and responsibilities, as well as such other duties and responsibilities as it deems appropriate to carry out its purposes or as directed by the Board:

- a) Deal with appointment and termination of the Chief Internal Auditor. The Committee shall recommend this to the Board of Directors for approval.

- b) Discuss problems and reservation arising from the final audits, and any matter the external auditor may wish to discuss (in the absence of management where necessary)
- c) Review the external auditor's report(s) to the Management and Management's response.
- d) Consider the major findings in internal investigations and Management's response.
- e) Have explicit authority to investigate any matter within its terms of reference, the resources that it needs to do so and full access to information,
- f) Obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary;
- g) Consider other topics as defined by the Board including regular review of the capacity of the internal audit function; and
- h) The Committee must ensure that all legal provisions are followed. In addition to the various statutes that apply to the corporation's operations, these should include:
 - Code of conduct
 - Water Act 2002
 - The Government's Rules and Regulations
 - State Corporations Act
 - Policies, Rules and Regulations established by the Board
- i) Establish an internal audit function and the Risk & Audit Committee's function in relation to Internal Audit functions, to include:
 - Review of the adequacy, scope, functions and resources of the Internal Audit function and ensure that it has the necessary authority to carry out its work.
 - Review the Internal Audit Program and results of the Internal Audit process and, where necessary ensure that appropriate actions are taken on the recommendations of the Internal Audit function.
 - Review any appraisal or assessment of the performance of members of the Internal Audit function.
 - Approve any appointment or termination of senior staff members of the Internal Audit function.
 - Ensure that the Internal Audit function is independent of the activities of the Corporation and is performed with impartiality, proficiency and due professional care.

Strategy, Technical & Business Development Committee

The Committee comprises of five non-executive directors (one of them as Chairman) and the Managing Director as the Secretary.

The Board of Directors of the National Water Conservation and Pipeline Corporation has established the Strategy, Technical and Business Development Committee to review, and as appropriate, act on behalf of the Board, or make recommendations to the Board concerning planning, strategy, technical, ICT and business development issues.

The Committee has the following duties and responsibilities, as directed by the Board:

- a) Review strategies, plans and service charters for attaining the Corporation's Service Delivery Objectives.

- b) Give policy direction in the development of the Corporation's Strategic Plan/ Business Plan and monitoring its implementation
- c) Review ISO certification procedures manuals
- d) Give policy direction in development of pro-poor approaches and community involvement in projects
- e) Approval of project work plans and Performance Contract targets
- f) Approve the Quarterly Performance Contract Progress Reports.
- g) Review proposals and plans for infrastructure development and improvement.
- h) Consider, evaluate and review progress of implementation for infrastructure development programs.
- i) Consider, evaluate and review performance of outsourced works
- j) Consider and evaluate the use of new and appropriate technologies in provision of water storage facilities
- k) Ensure compliance by the Corporation with statutory regulations relating to the Environment and Water Resources Management
- l) Review and give policy direction on proposals for gazettment and implementation of state schemes
- m) To receive, examine and approve implementation of new/proposed projects as well as reports on the applications of new technologies.
- n) Where necessary on sample basis visit projects under implementation to access progress and recommend the way forward or any action plans.
- o) To receive deliberate on and give guidance on policy matters with respect to progress reports on the on-going projects;
- p) To discuss any other relevant matters that pertains to the technical operations of the company.
- q) To discuss any other business arising from the Strategy, Technical and Business Development committee.

Procurement Oversight Committee

The Committee comprises of five non-executive directors (one of them as Chairman) and the Managing Director as the Secretary. The Board of Directors of the National Water Conservation and Pipeline Corporation has established the Procurement Oversight Committee to review, and as appropriate, act on behalf of the Board, or make recommendations to the Board concerning procurement of goods, services and works as well as disposal of obsolete assets in line with the Public Procurement & Disposal Act as well as its Regulations.

The Committee has the following duties and responsibilities, as directed by the Board:

- a) Monitor progress of procurement and disposal
- b) Identifying and resolving issues related to procurement and disposal
- c) Ensure that procurement and disposal meets the requirements of the Public Procurement & Disposal Act, and Regulations
- d) Approve Procurement Plans
- e) Address Corporation's resource issues and procurement commitments
- f) Ensure that the appropriate development index (development versus recurrent budget) is maintained in the procurement of goods, services and works.

Headquarters

P.O. Box 30173
GPO 00100
Dunga road, Industrial Area
Nairobi, Kenya.

Contacts

Telephone: (254) 020 65310, (020) 556600/1
Hotline: (254) 020 6531047
Fax: +254 020 531049
E-mail: info@nwpc.go.ke
Website: www.nwpc.go.ke

Bankers

Kenya Commercial Bank Ltd
KCB Moi Avenue
Account Numbers (1114280593, 1114280488, 1114279978, 1114279889, 1124316329)
P. O. Box 30081
GPO 00100
Nairobi, Kenya

Independent Auditors

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

Principal Legal Adviser

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

THE BOARD OF DIRECTORS



Chairman
Hon. Julius Kones
Re-appointed on 9th
March 2016

Personal Information:

Born 1972

Academic Qualifications:

PhD in Mathematics
Master and Bachelor of Science degrees in Mathematics and Statistics

Work Experience:

The former statistics lecturer at the University of Nairobi is the immediate former MP for Konoin Constituency in Bomet County



Director
Walubengo Waningilo
Appointed on 26th April
2016

Personal Information:

Born: 1965

Academic Qualifications:

MA
BA (Hons)
LLB (Hons)
Post Graduate Diploma (KSL)

Work Experience:

Worked at National Hospital Insurance Funds for 15 years in Operations and prosecutions.

He is also a practicing advocate.



Director
Ms. Halima Kiniti
 Appointed on 26th April
 2016

Personal Information:

Born 1965

Academic Qualifications:

Customer Service Training
 Institutional Management Certificate

Work Experience:

Ms. Halima is a leading business woman and entrepreneur. For the last seven years she has run an infrastructure construction company that has successfully built and rehabilitated road infrastructure across Kenya.

Prior to this, she had worked for sixteen years in the hospitality industry with global brands like Diners club and Hilton Hotels as well as leading blue chips companies like Kenya Airways offering extensive skills in hospitality and natural affinity for superior customer care.

Ms. Halima is also the founder of a children's home providing food, shelter and education to disadvantaged children. Together with her family, she has also endowed a scholarship fund that pays tuition for orphaned primary and high school children who have demonstrated academic excellence, inspiring moments of optimism and an opportunity for academic and personal growth.



Director
Moses J.K. Ndwiga
 Appointed on 26th April
 2016

Personal Information:

Born: 1952

Academic Qualifications:

Bachelor of Education Science (University of Nairobi)

Work Experience:

Mr. Ndwiga has vast experience in the Education Sector having previously worked through the ranks to Senior Principal Teacher in various institutions including Siakago High School, Kegonge High School, Kiangugi High School and Kithegi Secondary School.



Director
John Kangogo
Appointed on 26th April
2016

Personal Information:

Born : 1960

Academic Qualifications:

Bachelors of Arts in Leadership and Management
Diploma in Real Estate and Estates Management
Diploma in Criminology
Ministry of Finance Customs Training certificate

Work Experience:

Mr. Kangogo worked with the Elgeyo/Marakwet county council before moving to the National Irrigation Board. Later he moved to Ministry of Finance at the Customs Department.

He founded Cornerstone Security Services Ltd, Flagon Ltd and North Rift Wood & Timber Company Ltd where he serves the positions of Executive Chairman and Executive Director respectively.



Director
**Eng. Vincent Sidai
Esyepet**
Appointed on 26th April
2016

Personal Information:

Born: 1974

Academic Qualifications:

M.A Project Planning & Management UoN
BSc (Hons) degree in Civil Engineering - JKUAT
Post Graduate in Program for Management Development – Strathmore/GIBS
Diploma in Advanced Concrete Technology – Institute of Concrete Tech. UK
Certificate in Concrete Technology – Cement & Concrete Institute
Certificate in Corporate Governance – Centre for Corporate Governance

He is a Registered Engineer, Engineers Registration Board, Corporate Member, Institution of Engineers of Kenya and Member Institute of Concrete Technology - UK

Work Experience:

Eng Sidai has over sixteen years of progressive experience in the construction industry, business management, logistical management and people skills gained through working with various organizations. He has held increasingly responsible positions both in the private sector and corporate world both locally and internationally working in Countries such as Kenya, Uganda, Tanzania, Madagascar, South Africa, Egypt, Malawi, Zambia, France, South Sudan.



Director
Mrs. Alome Achayo
 Appointed on 26th April
 2016

Personal Information:

Born: 1968

Academic Qualifications:

PhD – Strategic Management (Pursuing)
 Masters in Business Administration – Finance/Management
 Bachelor of Science - Microbiology

Work Experience:

Ms. Achayo has over 15 years combined senior and middle level management experience acquired through working in various capacities in various institutions. She has previously headed Mombasa Water supply and Sanitation co. Ltd, as the managing director. Worked as a general manager in E & A industries Ltd among others. She also worked as General Manager Business Development at Agricultural Finance Corporation (AFC). Prior to that she worked as product manager in various international pharmaceutical firms.



Director
CPA. Bernard Ndung'u
*Alternate to Principal
 Secretary National
 Treasury*

Personal Information:

Born: 1972

Academic Qualifications:

Bachelor of Commerce Degree (Finance Option)
 Certified Public Accountant (Kenya)
 Member of the Institute of Certified Public Accountants of Kenya (ICPAK)

Work Experience:

Bernard has experience of over 19 years and is well exposed in both the public and private sectors. He has held senior consulting roles at Ernst and Young and PricewaterhouseCoopers. As an International Public Finance Management Consultant, he has handled major assignments in the areas of PFM reforms, IFMIS implementation, business process and systems review and re-engineering, training and institutional capacity building. He has also consulted for the Development Partners including the World Bank, GIZ, Danida, European Union, CIDA, and USAID among others. Bernard has worked in Kenya, Rwanda, Burundi, Uganda, Tanzania, Zambia, South Africa, Ethiopia, Sudan, Eritrea, Djibouti, Somalia and Democratic Republic of Congo.

Mr. Bernard Ndungu is currently the Accountant General for the National Treasury, Republic of Kenya.



Director
Eng. Lawrence Simitu
Director of Water Services

Personal Information:

Born:

Academic Qualifications:

BSc in Civil Engineering (UoN)
MSc in Civil Engineering (UoN)

Work Experience:

He is currently the Director of Water Services in the Ministry of Water & Irrigation.

He has over 20 years' experience in the Water Sector.



Director
Ms Margaret Ratemo
Director of inspectorate of State Corporation

Personal Information:

Born:

Academic Qualifications:

Work Experience:

MANAGEMENT TEAM



Ag. Managing Director
**Mr. Andrew Mukhisa
 Wanyonyi**
 Appointed on February 2016

Personal Information:

Born:

Academic Qualifications:

PHD in Finance (undertaking)
 Master's in Business Administration (Finance)
 Bachelor of Commerce – Accounts Option
 Certified Public Accountant

Work Experience:

After serving the Corporation as the Ag. Finance Manager. Wanyonyi also served in the ministry of Water and Irrigation as the Advisor, Strategy and Institutional Reforms hence has vast knowledge in the water sector. With over 15 years' experience in Local Authorities/ County Government, Wanyonyi now leads the Corporation's operations and gives strategic guidance and direction to the Board, to ensure that the Corporation achieves its mission and objectives.



Managing Director
**Eng. Jacqueline Musyoki
 OGW (Mrs)**
 Outgoing

Personal Information:

Born: 1962

Academic Qualifications:

Master's degree in Business Administration (MBA)
 BSc. Civil Engineering

Work Experience:

She has a long experience in the Water Sector having worked in the Ministry of Water undertaking various sustainable projects and programs. She also headed Coast Water Services Board, Water Services Regulatory Board (WASREB) and lastly the Water Services Trust Fund (WSTF) before joining the Corporation as Managing Director.



General Manager,
Corporate & legal Services
**Mr. Justus Ambutsi
Wabuyabo**

Personal Information:

Born 1974

Academic Qualifications:

Master of Law (LL.M) Degree (Public International Law)
Bachelor of Law LL.B (Hons.)
Post Graduate Diploma in Law

Work Experience:

He is an Advocate of the High Court and a member of the Law Society of Kenya with experience of more than 15 years in legal affairs.

He has previously worked at various law firms; Kenya Railways Corporation; International Federation of Red Cross and Red Crescent Societies; and Kenya Broadcasting Corporation as a Senior Legal Officer. He has also been a lecturer at the Kenya School of Law and Mount Kenya University



General Manager, Human
Resource & Administration.
**Mr. Solomon Musiega
Assava**

Personal Information:

Born: 1966

Academic Qualifications:

Master of Business Administration degree (Human Resources Management)
Bachelor of Arts degree in Government.
Higher National Diploma in Human Resources Management
Member of the Institute of Human Resource Management, Kenya (IHRM-K)

Work Experience:

He has a total working experience of 15 years with the Corporation and five years gained elsewhere in manufacturing and engineering industries as a Human Resources practitioner.

He has previously worked at Alico Kenya Limited General Insurance Division, Mombasa (1998 - 1999) as a Sales Representative; Kaluworks Limited, Mombasa (1997 - 1998) as a Personnel Officer in-charge of Steel Division and Slapper Shoe Industries Ltd., Mombasa (1992 - 1997) also as a Personnel Officer where he honed his HR and administration skills.



Ag. General Manager,
Construction & Electro-
Mechanical.

**Mr. Ezekiah Kipkorir
Kapkiai**

Personal Information:

Born: 1955

Academic Qualifications:

Post Graduate Diploma in Electric Power Distribution
Bachelor of Science degree in Electrical

Work Experience:

Kapkiai is the Chief Engineer in charge of Electro-mechanical Division and currently the Ag. General Manager - Construction & Electro-mechanical. Kapkiai joined the Corporation in 1989 on secondment from the then Ministry of Water Development and to date, he has performed various tasks rising to the Head of Electro-Mechanical Department before the implementation of the water reforms in 2005. Upon restructuring the Corporation, he was appointed as In-Charge of Electro-Mechanical Division and the Management Representative (MR) of the Quality Management Systems (QMS).



Ag. General Manager,
Finance.
CPA Margaret Kithunzi

Personal Information:

Born: 1974

Academic Qualifications:

Master of Business Administration
Bachelor of Commerce (Accounting option)
Certified Public Accountant CPA (K)

Work Experience:

Kithunzi is the Chief Accountant, and currently the Ag. General Manager – Finance.

She has previously worked with the Teachers Service Commission. She joined National Water Conservation & Pipeline Corporation as the Chief Accountant. She is affiliated to the Institute of Certified Public Accountants of Kenya (ICPAK).



Ag. General Manager,
Planning & Design.
**Eng. Benjamin Syengo
Kiema**

Personal Information:

Born: 1960

Academic Qualifications:

Masters degree in Business Administration
Bachelor of Science degree in Civil Engineering
Registered Engineer with Engineers Registration Board (ERB)
Member of the Institute of Engineers of Kenya (IEK)

Work Experience:

He has over 20 years experience in water infrastructure development, primarily in the public sector. Eng. Kiema's experience has seen him traverse various aspects of civil engineering practice and management from design and supervision of construction of water supplies, operation & maintenance, to strategic level and long-term planning and corporate management.

He was Regional Manager for Rift Valley and Central regions before the implementation of the water reforms in 2005. He has previously been engaged with the Nakuru Water & Sanitation Company as the acting Managing Director for nine months. He has participated in water sector reforms especially in the setting up of the Water Services Regulatory Board. He has had the opportunity to attend to a wide range of management courses both locally and internationally.



Chief Procurement Officer.
**Mr. John Mwalya
Musyoka**

Personal Information:

Born: 1970

Academic Qualifications:

Executive Masters of Business Administration
Post Graduate Diploma in Purchasing & Supplies
Bachelor of Commerce degree (Business Administration option)

Work Experience:

Musyoka has vast experience as a Procurement Officer gained in Machakos and Muranga East districts. He has previously worked with Crane Securities, a member of the Nairobi Stock Exchange as a Purchasing Clerk/Dealer as well as Stanbic Bank Kenya Ltd where he was a Graduate Clerk/Management Trainee.



Ag. Chief Internal Auditor.
CPA **Philip Ngovi Nzengu**

Personal Information:

Born: 1968

Academic Qualifications:

Master of Arts in Procurement and Logistics
Bachelor of Business Administration
CPA-K

Work Experience:

Nzengu is the Senior Internal Auditor and currently the Ag. Chief Internal Auditor. Born in 1969, he is a self-made and educated professional having risen from a clerical officer to his current position. He is holder of a and a. Apart from the advanced college education, he is having gone through all the accounting training stages.

He started his career with M/s Njoroge & Musyoka Advocates; followed by a stint at the Mwingi County Council in various positions between 1995 to 2005 and finally at the defunct Kenya Anti-Corruption Commission before joining National Water Conservation & Pipeline Corporation.

CHAIRMAN'S STATEMENT

The constitution of Kenya guarantees every citizen the right to clean and safe water in adequate quantities. This right comes at the back drop of a nation which is water scarce.

National Water Conservation and Pipeline Corporation which was formed in 1988 has over the years tried to stand in the gap by developing water infrastructure such as dams, pans and boreholes while at the same time mitigating the effects of floods by building dykes amongst other things.

To achieve its mandate, the Corporation has fully embraced performance contracting which involves freely negotiated arrangements between the Board of Directors which I chair and the Government of the Republic of Kenya on Service delivery. The same performance Contract is cascaded to management whereby the Managing Director signed a contract with the Board and in turn signed similar contracts with the Heads of Departments. The Heads of Department on their part signed similar contracts with Divisional Heads.

The Performance Contracts have been useful tools to set targets and monitor performance of the Corporation's activities. In the last financial year, the Corporation performed well and met targets on most of the performance indicators.

The Corporation is fully committed to its vision of becoming a world class institution in water infrastructure development and management. By engaging with county governments, the Corporation will endeavour to increase the storage capacity of water especially in the arid and semi-arid areas of the county with a view of enhancing water security nationally and mitigate against the effects of floods and drought in vulnerable areas.

My Board will continue to engage with Government, the public and other stakeholders to rebrand the Corporation and make it relevant under the new dispensation of devolution.

In conclusion, I wish to state that the organization is ready to face the future and that the activities captured in this Annual Report and Financial statements represent the true status of the Corporation.

Hon Dr. Julius Kones
Chairman



Date: 30/9/2016

REPORT OF THE CHIEF EXECUTIVE OFFICER

I am pleased to present the Financial Statements of the Corporation for the period 2013/2014. During the year the institution depicted good financial health despite operating in a very challenging environment.

The electioneering period impacted drastically on the execution of some of the projects due to security concerns amongst others. The Corporation also faced budget constraints as it did not secure full funding from the Government as expected. Nonetheless, we managed to surmount the challenges to meet the annual targets.

In line with vision 2030, the Corporation continued to oversee construction of multi-billion large reservoirs namely, Kiserian Dam, Chemususu Dam, Kalundu Dam and Badasa Dam. The first three are complete and will soon be handed over to respective Water Services Boards. A number of dams were planned for the year namely; Siyoi – Muruny, Rare, Rumuruti, Upper Narok and Koru. The Corporation commenced construction works on the Siyoi-Muruny dam while compensation funds were released to the National Lands Commission for the Koru Dam. The dams form bulk of the operating expenses of the Corporation in line with its mandate.

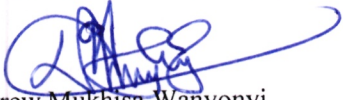
Besides the dams, the Corporation managed to construct 9 medium size dams and also undertook flood control works across the country including along River Kuja, River Nzoia, River Nyando, River Tende, Njoro Kubwa and in Turkana.

The Corporation has engaged a consultant to upgrade the Enterprise Resource Planning (ERP) accounting system to enhance integration of the Corporation's operations. This will ultimately aid in the integration with the E-Procurement portal. With this system the Corporation will be able to increase its efficiency and accountability.

The corporation has developed a strategic plan 2015-2020 to guide the roadmap for the next five (5) years. This will be used to prepare for the transformation as we await the new proposed water bill 2014 which is expected to give us new responsibility as NWHSSA.

Human Resources remain the greatest asset of the Corporation. In order to fully harness this important resource, the Institution organized and managed to send a number of Directors and officers at all cadres to various trainings as a way of building capacity. Finally, on customer satisfaction, the Corporation continues to be attentive to our customers.

The Report provides in summary the activities of the Corporation for the 2014/2015 financial year and provides a true and accurate status of the financial affairs of the Corporation for the period ending 30th June 2015.


Mr. Andrew Mukhisa Wanyonyi,
Ag. Managing Director

Date: 29/9/2015

CORPORATE GOVERNANCE STATEMENT

Corporate governance is the process by which corporations are directed and controlled with the objective of increasing stakeholder's value and satisfying them. This is achieved by establishing a system of clearly defined authorities and responsibilities, which result in a system of internal controls that is regularly tested to ensure effectiveness.

The Board of Directors and Senior Management staff of the National Water Conservation & Pipeline Corporation have undergone a comprehensive 5 day Corporate Governance Training Course which broadened their knowledge and understanding of Corporate Governance and provided an insight into the importance of good Corporate Governance in Corporate performance and productivity. In addition, their capacity on strategic direction setting and the interpretation of the best principles and practices in Corporate Governance was enhanced.

With the above knowledge, Corporate Governance has been exercised to required standards resulting increasing the Stakeholder's values and stratifying them as confirmed in the customer satisfaction survey. At National Water Conservation and Pipeline Corporation, the Board places a high degree of importance on maintaining a sound control environment and applying the highest standards of business integrity and professionalism in all areas of the Corporation's activities. The Board has adopted the Code of Best Practice for Corporate Governance issued by the Centre of Corporate Governance (Kenya) as its benchmark in developing its corporate governance principles.

The Board of Directors have continuously embraced the values embodied in our Strategic Plan of the Corporation: Integrity, Accountability, Transparency, Professionalism, team work and Innovativeness. Consistent with these values, we take corporate governance seriously.

The Corporation has strengthened its corporate governance with more detailed Corporate Governance Principles, reviewed committee charters and provided multiple means for stakeholders to contact the Board.

Our Governance strengths include:

- Our board of directors consists of independent Directors with mix skills from the private sector, Directors from Government Institutions and the Managing Director.
- Our board holds quarterly scheduled meetings as provided for by the State Corporations Act Cap 446 and have access to information as required.
- All Committees of the Board have charters to guide their activities.

In conclusion the Board is responsible for the governance of the Corporation and conducts the business and operations of the Corporation with integrity and in accordance with generally accepted corporate practices, in a manner based on transparency, accountability and responsibility.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2015 which show the state of the Corporation's affairs.

Principal activities

The principal activities of the entity are to:

- Develop state schemes and spearhead dam construction for water supplies, flood control and other multi- purpose uses, land drainage and construction of dykes.
- Carry out ground water recharge using flood water.
- Develop, retain existing and expand bulk water supply to water service boards and other water services providers.
- Drill and equip boreholes

Results

The results of the entity for the year ended June 30, 2015 are set out on page 20-35

Directors

The members of the Board of Directors who served during the year are shown on page iv – vii. The directors are appointed by the Cabinet Secretary in charge of Ministry of Environment Water & Natural Resources on three year terms while the Chairman is appointed by The President of the Republic of Kenya through a gazette notice.

Auditors

The Auditor General is responsible for the statutory audit of the Corporation in accordance with the Section 81 of the Public Finance Management (PFM) Act, 2012.

The Auditor General carried out the audit of the Corporation for the year ended June 30, 2015.

By Order of the Board



Mr. Andrew M. Wanyonyi
Ag. Managing Director

Date: 29/9/2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and Section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of that Corporation, which give a true and fair view of the state of affairs of the Corporation at the end of the financial year and the operating results of the Corporation for that year/period. The Directors are also required to ensure that the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation. The Directors are also responsible for safeguarding the assets of the Corporation.

The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year (period) ended on June 30, 2015. 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 entity; (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 Corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended June 30, 2015, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation'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 Corporation will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

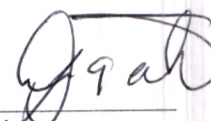
The Corporation's financial statements were approved by the Board on 29th September, 2015 and signed on its behalf by:



Director



Director



Director



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL WATER CONSERVATION AND PIPELINE CORPORATION FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the National Water Conservation and Pipeline Corporation set out on pages 1 to 23, which comprise the statement of financial position as at 30 June 2015, and the statement of financial performance, statement of changes in net assets, statement of cash flows, statement of comparative of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 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 of the Public Audit Act, 2003, and submit the audit report in compliance with Article 229 (7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. These 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 Corporation'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. Property Plant and Equipment

As reported in previous years, the property, plant and equipment balance of Kshs.547,352,619 as at 30 June 2015 excludes various assets valued at Kshs.16,781,832 earmarked for transfer to various Water Service Boards. The respective transfer agreements were drafted more than eight years ago but had not been signed as at 30 June 2015.

In the circumstance, it has not been possible to confirm whether the carrying values of the property, plant and equipment balance of Kshs.547,352,619 stated in the financial statements reflect the fair values of the corporations assets as at 30 June 2015.

2. Capital Work-in-Progress-Headquarters Building

As similarly reported in previous years, the Corporation in March 2008 awarded a contract for construction of its Headquarter building to a firm at a contract sum of Kshs.485,400,820. However, the contractor abandoned the project after being paid a total sum of Kshs.80,660,480. The Corporation thereafter instituted a claim of Kshs.24,270,401 being 5% performance bond as provided for in the terms of the contract. The insurance firm however declined to honor the claim and the matter was pending in Court as at 30 June 2015.

So far, the Corporation has incurred a total of Kshs.668,000,000 on the project after contracting another firm to undertake the outstanding works. Under the circumstance, the Corporation may not have received value-for-money in the two contracts due to the delay in completion of the project and large increase in its costs including project legal expenses.

3. Receivables from Exchange Transactions

3.1. Water Service Boards Debts

As similarly reported in the previous year, receivables from exchange transactions of Kshs.856,189,729 as at 30 June 2015 exclude a water supply debt of Kshs.1,377,265,028 and payments totaling to Kshs.754,400 transferred to Water Service Boards under various agreements between the Corporation and the Water Services Boards in the year

2005/2006. These agreements have not been formalized and therefore the legal status of the debts is uncertain.

3.2. Long Outstanding Debts

Included in the receivables from exchange transactions balance of Kshs.856,189,729 as at 30 June 2015 are long outstanding trade debtors totaling to Kshs.58,449,462. Although management has made a provision of Kshs.4,335,884, the provision appears inadequate. Further, management has not shown any effort made to recover the outstanding debts especially those from Government institutions and private firms.

3.3. Recoverable Advances

Included in the receivables from exchange transactions balance of Kshs.856,189,729 as at 30 June 2015 is a balance of Kshs.789,018,357 described as recoverable advances made to contractors. No explanation has been provided why the Corporation made advance payments to contractors contrary to the Public Procurement and Disposal Act, 2005.

Under the circumstance, it has not been possible to confirm that the receivables from exchange transactions balance of Kshs.856,189,729 is fairly stated.

4. Receivables from Non-Exchange Transactions

4.1. Temporary Imprest

The receivables from non-exchange transactions balance of Kshs.44,107,409 as at 30 June 2015 includes temporary imprests totaling to Kshs.30,630,577 that have been outstanding for over 90 days and whose recoverability is doubtful. Though management has made a provision for doubtful debts amounting to Kshs.13,684,021, the provision appears inadequate. Further efforts made by management to recover the imprest have not been explained.

4.2 Furniture Advance

Included in the receivables from non-exchange transactions balance of Kshs.44,107,275 as at 30 June 2015 is a sum of Kshs.14,472 which has been outstanding for long and whose recoverability appears doubtful. Management has not explained how it intends to recover the balance.

In the circumstance, the receivables from non-exchange transactions balance of Kshs.44,107,409 cannot be confirmed as fairly stated.

5. Construction of Dams

5.1. Umaa Dam

- (i) As previously reported, a contractor was paid Kshs.2,000,000 for the purchase of Yamaha motor cycles (125cc) and a further sum of Kshs.320,000 in respect of

overheads and profit. The motor cycles were to be used by the contractor during the site visits due to the nature of the terrain. However, a market survey of the price in December 2010 for these type of motor cycles indicated that the purchase price may have been inflated by over 300%. Although the management explained that the payment could be reversed in the subsequent interim payment certificate as provided for in Clause 60.4 of the general conditions of the contract, no reversal had been effected as at 30 June 2015.

Under the circumstance, the propriety of the motor cycles expenditure amounting to Kshs.2,320,000 could not be ascertained.

- (ii) Further and as previously reported, in September 2009 eight months after the commencement of the Umaa Dam contract, the contractor submitted a request for variation of the contract price by Kshs.442,920,633. The variation request by the contractor represented an increase of 53% of the original contract price of Kshs.824,457,120. The Corporation in turn declined to approve the variation or settle the contractor's claims on the ground that they were invalid and unjustifiable. The project therefore stalled due to the disagreement and the dispute was referred to the Courts. At the time of this report, the case had not been determined and thus no value for money has been obtained from the expenditure of Kshs.824,457,120 incurred on the project.

5.2 Badasa Dam

As reported in the previous year, progress of work reported as at September 2010 indicated that the overall project completion was 33% while 52% of the contract period had lapsed. Available information indicates that in the year 2012/2013, the contractor was unable to complete the project within the contract period despite the Corporation having spent Kshs.1,853,757,235 as at 30 June 2013. The Corporation subsequently entered into an agreement with a contractor on 20 August 2013 which released both parties from performance of the contract on the account of convenience without the project being completed. No justification has been provided for this action nor has the Corporation realized value-for-money for the expenditure of Kshs.1,853,757,235.

6. Cash and Cash Equivalents

The cash and cash equivalents balance of Kshs.1,916,390,639 as at 30 June 2015 is arrived at after providing for unposted items amounting to Kshs.35,700,250, long outstanding lodgment of Kshs.2,313,147 and overcast of Kshs.2,049,966 in the bank reconciliation statements that were not supported nor explained. Further, included in the cash and cash equivalents balance of Kshs.1,916,390,639 as at 30 June 2015, are unexplained under-bankings totaling to Kshs.1,496,450.

In the circumstances, it has not been possible to ascertain the accuracy and completeness of the cash and cash equivalents balance of Kshs.1,916,390,639.

7. Payment of Acting Allowance

During the year under review, the Corporation paid a total of Kshs.1,312,652 in allowances to officers on acting capacity. However, contrary to the Code of Regulations Sub-section J4 Clause 7 some of the officers were paid allowances assigned to posts higher than those they were appointed to act. In the circumstance, the propriety of the allowances totaling to Kshs.1,312,652 cannot be ascertained.

8. Court Compensations

The Corporation dismissed from office some of its staff on various disciplinary grounds. The dismissed employees subsequently filed cases with the Industrial court and the court determined cases for some employees in their favor and awarded them Kshs.42,638,986. The decision to terminate staff costed the Corporation Kshs.42,638,986 which had not been budgeted for. Further, some cases are still pending in court by the time of audit and thus the Corporation may incur additional losses.

9. Inventories

The inventory balance of Kshs.75,555,344 as at 30 June 2015 was not supported with any stock sheets. Management did not provide evidence whether stock-taking took place and how the balance was arrived at. In the circumstance, it has not been possible to ascertain the stock, accuracy and completeness of the inventory balance of Kshs.75,555,344.

10. Long Outstanding Loan

The Corporation received loans from the Government totaling to Kshs.2,460,874,897 with various effective dates of repayment. However, the loan balance is not reflected in the books of the Corporation. Further, although the loan repayments are due, the Corporation has not made any repayment nor has it recognized in the books interest due together with the arrears.

Adverse Opinion

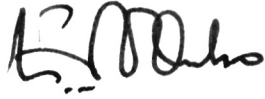
In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of National Water Conservation and Pipeline Corporation as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the State Corporations Act and Water Act, 2002 of the Laws of Kenya.

Other Matter

Under Funding

The Corporation received Kshs.2,099,000,000 as development grants against the approved budget of Kshs.2,630,000,000 resulting in underfunding of Kshs.531,000,000. With such huge underfunding the Corporation could not undertake all its budgeted

activities and this in turn hindered it from discharging its mandate. My opinion is not qualified in respect of this matter.



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

Nairobi

29 November 2016

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30th June 2015

| | | 2014-2015 | 2013-2014 |
|---|----|---------------------|---------------------|
| | | Kshs | Kshs |
| | | | Restated |
| Revenue from non-exchange transactions | | | |
| Transfers from other governments | 2 | 172,700,000 | 192,554,000 |
| | | 172,700,000 | 192,554,000 |
| Revenue from exchange transactions | | | |
| Rendering of services | 3 | 41,225,122 | 102,696,983 |
| Rental revenue from facilities and equipment | 4 | 432,000 | 8,548,558 |
| Finance income - external investments | 5 | 125,084,805 | 94,563,877 |
| Other income | 6 | 6,842,487 | 6,187,537 |
| | | 173,584,414 | 211,996,956 |
| Total revenue | | 346,284,414 | 404,550,956 |
| Expenses | | | |
| Employee costs | 7 | 279,669,253 | 271,224,958 |
| Board Members Remuneration & Related Costs | 8 | 21,916,902 | 21,473,888 |
| Depreciation and amortization expense | 9 | 29,274,030 | 36,175,883 |
| Repairs and maintenance | 10 | 50,625 | 52,056,857 |
| Rendering of services | 11 | 71,588,192 | 32,533,804 |
| General expenses | 12 | 21,261,871 | 24,740,876 |
| Total expenses | | 423,760,872 | 438,206,267 |
| Surplus before tax | | (77,476,458) | (33,655,311) |
| Taxation | | 0 | 0 |
| Surplus for the period | | (77,476,458) | (33,655,311) |

STATEMENT OF FINANCIAL POSITION

As at 30th June 2015

| | | 2014-2015 | 2013-2014 |
|---|----|-----------------------|-----------------------|
| | | Kshs | Kshs |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 13 | 1,916,390,639 | 1,933,983,290 |
| Receivables from exchange transactions | 14 | 856,189,729 | 64,032,033 |
| Receivables from non-exchange transactions | 15 | 44,107,409 | 58,826,138 |
| Inventories | 16 | 75,555,344 | 111,425,502 |
| | | 2,892,243,122 | 2,168,266,963 |
| Non-current assets | | | |
| Property, plant and equipment | 17 | 547,352,619 | 567,866,629 |
| Intangible assets | 18 | 3,294,183 | 4,941,275 |
| Capital Work in Progress | 19 | 12,794,664,628 | 11,435,428,362 |
| | | 13,345,311,431 | 12,008,236,265 |
| Total assets | | 16,237,554,553 | 14,176,503,228 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables from exchange transactions | 20 | 411,301,370 | 638,209,573 |
| Trade and other payables from non-exchange transactions | 21 | 3,615,216 | 1,302,091 |
| | | 414,916,586 | 639,511,664 |
| Non-current liabilities | | | |
| Deferred income - Project Funds | 22 | 14,901,168,470 | 12,538,045,610 |
| | | 14,901,168,470 | 12,538,045,610 |
| Total liabilities | | 15,316,085,056 | 13,177,557,273 |
| Net assets | | | |
| Capital Reserves | | 848,612,700 | 848,612,700 |
| Accumulated surplus | | 72,856,797 | 150,333,255 |
| Total net assets and liabilities | | 16,237,554,553 | 14,176,503,228 |



Hon Dr. Julius Kones
Chairman



Mr. Andrew M Wanyonyi
Ag. Managing Director

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30 June 2015.

| | Capital Reserves | Accumulated Surplus | Total |
|---|---------------------|------------------------|----------------------|
| | Shs | Restated Shs | Shs |
| Balance as at 30 JUNE 2013 | 848,612,700 | 191,214,372 | 1,039,827,072 |
| | | | 0 |
| Surplus for the period | 0 | (33,655,311) | (33,655,311) |
| Adjustments on Cumulative amortization on Land* | 0 | (7,225,806) | (7,225,806) |
| Balance as at 30 JUNE 2014 | 848,612,700 | 150,333,255 | 998,945,955 |
| Surplus for the period | 0 | (77,476,458) | (77,476,458) |
| Transfers to/from accumulated surplus | 0 | 0 | 0 |
| Balance as at 30 JUNE 2015 | 848,612,700 | 72,856,797 | 921,469,497 |

** The above adjustment is the cumulative amortization of leasehold land for the period between 2005 - 2013.*

STATEMENT OF CASH FLOWS

For the year ended 30 June 2015

| Note | 2014-2015 Kshs | 2013-2014 Kshs |
|---|---------------------------|----------------------|
| Cash flows from operating activities | | |
| Receipts | | |
| Government grants and subsidies | 172,700,000 | 192,554,000 |
| Rendering of services - Private Works | 38,592,832 | 59,377,602 |
| Rental revenue from facilities and equipment | (36,000) | 9,113,093 |
| Finance income - external investments | 125,426,559 | 112,515,201 |
| Other income | 5,273,300 | 6,187,537 |
| | 341,956,691 | 379,747,434 |
| Payments | | |
| Employee costs | 279,669,253 | 271,224,958 |
| Board Members Remuneration & Related Costs | 21,916,902 | 21,473,888 |
| Rendering of services - Cost of private works | 71,588,192 | 32,533,804 |
| Other payments | 984,717,848 | 320,482,335 |
| | 1,357,892,194 | 645,714,985 |
| Net cash flows from operating activities | 23 (1,015,935,503) | (265,967,552) |
| Cash flows from investing activities | | |
| Buildings | (1,023,060) | - |
| Purchase of Motor Vehicles | 1,851,981 | - |
| Purchase of Furniture and Office Equipment | (1,748,860) | - |
| Computers & Accessories | (4,623,803) | - |
| Plant & Field Equipment | - | - |
| Increase in Capital Works in Progress | (1,359,236,267) | 671,076,960 |
| Net cash flows used in investing activities | (1,364,780,008) | 671,076,960 |
| Cash flows from financing activities | | |
| Government Grants | 2,363,122,861 | 774,135,910 |
| Net cash flows used in financing activities | 2,363,122,861 | 774,135,910 |
| Net increase/(decrease) in cash and cash equivalents | | |
| Cash and cash equivalents at 1 JULY | 13 1,933,983,290 | 750,757,253 |
| Cash and cash equivalents at 30 JUNE | 13 1,916,390,639 | 1,933,983,290 |

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

For the year ended 30 June 2015

| | Original budget 2014-2015 Kshs | Adjustments 2014-2015 Kshs | Final budget 2014-2015 Kshs | Actual on comparable basis 2014-2015 Kshs | Performance difference 2014-2015 Kshs |
|---|---|---|--|--|--|
| Revenue | | | | | |
| Government grants and subsidies - recurrent | 172,700,000 | 0 | 172,700,000 | 172,700,000 | 0 |
| Government grants and subsidies - Development | 2,630,000,000 | 0 | 2,630,000,000 | 2,409,000,000 | (221,000,000) |
| Other income A.I.A | 100,000,000 | 43,294,719 | 143,294,719 | 173,584,414 | 30,289,695 |
| Total income | 2,902,700,000 | 43,294,719 | 2,945,994,719 | 2,755,284,414 | (190,710,305) |
| Expenses | | | | | |
| Employee costs | 228,728,092 | 43,294,719 | 272,022,811 | 277,880,958 | (5,858,147) |
| Board Members Remuneration & Related Costs | 22,202,076 | 0 | 22,202,076 | 21,916,902 | 285,174 |
| General expenses | 21,058,788 | 0 | 21,058,788 | 15,422,776 | 5,572,669 |
| Finance costs | 711,044 | 0 | 711,044 | 711,015 | 29 |
| 110020500- Dams & Pans | 1,941,000,000 | 0 | 1,941,000,000 | 1,603,558,468 | 337,441,532 |
| 110020400- Drilling | 254,000,000 | 0 | 254,000,000 | 114,000,000 | 140,000,000 |
| 110020300- Flood control | 300,000,000 | 0 | 300,000,000 | 246,504,532 | 53,495,468 |
| Construction of Buildings | 135,000,000 | 0 | 135,000,000 | 135,000,000 | 0 |
| Total expenditure | 2,902,700,000 | 43,294,719 | 2,945,994,719 | 2,414,994,651 | 530,936,725 |
| Surplus for the period | 0 | (0) | 0 | 340,289,763 | 340,226,420 |
| | Original budget 2013-2014 Kshs | Adjustments 2013-2014 Kshs | Final budget 2013-2014 Kshs | Actual on comparable basis 2013-2014 Kshs | Performance difference 2013-2014 Kshs |
| Revenue | | | | | |
| Government grants and subsidies - recurrent | 172,554,000 | 20,000,000 | 192,554,000 | 192,554,000 | 0 |
| Government grants and subsidies - Development | 5,263,500,000 | (712,812,573) | 4,550,687,427 | 2,507,200,000 | (2,043,487,427) |
| Other income A.I.A | 100,000,000 | 30,000,000 | 130,000,000 | 211,996,956 | 81,996,956 |
| Total income | 5,536,054,000 | (662,812,573) | 4,873,241,427 | 2,911,750,956 | (1,961,490,471) |
| Expenses | | | | | |
| Employee costs | 218,119,073 | 46,351,256 | 264,470,329 | 267,234,239 | (2,763,910) |
| Board Members Remuneration & Related Costs | 15,854,000 | 15,440,774 | 31,294,774 | 20,866,741 | 10,428,032 |
| General expenses | 37,580,927 | (11,792,029) | 25,788,898 | 27,480,441 | (1,691,543) |
| Finance costs | 1,000,000 | - | 1,000,000 | 1,132,528 | (132,528) |
| 110020500- Dams & Pans | 4,198,300,000 | (773,812,573) | 3,424,487,427 | 491,647,803 | 2,932,839,624 |
| 110020400- Drilling | 707,200,000 | (6,000,000) | 701,200,000 | 255,290,491 | 445,909,509 |
| 110020300- Flood control | 223,000,000 | (33,000,000) | 190,000,000 | 108,834,271 | 81,165,729 |
| Construction of Buildings | 135,000,000 | 100,000,000 | 235,000,000 | 94,257,086 | 140,742,914 |
| Total expenditure | 5,536,054,000 | (662,812,573) | 4,873,241,427 | 1,266,743,600 | 3,606,497,827 |
| Surplus for the period | 0 | 0 | 0 | 1,645,007,356 | 1,645,007,356 |

NOTES TO THE FINANCIAL STATEMENTS

Statement of compliance and basis of preparation

The Corporation'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 entity and all values are rounded to the nearest thousand (Ksh.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.

Summary of significant accounting policies

1. Revenue Recognition

a) Revenue from non-exchange transactions

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

b) Revenue from exchange transactions

(i) Rendering of services

The entity 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.

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

(ii) 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.

(iii) 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.

c) 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 entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity 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) Property, plant and equipment

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

The depreciation is recognized on a reducing balance basis with the applicable rates of:

- Buildings 2.5% per annum
- Plant & Equipment 3.0% per annum
- Motor Vehicles & Cycles 25.0% per annum
- Furniture, Fittings and Office Equipment 12.5% per annum
- Freehold Land & Capital Work in Progress *is not depreciated.*

Depreciation methods, useful lives and residual values, if not significant, are reassessed annually at each reporting date.

e) Intangible assets

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 intangible assets are amortized on a reducing balance basis at a rate of 33.3% per annum.

f) Inventories

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

Costs incurred in bringing each product to its present location and 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 materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

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

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

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

g) Provisions

Provisions are recognized when the Entity 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 Entity 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.

h) Contingent liabilities

The Entity 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.

i) Changes in accounting policies and estimates

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

j) Employee benefits

Retirement benefit plans

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

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

k) 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.

l) Comparative figures

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

m) Significant judgments and sources of estimation uncertainty

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

n) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing

circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

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 Entity
- ✓ 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. 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.

o) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2015.

p) Related party transactions

The remuneration of key management who received remuneration directly from the authority during the year is as follows:

| | 2014-2015 | 2013-2014 |
|------------------------------------|-------------------|-------------------|
| | Shs | Shs |
| Director's emoluments | 22,202,076 | 21,473,888 |
| Key management compensation | | |
| CEO's salary and benefits | 2,071,000 | 8,566,226 |
| | 24,273,076 | 30,040,114 |

q) Financial Risk Management

Exposure to currency, commodity, interest rate, liquidity and credit risk arises in the normal course of the authority's operations. This note presents information about the authority's exposure to each of the above risks, policies and processes for measuring and managing risk, and the authority's management of capital. Further quantitative disclosures are included throughout these financial statements.

i) Fair values

Set out below, is a comparison by class of the carrying amounts and fair value of the authority's financial instruments.

| | Carrying amount Shs | Fair value Shs |
|---|------------------------|----------------------|
| Financial Assets | | |
| As at 30th June 2015 | | |
| Cash and cash equivalents | 1,915,452,564 | 1,915,452,564 |
| Receivables from exchange transactions | 856,189,729 | 856,189,729 |
| Receivables from non-exchange transactions | 44,107,409 | 44,107,409 |
| | 2,815,749,702 | 2,815,749,702 |
| Financial Assets | | |
| As at 30th June 2014 | | |
| Cash and cash equivalents | 1,933,983,290 | 1,933,983,290 |
| Receivables from exchange transactions | 64,032,033 | 64,032,033 |
| Receivables from non-exchange transactions | 59,826,138 | 59,826,138 |
| | 2,057,841,461 | 2,057,841,461 |
| Financial Liabilities | | |
| As at 30th June 2015 | | |
| Trade and other payables from exchange transactions | 410,118,633 | 410,118,633 |
| Trade and other payables from non-exchange transactions | 3,020,122 | 3,020,122 |
| | 413,138,754 | 413,138,754 |
| Financial Liabilities | | |
| As at 30th June 2014 | | |
| Trade and other payables from exchange transactions | 638,209,573 | 638,209,573 |
| Trade and other payables from non-exchange transactions | 1,302,091 | 1,302,091 |
| | 639,511,664 | 639,511,664 |

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

ii) Credit risk

Credit risk is the risk of financial loss to the authority if customers or counterparties to financial instruments fail to meet their contractual obligations. The authority's credit risk is primarily attributable to its receivables and cash and cash equivalents. The company's management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors before extending credit. The carrying amount of financial assets represents the maximum credit exposure. The credit risk on liquid funds with financial institutions is low, because the counter parties is a bank (KCB) with high credit-ratings. The maximum exposure to credit risk as at 30 Jun 2015 was:

| As at 30th June 2015 | Fully performing Shs | Past due Shs | Impaired Shs | Total Shs |
|--|-------------------------|--------------------|-----------------|----------------------|
| Cash and cash equivalents | 1,915,452,564 | 0 | 0 | 1,915,452,564 |
| Receivables from exchange transactions | 468,000 | 855,721,729 | 0 | 856,189,729 |
| Receivables from non-exchange transactions | 13,670,240 | 30,437,169 | 0 | 44,107,409 |
| Maximum exposure to credit risk | 1,929,590,804 | 886,158,898 | 0 | 2,815,749,702 |

The average credit period on services rendered is 90 days from date of invoice. Debts above 90 days old are classified as past due. The Corporation provides fully for all receivables outstanding over 365 days where there is no evidence of expected recovery. The customers under the fully performing category are paying their debts as they continue dealing with the authority. The default rate is low. The debt that is overdue is not impaired and continues to be paid.

iii) Credit quality

Credit quality is assessed risk of default attached to counterparties to which the authority extends credit and also those parties with whom the authority invests. As such, the credit quality assessed extends to the customers and banks of the authority. For financial statement purposes, the investments and balances with banks are limited to the receivable and cash and cash equivalents line items in the statement of financial position. The authority determines credit quality of the banks from past dealings with them and from information readily available from the regulatory authority, the Central Bank of Kenya.

The client base of the authority is diverse and consists mainly of companies, individuals and government entities. For the purpose of determining the credit quality of clients, the authority applies its past experience with them in determining the risk of default they pose.

iv) Receivables

Receivable amounts are owed by clients and the government of Kenya and are presented net of any impairment losses. There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The authority's exposure to credit risk is monitored on an ongoing basis. The authority's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial performance.

v) Cash and cash equivalents

The authority limits its exposure to credit risk by investing cash and cash equivalents with only reputable financial institutions that have a sound credit rating. Consequently, the authority does not consider there to be any significant exposure to credit risk.

vi) Liquidity risk

Liquidity risk is the risk of the authority not being able to meet its obligations as they fall due. The authority's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the authority's reputation. Prudent liquidity risk management includes maintaining sufficient cash to meet the authority's obligations.

The table below analyses the authority's financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

| | Less than 1 month Shs | Between 1-3 months Shs | Over 3 months Shs | Total Shs |
|--|-----------------------------|------------------------------|-------------------------|--------------------|
| As at 30th June 2015 | | | | |
| Receivables from exchange transactions | 468,000 | | 855,721,729 | 856,189,729 |
| Receivables from non-exchange transactions | 8,373,274 | 5,296,966 | 30,437,169 | 44,107,409 |
| | 8,841,274 | 5,296,966 | 886,158,898 | 900,297,138 |
| | | | | |
| | Less than 1 month Shs | Between 1-3 months Shs | Over 3 months Shs | Total Shs |
| As at 30th June 2014 | | | | |
| Receivables from exchange transactions | 47,941,717 | 0 | 190,316 | 64,032,033 |
| Receivables from non-exchange transactions | 22,786,948 | 16,978,530 | 19,060,660 | 58,826,138 |
| | 70,728,665 | 16,978,530 | 35,150,976 | 122,858,170 |

vii) Market risk

Market risk is the risk of changes in market prices, such as foreign-exchange rates and interest rates, affecting the authority's income or the value of its financial instrument holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on the risk.

(i) Price risk

The authority does not hold investments that would be subject to price risk; hence this risk is not relevant.

(ii) Interest rate risk

The authority does not hold any interest bearing liabilities or assets; hence this risk is not relevant.

(iii) Foreign currency risk

The authority is exposed to foreign-currency risk through foreign currency denominated bank balances. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

viii) Capital risk management policies

The primary objective of managing the authority's capital is to ensure that there is sufficient cash available to support the authority's funding requirements, including capital expenditure, to ensure that the authority remains financially sound. The authority monitors capital using a gearing ratio, which is net debt, divided by total capital, plus net debt. As at the end of the year, the authority had no debt.

The capital structure of the authority consists only of a capital fund and accumulated general fund. The capital fund caters for replacement of assets and the general fund accommodates the surplus/deficit generated by the organization. The gearing ratio of the authority is therefore 0%.

r) Budget Analysis

The recurrent budget changes between the original budget (Kshs.272,700,000.00) and final budget (Kshs.315,994,719.00) is as a result of utilization of the Excess Appropriations-in-Aid as approved by the Board of Directors and approved by The National Treasury. The Development Budget had no variance. Of the allocated budget, the Ministry of Water and Irrigation disbursed Kshs.3,409,000,000.00 during the Financial Year 2014/2015. Kshs.1 billion related to the FY 2013/2014, Kshs.310,000,000 was transferred to the Water Service Boards and therefore only Kshs.2,099,000,000.00 related to the budget of FY 2014/2015. The financing deficit was therefore Kshs.531,000,000.00 hence the material differences in the budget expenditure/utilization.

| 2. Transfers from GoK | 2014-2015 | 2013-2014 |
|--|--------------------|--------------------|
| | Shs | Shs |
| <u>Unconditional grants</u> | | |
| Recurrent grant | 172,700,000 | 192,554,000 |
| Total Transfers from GoK | 172,700,000 | 192,554,000 |
| | | |
| 3. Rendering of services | 2014-2015 | 2013-2014 |
| | Shs | Shs |
| Drilling of Private Boreholes | 41,225,122 | 102,696,983 |
| Total revenue from the rendering of services | 41,225,122 | 102,696,983 |
| | | |
| 4. Rental revenue from facilities and equipment | 2014-2015 | 2013-2014 |
| | Shs | Shs |
| Renting of Premises | 432,000 | 572,819 |
| Hire of Equipment | - | 7,975,739 |
| Total rentals | 432,000 | 8,548,558 |
| | | |
| 5. Finance income - external investments | 2014-2015 | 2013-2014 |
| | Shs | Shs |
| Cash On-call & Fixed Deposits | 125,084,805 | 94,563,877 |
| Total finance income – external investments | 125,084,805 | 94,563,877 |
| | | |
| 6. Other income | 2014-2015 | 2013-2014 |
| | Shs | Shs |
| Insurance recoveries | 5,265,000 | 5,867,126 |
| Commissions from check offs | - | 183,111 |
| Other income | 5,300 | 5,300 |
| Sale of Tenders | 3,000 | 132,000 |
| Gain on Disposal | 1,569,187 | - |
| Total other income | 6,842,487 | 6,187,537 |
| | | |
| 7. Employee costs | | |
| <i>No. of Employees</i> | <i>212</i> | <i>210</i> |
| | 2014-2015 | 2013-2014 |
| | Shs | Shs |
| Salaries and Wages | 140,264,748 | 137,447,621 |
| Contribution to Pension | | |

| | | |
|-----------------------------------|--------------------|--------------------|
| | 19,855,532 | 18,317,416 |
| Contribution to NSSF | 535,600 | 542,800 |
| Medical Insurance & Allowances | 35,335,139 | 28,118,188 |
| Commuter Allowances | 12,667,962 | 12,750,623 |
| House Allowance | 50,735,629 | 50,944,035 |
| Leave Allowance | 5,283,119 | 4,172,503 |
| Acting Allowance | 1,312,652 | 854,236 |
| Non-Practicing Allowance | 600,000 | 596,129 |
| Responsibility Allowance | 2,558,666 | 2,476,447 |
| Medical Refund – Ex-gratia | - | 300,000 |
| Special Duty Allowance | 152,429 | 138,685 |
| Consolidated Allowance | 240,000 | - |
| Gratuity to Employee on Contracts | 4,269,631 | 10,585,555 |
| Staff Welfare | 5,858,147 | 3,980,719 |
| Employee costs | 279,669,253 | 271,224,958 |

8. Board Members Remuneration & Related Costs

| | 2014-2015 Shs | 2013-2014 Shs |
|---|-------------------|-------------------|
| Allowances | 18,667,977 | 19,789,962 |
| Catering | 1,256,643 | 1,082,700 |
| Honoraria | 888,000 | 448,000 |
| Others | 1,104,282 | 153,226 |
| Total Board Members Remuneration & Related Costs | 21,916,902 | 21,473,888 |

9. Depreciation and amortization expense

| | 2014-2015 Shs | 2013-2014 Shs |
|--|-------------------|-------------------|
| Property, plant and equipment (<i>Ref Note 17</i>) | 27,626,939 | 33,705,246.00 |
| Intangible assets (<i>Ref Note 18</i>) | 1,647,092 | 2,470,637 |
| Total depreciation and amortization | 29,274,030 | 36,175,883 |

10. Repairs, running and maintenance

| | 2014-2015 Shs | 2013-2014 Shs |
|--------------------------------------|------------------|-------------------|
| Property | - | 110,000 |
| Office Equipment | 50,625 | 169,318 |
| Movable assets | - | 51,777,539 |
| Total repairs and maintenance | 50,625 | 52,056,857 |

11. Rendering of services

| | 2014-2015 Shs | 2013-2014 Shs |
|-----------------------|-------------------|-------------------|
| Cost of Private works | 71,588,192 | 32,533,804 |
| | 71,588,192 | 32,533,804 |

12. General expenses

The following are included in general expenses:

| | 2014-2015 Shs | 2013-2014 Shs |
|-----------------------------------|-------------------|-------------------|
| Communication | 3,346,345 | 5,268,608 |
| Travel | 1,563,549 | 1,232,207 |
| Publicity and Advertising | 1,060,200 | 3,000,226 |
| Staff Training | 22,500 | 1,770,223 |
| Professional Consultancies | 4,431,200 | 1,348,387 |
| Computer | - | 601,945 |
| Cleaning and Sanitation | 54,630 | 141,513 |
| Security | 452,000 | 3,159,750 |
| Membership Fees and Subscriptions | 54,700 | 182,200 |
| Legal | 4,486,642 | 1,591,442 |
| Audit | 1,451,920 | 1,386,307 |
| Corporate Insurance | 2,239,645 | 2,358,038 |
| Group Life | 1,387,525 | 1,858,357 |
| Bank Charges | 711,015 | 841,672 |
| Total general expenses | 21,261,871 | 24,740,876 |

13. Cash and cash equivalents

| | 2014-2015 | 2013-2014 |
|--|----------------------|----------------------|
| | Shs | Shs |
| Recurrent Account | 16,709,747 | |
| Development Account | 1,678,566,430 | 1,915,983,290 |
| Special Account | 3,358,315 | |
| Retention Account | 198,998,495 | |
| Deposit Account | 18,639,232 | |
| Cash-on-hand and in transit | 118,420 | - |
| Short-term deposits | - | 18,000,000.00 |
| Total cash and cash equivalents | 1,916,390,639 | 1,933,983,290 |

14. Receivables from exchange transactions

| | 2014-2015 | 2013-2014 |
|---|--------------------|-------------------|
| | Shs | Shs |
| Current receivables | | |
| Accrued K.C.B Interest Income | 0 | 341,754 |
| Rent Receivable | 468,000 | 0 |
| Prepaid Insurance & others | 5,427,386 | 5,046,582 |
| Business Unit Debtors | 65,611,871 | 62,979,581 |
| <i>Specific Provision for Bad Debts</i> | (4,335,884) | (4,335,884) |
| Net Business Unit Debtors | 61,275,987 | 58,643,697 |
| Recoverable Advances | 789,018,357 | 0 |
| Total receivables | 856,189,729 | 64,032,033 |

15. Receivables from non-exchange transactions

| | 2014-2015 | 2013-2014 |
|---|-------------------|-------------------|
| | Shs | Shs |
| Current receivables | | |
| Temporary Imprests to staff | 45,094,653 | 60,608,558 |
| <i>Specific Provision for Bad Debts</i> | (13,684,021) | (13,684,021) |
| Net Temporary Imprests to staff | 31,410,632 | 46,924,537 |
| Salary Advances to Staff | 1,572,030 | 883,654 |
| Furniture Advances to staff | 14,472 | 14,472 |
| Deposit with the Courts | 11,110,275 | 11,003,475 |
| Total current receivables | 44,107,409 | 58,826,138 |

16. Inventories

| | 2014-2015 | 2013-2014 |
|--|-------------------|--------------------|
| | Shs | Shs |
| Stocks | 75,555,344 | 111,425,502 |
| Total inventories at net realizable value | 75,555,344 | 111,425,502 |

17. Property, Plant and Equipment

| | Leasehold Land Kshs. | Freehold Buildings Kshs. | Plant & Field Equipment Kshs. | Motor Vehicles & Cycles Kshs. | Furniture & Fittings Kshs. | Computers & Accessories | Total Kshs. |
|---|----------------------------|--------------------------------|-------------------------------------|-------------------------------------|----------------------------------|----------------------------|--------------------|
| <i>Depreciation Rate</i> | <i>93years</i> | <i>2.50%</i> | <i>3.00%</i> | <i>25%</i> | <i>12.50%</i> | <i>33.33%</i> | |
| | Restated | | | | | | |
| <u>Cost/Valuation</u> | | | | | | | |
| At 1 July 2013 | 84,000,000 | 67,473,764 | 462,150,375 | 284,051,090 | 50,484,379 | 0 | 948,159,608 |
| Additions | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| At 30 June 2014 | 84,000,000 | 67,473,764 | 462,150,375 | 284,051,090 | 50,484,379 | 0 | 948,159,608 |
| Additions | 0 | 1,023,060 | 0 | 0 | 1,748,860 | 4,623,803 | 7,395,723 |
| Disposals | 0 | 0 | 0 | 11,480,000 | 0 | 0 | 11,480,000 |
| At 30 June 2015 | 84,000,000 | 68,496,824 | 462,150,375 | 272,571,090 | 52,233,239 | 4,623,803 | 944,075,331 |
| <u>Depreciation and impairment</u> | | | | | | | |
| At 1 July 2013 | 7,225,806 | 11,406,697 | 87,441,325 | 216,800,088 | 23,713,817 | 0 | 346,587,733 |
| Charge for the year | 903,226 | 1,401,677 | 11,241,272 | 16,812,751 | 3,346,320 | 0 | 33,705,246 |
| At 30 June 2014 | 8,129,032 | 12,808,374 | 98,682,597 | 233,612,839 | 27,060,137 | 0 | 380,292,979 |
| Charge for the year | 903,226 | 1,392,211 | 10,904,033 | 9,739,563 | 3,146,638 | 1,541,268 | 27,626,939 |
| Disposals | 0 | 0 | 0 | 11,197,206 | 0 | 0 | 11,197,206 |
| At 30 June 2015 | 9,032,258 | 14,200,586 | 109,586,630 | 232,155,195 | 30,206,775 | 1,541,268 | 396,722,712 |
| <u>Net book Value</u> | | | | | | | |
| At 30 June 2015 | 74,967,742 | 54,296,238 | 352,563,745 | 40,415,895 | 22,026,464 | 3,082,535 | 547,352,619 |
| At 30 June 2014 | 75,870,968 | 54,665,390 | 363,467,778 | 50,438,251 | 23,424,242 | 0 | 567,866,629 |
| At 30 June 2013 | 76,774,194 | 56,067,067 | 374,709,050 | 67,251,002 | 26,770,562 | 0 | 601,571,875 |

18. Intangible assets - software

| <u>Cost/Valuation</u> | Shs |
|------------------------|------------|
| At 1 July 2013 | 27,101,555 |
| Additions | 0 |
| At 30 June 2014 | 27,101,555 |
| Additions | 0 |
| At 30 June 2015 | 27,101,555 |
| <u>Amortization</u> | |
| At 1 July 2013 | 19,689,643 |
| Amortization | 2,470,637 |
| At 30 June 2014 | 22,160,280 |
| Amortization | 1,647,092 |
| At 30 June 2015 | 23,807,372 |
| <u>Net book values</u> | |
| At 30 June 2015 | 3,294,183 |
| At 30 June 2014 | 4,941,275 |
| At 30 June 2013 | 7,411,912 |

19. Capital Work in Progress

| | 2014-2015 | Adjustments | 2013-2014 |
|---------------------------|-----------------------|----------------------|-----------------------|
| | Shs | Shs | Shs |
| Large Dams | 11,177,115,951 | 1,024,001,221 | 10,153,114,731 |
| Small Dams & Pans | 23,126,150 | (42,747,338) | 65,873,488 |
| Boreholes | 0 | (85,943,903) | 85,943,903 |
| Dykes & Canals | 785,064,387 | 290,965,788 | 494,098,599 |
| Water Pipelines | 141,028,611 | 2,365,090 | 138,663,520 |
| Construction of Buildings | 668,329,529 | 170,595,408 | 497,734,121 |
| Total | 12,794,664,628 | 1,359,236,267 | 11,435,428,362 |

20. Trade and other payables from exchange transactions

| | 2014-2015 | 2013-2014 |
|--|--------------------|--------------------|
| | Shs | Shs |
| Trade payables | 161,260,024 | 244,636,697 |
| Payments received in advance | 5,473,619 | 9,199,000 |
| Third-party payments | 3,176,322 | (15,555,131) |
| Retentions held on behalf of suppliers | 238,239,894 | 398,219,470 |
| Disposal Collections | 114,500 | 0 |
| Accruals | 3,037,011 | 1,709,537 |
| Total trade and other payables | 411,301,370 | 638,209,573 |

21. Trade and other payables from non-exchange transactions

| | 2014-2015 | 2013-2014 |
|--|------------------|------------------|
| | Shs | Shs |
| Staff Claimables | 3,615,216 | 1,302,091 |
| Total trade and other payables from non-exchange transactions | 3,615,216 | 1,302,091 |

22. Deferred income - Project Funds

| | 2014-2015 | 2013-2014 |
|--|-----------------------|-----------------------|
| | Shs | Shs |
| Bal B/f from previous year | 12,538,045,610 | 11,763,909,700 |
| Grants received from GoK during year | 3,409,000,000 | 2,507,200,000 |
| Transfer to Water Service Board | (310,000,000) | 0 |
| Small Dams Expensed & handed over to Water Service Board | (308,274,665) | (487,797,980) |
| Boreholes Expensed & handed over to Water Service Board | (427,602,474) | (1,245,266,110) |
| Total deferred income - project funds | 14,901,168,470 | 12,538,045,610 |

23. Cash generated from operations

| | 2014-2015 | 2013-2014 |
|---|------------------------|----------------------|
| | Shs | Shs |
| Surplus for the year before tax | (77,476,458) | (33,655,311) |
| <u>Adjusted for:</u> | | |
| Depreciation and Impairment | 29,274,030 | 36,175,883 |
| Gain on Disposal | (1,569,187) | 0 |
| Working capital adjustments: | | |
| Change in Inventories | 35,870,158 | (26,154,374) |
| Change in Receivables from exchange transactions | (792,157,697) | (22,808,577) |
| Change in Receivables from non-exchange transactions | 14,718,729 | (1,348,594) |
| Change in Trade and other payables from exchange transactions | (226,908,203) | (215,497,951) |
| Changes in Trade and other payables from non-exchange transactions | 2,313,125 | 1,302,092 |
| Net cash flows from operating activities | (1,015,935,503) | (261,986,832) |

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 | Capital Work in progress for headquarter building of Kshs.485,400,820 additional variations | Construction still ongoing | MD | Not Resolved | 1 st December 2016 |
| 2 | Property Plant and Equipment had its carrying value not confirmed of Kshs.575,995,662.00 | The unsigned agreements were overtaken by Legal Notice 101 and Water Act 2002 | MD | Not Resolved | |
| 3.1 (i) | Umaa Dam inflated prices of motor cycles amounting to Kshs.2,000,000.00 | The adjustments was to be effected as soon as court case is settled | MD | Not Resolved | |
| 3.1 (ii) | Variation of the contract price by Kshs.442,920,633.00 | There was no justification of the claim by the contractor | MD | Not Resolved | |
| 3.2 | Badasa Dam Kshs.1,853,757,235.04 | The matter is in court and the contractor was granted preservatory orders | MD | Not Resolved | |
| 4 | Cash and Cash Equivalents – Reconciliation Statements with unposted items involving three (3) accounts | The Finance Committee of the Board resolved to write off the same and it awaits the Full Board Resolution | MD | Not Resolved | |
| 5 | Board Expenditure of Kshs.7,016,027.00 on unplanned activities | Need to sensitize the Board members on the importance of budgetary controls | MD | Not Resolved | |



Ag. Managing Director

Date..... 29/9/2016

Chairman of the Board



Date.....