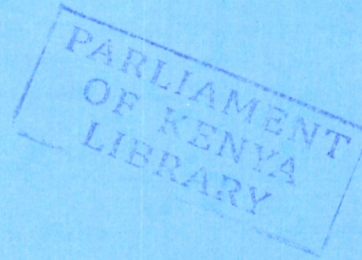


REPUBLIC OF KENYA




OFFICE OF THE AUDITOR-GENERAL

REPORT



OF

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| <br>THE NATIONAL ASSEMBLY<br>PAPERS LAID |              |
| DATE: 04 JUN 2019   | DAY: TUESDAY |
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THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
WATER SERVICES REGULATORY  
BOARD

FOR THE YEAR ENDED  
30 JUNE 2018



**WATER SERVICES REGULATORY BOARD**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED JUNE 30, 2018**

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

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018

**TABLE OF CONTENTS**

|   |       |
|---|-------|
| INSTITUTIONAL DETAILS / INFORMATION.....                                | ii    |
| BOARD OF DIRECTORS.....   | v     |
| KEY MANAGEMENT STAFF.....   | vii   |
| CHAIRMAN'S STATEMENT.....   | ix    |
| REPORT OF THE CHIEF EXECUTIVE OFFICER.....                              | x     |
| CORPORATE GOVERNANCE STATEMENT.....                                     | xi    |
| MANAGEMENT DISCUSSION AND ANALYSIS.....                                 | xiii  |
| CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING..... | xix   |
| REPORT OF THE DIRECTORS.....  | xxi   |
| STATEMENT OF DIRECTORS RESPONSIBILITIES.....                            | xxii  |
| REPORT OF THE AUDITOR GENERAL.....                                      | xxiii |
| STATEMENT OF FINANCIAL PERFORMANCE.....                                 | 1     |
| STATEMENT OF FINANCIAL POSITION.....                                    | 2     |
| STATEMENT OF CHANGES IN NET ASSETS.....                                 | 3     |
| STATEMENT OF CASH FLOWS.....  | 4     |
| STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS.....               | 5     |
| NOTES TO THE FINANCIAL STATEMENTS.....                                  | 6     |
| APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS.....       | 17    |
| APPENDIX II: INTER-ENTITY TRANSFERS.....                                | 18    |

## **INSTITUTIONAL DETAILS / INFORMATION**

### **Establishment**

Water Services Regulatory Board is a body corporate established under the provisions of the Water Act 2016 and operating under the provisions of the State Corporations Act, Cap 446 of the laws of Kenya and it is domiciled in Kenya. On April 21<sup>st</sup> 2017 the Water Act 2002 was repealed by the Water Act 2016.

### **Background**

Water Services Regulatory Board is a body corporate established under the provisions of the Water Act 2016 and operating under the provisions of the State Corporations Act, Cap 446 of the laws of Kenya and it is domiciled in Kenya. The mandate of the institution is to oversee the implementation of policies and strategies relating to provision of water and sewerage services. WASREB sets rules and enforces standards that guide the sector towards ensuring that consumers are protected and have access to efficient, adequate, affordable and sustainable services.

### **Vision**

The Vision of the Board is “To be a model regulator of water services”.

### **Mission**

The Mission is “To regulate water services in line with the human right to water and sanitation.

### **Strategic Objectives**

The Boards five objectives are as follows: -

- a) To enforce the legal and regulatory framework governing provision of water services.
- b) To ensure efficiency and viability in provision of water services,
- c) To monitor sector progress in realizing universal access.
- d) To strengthen WASREB institutional capacity.
- e) To promote stakeholder’s participation in the provision of water services.

## **Responsibilities**

The responsibilities of the Water Services Regulatory Board according to the Water Act 2016 which repealed the Water Act 2002 are to: -

- a) Determine and prescribe national standards for the provision of water services and asset development for water services providers;
- (b) Evaluate and recommend water and sewerage tariffs to the county water services providers and approve the imposition of such tariffs in line with consumer protection standards;
- (c) Set licence conditions and accredit water services providers;
- (d) Monitor and regulate licensees and enforce licence conditions;
- (e) Develop a model memorandum and articles of association to be used by all water companies applying to be licensed by the regulatory board to operate as water services providers;
- (f) Monitor compliance with standards including the design, construction, operation and maintenance of facilities for the provision of water services by the water works development bodies and the water services providers;
- (g) Advise the cabinet secretary on the nature, extent and conditions of financial support to be accorded to water services providers for providing water services;
- (h) Monitor progress in the implementation of the water strategy and make appropriate recommendations;
- (i) Maintain a national database and information system on water services;
- (j) Establish a mechanism for handling complaints from consumers regarding the quality or nature of water services;
- (k) Develop guidelines on the establishment of consumer groups and facilitate their establishment;
- (l) Inspect water works and water services to ensure that such works and services meet the prescribed standards;
- (m) Report annually to the public on issues of water supply and sewerage services and the performance of relevant sectors and publish the reports in the gazette;
- (n) Make regulations on water services and asset development which shall include business, investment and financing plans in order to ensure efficient and effective water services and progressive realization of the right to water services;
- (o) Advise the cabinet secretary on any matter in connection with water services; and
- (p) Make recommendations on how to provide basic water services to marginalised areas.

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018

**Registered Office and Principal Place of Business**

NHIF Building  
Ngong Road  
P.O. Box 41621-00100-NAIROBI  
Tel: 020 2733561  
Email: [info@wasreb.go.ke](mailto:info@wasreb.go.ke)  
Website: [www.wasreb.go.ke](http://www.wasreb.go.ke)

**Banker**

National Bank of Kenya  
Hill Branch  
P.O. Box 45219-00100  
**NAIROBI**  
**KENYA**

**Independent Auditors**

Office of the Auditor General  
Anniversary Towers  
P.O. Box 30084  
**NAIROBI**  
**KENYA.**

## BOARD OF DIRECTORS

### **Mr. Daniel Mutua-Alternate Cabinet Secretary National Treasury**



Mr. Mutua is a Deputy Director, Investment in the National Treasury. He has over 25 years Public sector experience in various Ministries including-TSC, Ministry of Labour, Office of the Vice President, Culture & National Heritage and Currently in the National Treasury-Directorate of Public Investments and Portfolio management. He has undergone Intensive training in area such as Investment appraisal, Enterprise Risk analysis, corporate Governance, Performance management, Project management, Procurement, Public Finance and Public-Private Partnerships among others.

Mr. Mutua holds a B.Ed. (Eco/Buss)-Kenyatta University (1991) and MBA-ESAMI/Maastricht (2006) and several certificates on PPP from IP3 Institute-Washington DC-USA. He has previously served as an Alternate Director in the Boards of ICDC, EPZA, WSTF, NBA, KNAC (2001) Ltd and University of Eldoret Council.

### **Ms. Eunice Karanja**



She is an independent director appointed on 17<sup>th</sup> April 2015. She holds a B.Com in Human Resource Management. She is a politician involved in the championing for the rights of women and youth in Trans Nzoia County. Her term expired on 15<sup>th</sup> April 2018.

### **Ms Miriam Nyambura**



She is an independent director appointed on 5<sup>th</sup> November 2015 who holds the following qualifications an MBA (Strategic Management) University of Nairobi; Bachelor of Commerce (accounting) University of Nairobi and CPA(K) . She is a practising auditor. Her term expired on 4<sup>th</sup> November 2018.

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018

**Eng. Mohammed N. Ali**



He is an independent director appointed on 17<sup>th</sup> April 2015. He holds an MSC Degree in Irrigation and Drainage. He has over 20 years of experience in the water sector. His term expired on 16<sup>th</sup> April 2018.

**Mr. Paul Lolgiso**



He is an independent director appointed on 17<sup>th</sup> April 2015. He holds a Bachelors' Degree in Education. He is currently a deputy headmaster at Ngambo Secondary School and seasoned teacher with many years of experience in the education sector in Baringo County. His term expired on 16<sup>th</sup> April 2018.

**Eng. Lawrence Simitu**



**Eng. Lawrence Simitu Alternate PS Ministry of Water and Irrigation**

Eng. Simitu is the Director Water Services under the Ministry of Water and Irrigation. He is an accomplished engineer with over 20 years of experience in the sector.

He oversees design and planning, construction, operation and maintenance, mechanical and electrical and water services development divisions in the ministry.

## KEY MANAGEMENT STAFF

### Eng Robert N. Gakubia, HSC



Eng. Gakubia is the Chief Executive Officer of Wasreb. He has held senior positions in the Ministry of Water and Irrigation, rising to the position of Director of Water services. He holds BSc degree in Engineering from University of Nairobi and a MSc degree at IHE Delft, Netherlands. He is a corporate member of the Institution of Engineers of Kenya and a Professional Engineer with the Engineers Board of Kenya.

### Dr. Julius Itunga



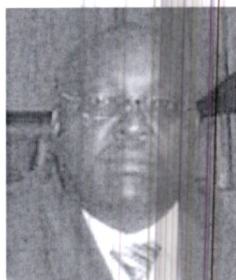
Dr. Julius K. Itunga is the Director Corporate Services. He holds a Doctor of Philosophy (PhD) in Business Administration from Jomo Kenyatta University of Agriculture and Technology (JKUAT), Master in Business Administration and Bachelor of Commerce, Finance Option both from the Catholic University of Eastern Africa (CUEA). He is a Certified Public Accountant of Kenya (CPAK), Certified Public Secretary of Kenya (CPSK); a member of the Institute of Certified Public Accountant of Kenya (ICPAK) and Institute of Certified Public Secretaries of Kenya (ICPSK). Dr. Itunga has over 25 years of experience in public sector management having worked previously in senior positions in Kenya Posts and Telecommunications Corporation/Telkom Kenya, Agricultural Development Corporation and National Biosafety Authority. He also worked as an Associate Lecturer at the Kenya Methodist University and has published extensively in refereed journals.

### Ms. Bernadette Njoroge



Ms. Bernadette Njoroge is the Director Legal and Enforcement Services. She is an advocate of the High Court of Kenya. She holds an LLB (Hons) degree from the University of Nairobi; an LLM degree from the University of Nairobi, she is a Certified Public Secretary CPS (K) and an associate arbitrator at the CIArb (Kenya).

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018



**Eng Peter Njaggah**

Eng Peter Njaggah is the Director Technical Services. He holds a Bachelor of Science degree in Civil Engineering from the University of Nairobi and Master of Science degree in Environmental Engineering from the University of New Castle –Upon Tyne in UK.

Eng. Njaggah has over 23 years experience and knowledge in the water sector having previously worked as a senior manager in several water utilities as the Managing Director of Western Water Services Company; as Head of Water and Wastewater departments in Central District Council, South East District Council and Ghanzi District Council- all in the Republic Of Botswana, and also in the then Water & Sewerage Department- Nairobi City Council- Republic of Kenya.

He is a Professional Engineer with the Engineers Board of Kenya, a Corporate Member of the Institution of Engineers of Kenya (I.E.K) and member of Institute of Waste Management of Southern Africa.

**Herbert A Kassamani**



Mr. Kassamani is the Director Consumer and Public Affairs. He holds an MBA (Marketing) and a Post-Graduate Diploma in Mass Communication from the University of Nairobi; and a Bachelor of Education from Kenyatta University. He has held senior positions in marketing and communications both in the public and private sector. He has also published extensively in magazines, journals and the local media

## CHAIRMAN'S STATEMENT



We are proud to say that Wasreb has grown in leaps and bounds. The regulatory framework has fully been developed, with most of the regulatory tools in place. They include guidelines on corporate governance, tariffs and customer service. These tools have been useful in guiding the sector in issues of governance, responsiveness and sustainability.

On the basis of work done in the period under review, there has been a significant improvement in the sector, particularly in the provision of water and sanitation services. While we have not achieved our set targets, we can say the foundation laid in the past phase has enabled us have a well regulated sector, which is crucial in facilitating universal access to water services.

As we reflect on our work at this stage, one of the main achievements is the stakeholder engagement that Wasreb has undertaken so far. A lot of discussions have been held on how all stakeholders can be brought on board to improve performance of the sector. We are happy to say that we have taken a lead on this issue.

For the Regulator to continue building on these gains, there is need now, for a comprehensive sector investment plan indicating the investment necessary to achieve the progressive realization of the right to water and sanitation.

As the Regulator focuses on our next strategic phase, our main challenge will be to ensure commercial viability, create possibilities for cross-subsidization to benefit vulnerable people, and avoid unjustified costs to consumers. Thus, the issue of sustainability will be paramount. To achieve these, it will be necessary to re-examine the concept of clustering with a view to ensuring economies of scale.

While the future is bright, the task ahead is huge and the challenges numerous. I must, however, say that each new day offers us a chance to work together, pursue new opportunities and improve upon the past.

A handwritten signature in black ink, appearing to read 'Eng. Mohammed Noor Ali'. The signature is stylized and somewhat abstract.

Eng. Mohammed Noor Ali  
Chairperson of the Board of Directors

## REPORT OF THE CHIEF EXECUTIVE OFFICER



The enactment of the Water Act 2016 which repealed the Water Act 2002 in April 2017 has brought a raft of changes in the sector. The new law provides for the regulation, management and development of water resources and water services in line with the Constitution. This is the law that finally aligns the water sector to the Constitution of Kenya 2010 and anchors the reforms introduced by the Water Act 2002 onto the Constitution of Kenya 2010.

One key tenet under this Act, is the recognition that if water is to be governed effectively and sustainably, national standards will have to be set at both resources and at service subsectors. Independent national regulators will have to be given the mandate to monitor the implementation of the national strategies on water resources and water services, including monitoring and regulating all permit and license holders. These principles have to be respected by all, to ensure progressive realisation of the right to water and that water resources are sustained and protected for use by present and future generations.

The projections of population growth and urbanisation indicate that by the year 2030 the urban population will have increased from 13 million in year 2010 to 46 million. This puts a huge strain on water supply, demand and the resource itself. The drought experienced in year 2016/17 and the projections of climate change and their potential impacts, should be a lesson to us that development of water resilience systems is fundamental to achieving the SDG goals.

The sector reforms had the goals of improving access, ensuring cost recovery and reducing losses. It is regrettable that no significant improvement in all the three indicators has been realised in the last few years. The foregoing situation is partly driven by inadequate investments which are not in tandem with rapid population growth, system inefficiencies and tariffs that do not cover full costs. The need for increasing blended financing and efficiency of the sector cannot be overemphasized, on the road to the realisation of the Vision 2030 goal of universal access. This notwithstanding, Wasreb continues to facilitate and build an environment that makes the water services sub sector open to blended financing. The annual assessment of utilities technical performance, corporate governance and creditworthiness is an integral part of this endeavour.

Good governance and sustainable development are at the centre of national values and principles of governance in our constitution. It is paramount for all organs in the water sector to be guided by this principle in administering the new law to guarantee human dignity, equity, social justice, inclusiveness and non-discrimination.

A handwritten signature in black ink, appearing to read 'R. Gakubia'.

Eng. Robert Gakubia,  
Chief Executive Officer

## **CORPORATE GOVERNANCE STATEMENT**

The Water Services Regulatory Board is committed to the values and principles of good corporate governance. Good corporate governance requires that the board of directors must govern the corporation with integrity and enterprise in a manner which entrenches and enhances the mandate it has under section 71 of the Water Act 2016. This mandate is not only regulatory but embraces the corporation's interaction with government and other stakeholder such as the water services boards and their providers, consumers of water services, the media, public opinion makers and pressure groups.

The directors and management of WASREB regard corporate governance as pivotal to the successes of the corporation and are unreservedly committed to ensuring that good corporate governance is practised so that WASREB remains a sustainable and viable vehicle for regulating water services in Kenya.

As a public service organization, the Board's decisions are guided by the core tenets prescribed in MWONGOZO, the Public Officers Ethics Act, and signed internal codes of conduct. We continually strive to strengthen and sustain the trust that the government, the water sector and the public have placed on us. Accordingly, the Board and its committees regularly evaluate the latest national and international standards with the aim of incorporating them in the business processes of WASREB so as to consistently deliver on our mandate.

### **Board of Directors**

During the year the board of directors met 5 times and had 2 board activities one a retreat on the Human Resource Policy and another on Board Performance Evaluation. The directors are given appropriate information so that they can maintain full and effective control over strategic, financial, operational and compliance issues. Except for direction and guidance on general policy, the board has delegated authority for conduct of day to day business to the Chief Executive Officer. The board nonetheless retains oversight responsibility for establishing and maintaining the control of financial, operational and compliance issues.

### **Committees of the Board**

The board has set up the following committees which meet under well defined terms of reference set by the board. This is intended to facilitate efficient decision making of the board in discharging its duties and responsibilities.

### **Corporate Services Committee**

This Committee deals with strategic, financial, employment and administrative issues. During the year the committee met six times. Its membership comprised of Ms. Miriam Njoroge, Ms Eunice Karanja, Mr. Daniel Mutua and Eng L Simitu. Its responsibilities include; Performance contract negotiation; Reviewing of Annual Accounts; Reviewing Development and Recurrent Budgets; Recommendation of Board's Strategic Document, monitoring all human resources matters and monitoring the financial management of the corporation and matters of WASREB information, communication and media system and plans.

### **Technical Services Committee**

There is a Technical Services Committee whose membership comprised Eng. Mohammed Noor (Chairman), Ms Eunice Karanja, and Eng. L Simitu. During the year the committee met four times. Its responsibilities include; Overseeing development and enforcement of regulations and laws; Approval of tariffs; Reviewing of water service standards and ensuring compliance; Approval of Service Provision Agreements; Recommending issuance of licenses to water service boards and making recommendations as regard setting and determination of fees, levies, premiums and other charges to be imposed for water services.

### **Audit and Risk Management Committee**

As per the requirements of the Public Finance Management Act 2012, there is the audit and risk management committee. During the year the committee met five times.

Its membership comprised of Mr. Paul Logisoi, Ms Miriam Nyambura (Chairman), Eng. Mohammed Noor and Mr. Daniel Mutua. Its responsibilities include; examining and assessing the effectiveness of the internal control system; approving the Internal Audit programs; carry out special audits, verifying Boards assets and liabilities and receiving reports from the Internal Auditor and to adopt a pro- active risk based approach in the internal audit system.

### **Corporate Social Responsibility**

WASREB acknowledges its responsibility to society in its capacity as a corporate citizen; consequently, it endeavours to play an active role in national matters as per its mandate besides contributing to various worthy causes. In the financial year under review WASREB continued to offer advices to different stakeholders in the sector to facilitate access to quality water services.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Performance: Crucial Facet for Sustainability**

Wasreb recognizes that the financial health of any institution is a key determinant for sustainability. Therefore, in the review period, the Regulator continued employing measures to ensure that a sound financial base was maintained. Among the measures put in place in the year included increased surveillance of the sector to ensure the payment of the regulatory levy and imposing penalties to those who failed to comply with regulatory requirements. Thus, a steady growth in regulatory levy was sustained leading to enhanced delivery of services. In addition, cost control measures were undertaken to ensure efficiency in all operations.

During the period under review, the regulatory levy grew by 1% from ksh 186 million to Kshs 188 million which was slightly above last period performance. This facilitated the internal financing of development and operational expenditures leading 74% total cost coverage.

Government grant and development partners support was about 26% which assisted in attaining full cost coverage. The approved budget for the period was strictly followed and this, coupled with cost control measures, ensured a healthy cash flow position during the year.

### **Internal Controls**

Wasreb has defined procedures and financial controls to ensure accurate reporting and safeguarding of resources. The system of internal control defines procedures to ensure that assets are safeguarded, transactions are authorized and recorded, and that material errors and irregularities are either prevented or detected within a reasonable period of time. The performance of Wasreb is reported regularly to the Board of Directors through performance trends, forecasts, actual performance analysis and budgets. The Board reviews the effectiveness of internal control systems by assessing the work of both internal and external assurance providers. Internal assurance is carried out by the Internal Audit section, which reports to the Audit and Risk management Committee. The section provides confirmation that standards and policies are complied with. External assurance is provided by the Kenya National Audit Office.

The Board is responsible for reviewing internal control systems. Over the period of reporting, the Board was satisfied that the system was effective. However, it is recognized that any system of internal control can only provide reasonable but not absolute assurance against material mis-statement or loss. Internal control and risk management systems are designed to mitigate rather than eliminate the risks identified in the financial reporting process.

### **Risk Assessment and Control Activities**

The risk assessment process related to financial reporting is conducted annually. The significant accounts in the financial statements are identified based on the evaluation of the impact and likelihood of the risks materializing. Internal audit ensures objective and independent assessment of the adequacy, efficacy and quality of internal controls.

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018

Management is responsible for ensuring that internal control activities are performed and documented, and is required to report to the Corporate Services Committee on compliance on a quarterly basis. In addition, Wasreb has implemented a formal audit of the strategy, budget and financial performance. The monitoring of internal controls and risk management systems is performed at multiple levels such as periodical reviews of documentation. The audits are performed by the internal audit and monitored by the Audit Committee. The Audit Committee charter outlines its roles and responsibilities related to supervision and monitoring of internal control and risk management systems. The monitoring is performed on the basis of periodical reporting from Finance, Internal and External Audits.

### **Challenges**

While it can be reported that the financial health of the institution was generally sound, challenges were encountered in the collection of the regulatory levy as most companies were unable to clear their arrears and this led to a high receivable figure of 142 million. In addition, water companies did not fully adhere to the tariff condition on the remission of levy provided in the approved tariff and this contributed to the high debtor's figure.

The support from the government to the Regulator has been declining over the years and though the funding decreased to 41.8 million from 80 million provided in the last year, this was far much below the budgetary support of 200 million requested for from the Ministry.

### **Water Service Provision Registers Growth**

Wasreb undertakes a continuous exercise of monitoring the performance of the water services sector as a way of taking stock on gains made so that desired improvements can be made. The product of this monitoring exercise is Impact report which is published annually.

The period under review saw the production and launch of the tenth issue of Impact report. The report analyses the performance 88 Water Service Providers and eight Water Services Boards for the period 2016/17. It is published by Wasreb as part of the statutory obligations to inform policy making and spur competition between water providers for the benefit of the consumer.

Statistical evidence in the report indicates that the sector has been recording growth both in urban and rural areas. It shows that urban water coverage improved by over 17 percentage points in the last seven years. From a level of 38 per cent in 2007 to 55 per cent in 2016/17.

In the area of sanitation, coverage in urban areas general decline in sewerage coverage from 17% to 15%. Considering that the average annual growth within the last four years is about one percentage point, the sector must grow annually at fivefold of the current rate to reach the 2030 target of universal access.

While positive growth was recorded in the sector, a number of factors continued to hamper this growth. They included poor governance, high water losses, and inadequate investment planning and reporting.

While urban water utilities in Kenya differ greatly in terms of size and operating environments, they share one major challenge, that is, expanding access to appropriate levels of services to their growing urban populations. This challenge can be seen clearly in their score card with respect to the MDGs targets where only about 50% of the utilities managed to half the proportion of people without access to sustainable water services. In terms of the NWSS target for water coverage of 80%, only 15% of the utilities met the target.

In 30% of the utilities, more than 50% of the water production is lost through physical and commercial losses with only 10% (8/84) of the utilities meeting the country target of NRW of 30% by 2015. On the other hand only 40% of the utilities against a target of 100% are able to coverage of O+M costs.

Therefore, it is clear that in addition to increased investment for infrastructural expansion and rehabilitation, the real potential in the Kenya water urban sector lies in increasing efficiency in the existing systems by reducing wastage improving service quality leading to improved cash flows and maximising on consumer contribution.

The performance of the Water and Sanitation Sector is pegged on nine key indicators. They are reviewed below:

### **Regulatory Actions**

#### **i. Sector Investment**

The Kenya Vision 2030 national development plan seeks to make water and basic sanitation available to all by 2030. The total cost of investment and rehabilitation needed in water supply is estimated at KShs 1.7 trillion (NWMP 2030) and the sector is typically looking up to budgetary allocation and support from development partners for funding. However, despite the expectation for funding from the foregoing, there still exist considerable gaps of Kshs. 700 billion and Kshs. 500 billion for investment in water and sanitation.

The gap could be partly plugged through increased sector efficiency, maximising consumer contributions through tariff and tapping into the private sector funding. However, the option of tapping into private sector funding presents two challenges. First commercial lenders still view the sector as high risk and secondly commercial interest rates are high. This scenerio creates the need to explore a third strategy in order to increase the confidence of financial institutions in the water services sector and also to lower the weighted cost of borrowing from the same institutions.

This strategy involves the use of low cost funding (concessional loans and grants) for development of capital intensive infrastructure assets to strengthen the utilities operating and financial performance to enable them access commercial financing.

#### **ii. Utility Creditworthiness Index**

In 2015, Wasreb in collaboration with the Water and Sanitation Program of the World Bank, created a Creditworthiness Index covering the large utilities in the sector, as well as tool kits on commercial lending to the water and sanitation sector for the three main stakeholders (utilities, commercial banks and county governments). The purpose of the Creditworthiness Index together with the Impact report

is to provide lenders with a snap-shot of the financial and operational performance of utilities across the sector and insights into sector wide trends and their key role. Hence commercial lenders will quickly be able to estimate the borrowing risk of all utilities, while providing WASREB and the utilities an industry benchmark to compare against and identify specific areas (ratios) of strengths and weaknesses. In addition to assessing and benchmarking the creditworthiness of utilities, the Creditworthiness Index is designed to help the management of the utilities to financially manage their entities.

### **iii. Other Ongoing Water Sector Financing Initiatives**

Several recent initiatives are being implemented to support utilities access to commercial finance. The Water Services Trust Fund of Kenya (WSTF), a state corporation that invests in pro-poor water and sanitation infrastructure, is running a results-based financing program that provides grants to utilities that access commercial loans for investment. The program is supported by the World Bank through the Kenya Output-Based Aid (OBA) Fund for low-income areas, and by KfW, through the Aid on Delivery (AOD) program.

Under the OBA Fund, utilities' subprojects will be pre-financed with commercial loans from domestic lenders on market terms. The loans will support investments that deliver household water and sewer connections, public water kiosks, and public toilets. An OBA grant will buy down 60 percent of the subproject cost financed by domestic lenders. The areas eligible for grants will be identified through WSTF's poverty database, Majidata, which has mapped over 1,880 urban settlements considered low income based on an index of quality-of-life indicators. It is expected that the project will support access to \$16 million of debt and enable provision of water and sanitation to 30,000 households.

### **iv. Recommendations to County Governments on accelerating access to water services**

The delivery of water and sanitation services is a devolved function under the 47 county governments. Considering the current low coverage (Water 55%, sewerage 15%) Vis a Vis the 100% Vison 2030 target, the need to seek alternatives to public sector loans and grants is all the more pressing now than ever before. Building on the successes of regulatory and governance processes instituted since the water sector reforms of 2002 and the findings of the recent creditworthiness index report, many of the more financially robust utilities have the capacity to take responsibility for their own capital planning. Therefore, County Governments they will need to generate freer cash flow from ongoing operations to leverage debt financing. This will require them to conduct better investment planning, improve their financial management and increase their reliability as borrowers.

### **v. Promotion of the national values and principle of governance**

The national values and principles of governance under Article 10 (2) include among others non-discrimination, good governance, integrity, transparency and accountability.

Further, the Water Action Groups were scaled up to cover 18 utilities in 15 counties to enhance complaint handling and resolution. MajiVoice was also rolled out in Thika and Eldoret utilities.

MajiVoice provides specific tools and incentives to strengthen the focus on customer needs and improved service standards.

Wasreb also developed an indicator on corporate governance based on the Corporate Governance Guidelines. The rationale for development of the indicator is based on the hypothesis that utilities meeting governance standards are better placed in the delivery of better services to their consumers.

**vi. Review of Utility Service Areas**

Under the Constitution 2010, the responsibility of provision of effective and efficient water supply and sanitation services has been devolved to the counties. Counties under the Water Act 2016 are therefore required to establish water service providers that comply with the standards of commercial viability as set out by Wasreb. On the basis of this, there is need to clearly define the service areas of the WSPs in order to effectively track growth in access hence the progressive realization of the right to water.

In furtherance of the above, Wasreb has carried out a review and revision of the service areas of the WSPs guided by the following key aspects: viability, population density, efficiency, agglomerations, transition from community systems to utilities and independent schemes within service areas. The exercise took a phased approach with the large WSPs being prioritized. Service areas for 66 WSPs have been completed with the following outputs: revised and digitalised map of the utility, listing of all sub-locations linked to the Service Area and list of sub-locations with low income areas. The agreed service areas will form the basis for licensing of utilities under the new framework.

**vii. Serving the Poor**

It is estimated that out of the 21 million people living in the service areas of the 88 regulated utilities, more than eight million people are living in more than 2,000 low income areas and majority of these still depend on informal services that do not comply with normative content of the human right to water. This situation if not checked, will get worse with the projection that by 2030 the urban population will constitute about 70% of the population with majority of the population living in urban low income areas (The National Water Master Plan 2030). This implies that it will not be business as usual as the sector will have to come up with a stronger pro-poor orientation to serve the underserved in urban low income areas.

In response to the foregoing, Wasreb is in the process of developing new regulatory instruments to monitor the performance of utilities in low income areas. These include, guideline on pro-poor services with standards and minimum requirements and on kiosks management.

**Changes in the Legal Environment**

**i. Transiting to New Legal Frame Work**

In Kenya, The National Water Policy of 1999 and the Water Act 2002 triggered extensive reforms to Kenya's water sector, bringing it in line with international best practice. The main objectives of these

reforms were to improve water resources management, meet growing demand for water services, attract more professionals into the sector, attract greater investment and create a modernized sector that was more robust, capable of responding to the emerging challenges such as, climate change and urbanization. The key reform features included: separation of policy from other functions; separation of water resources management and water services provision; separation of regulatory functions from investments and operations; separation of asset holding from operations; increased user participation; enhanced pro poor orientation; socially responsible commercialization in the provision of water supply and sanitation services. Conflict resolution was conferred by the Act to the Water Appeals Board as an alternative to legal procedures.

In 2010, a new constitution was promulgated- the Constitution of Kenya 2010 (CoK 2010). Fundamental to the new constitution was the creation of two levels of government; the National government and devolved governments (County governments). The ownership, use and regulation of water resources, consumer protection and national public works was assigned to the National government while County governments were assigned water service provision, sanitation, catchment management and county public works.

Further, the CoK 2010 entrenched the right to water and sanitation in the bill of rights, effectively making water and sanitation a human right. This development created the need to align the Water Act 2002 to the CoK 2010. Consequently, a new act- the Water Act 2016 come into effect in April 2017 and is under implementation.

The Act also promotes good practices especially in the water services sector on commercial viability, ring-fencing of water services revenue, mechanisms of resolving consumer complaints and good governance at utility level.

### **Sector Development**

A key role of the regulator is to monitor progress in the attainment of national targets with an expected outcome of unlocking any bottlenecks to the realization of these targets. National targets on water and sanitation are captured in the National Water Services Strategy (NWSS) and implemented in instalments through the Medium Term Plans (MTPs). Based on United Nations estimates of 2016, Kenya's population currently stands at 48 million. Out of this population, 20 million reside in urban areas currently served by 91 regulated utilities and served with a total of 1.4 million connections. It is projected that by year 2030, the total population will be 67 million with about 46 million living in urban areas and 21 million living in rural areas.

#### **a) Water Coverage**

To realize the targets under Vision 2030, the sector needs to grow by at least 3% annually for the next 14 years. This is a big contrast to the growth of less than 1% in the year under review (Fig.2.3). Therefore, using the projections in the Master Plan and with the current levels of NRW, the sector needs to double the water production to two and a half times the current production in order to meet

demand. This situation calls for more investments in the sector from the current KShs. 29 billion to the required KShs. 72 billion (NWMP 2030). In addition to addressing the chronic investment gap, there should be a paradigm shift in funding from the traditional sources of transfers, taxes and tariffs to innovative financing by maximizing the mobilisation of resources from the blended financing. (Output Based Aid (OBA), Aid in Delivery (AoD), commercial financing, private sector financing etc.)

**b) Sewerage Coverage**

WSPs have the responsibility to ensure that waste water is collected, transported, treated and disposed in a manner as to protect the environment and public health. This is realised through the development and operation of functional sewerage and on site systems.

The policy goal under Vision 2030 is to increase sewerage coverage in urban areas to 100% by increasing coverage rate of sewerage system to 80% and installing improved on-site treatment facilities for populations not covered by sewerage systems.

**c) Climate Change and Adaptation**

Climate change is defined as changes in climate characteristics over long term periods usually over 30 years and above. The effects of climate change include changes to hydrological cycle, precipitation variability, such as more intense rains and longer droughts, with the duration and intensity creating more extreme effects. All these factors have a significant negative impact on availability of water resources either in quantity or quality. It will be noted that climate change exacerbates many forms of water pollution which have effect on drinking water supplies.

## **CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING**

WASREB acknowledges its responsibility to society in its capacity as a corporate citizen; consequently, it endeavours to play an active role in national matters as per its mandate besides contributing to various worthy causes. In the financial year under review WASREB continued to offer advices to different stakeholders in the sector to facilitate access to quality water services through the following activities;

### **Shows and Exhibitions**

WASREB participated in the main Agriculture Society of Kenya shows in Kisumu, Mombasa and Nairobi between July and October and at the Kenya Water Week at KICC grounds in November, 2016. WASREB staff engaged in face to face engagement discussions with consumers where they handled various inquiries and complaints on services. They also disseminated Information, Education and Communication materials with key messages on consumer rights and responsibilities aimed at increasing awareness among the public on their rights to water.

### **Charitable Events**

WASREB took part in the 2016 edition of Chemususu Dam Half Marathon in September in Eldama Ravine. The charity event was meant to raise funds towards conservation of Chemususu Dam catchment area. Wasreb also donated funds towards the charitable course.

WASREB joined the rest of the world to mark the World Water Day held at Mecheo Secondary School in Nyamira County on 22nd March 2017. The visitors were given various promotional materials including T-Shirts, umbrellas and Stationery branded with the theme of the celebrations "Water and Wastewater."

### **Consumer Engagement Activities**

WASREB in conjunction with Malindi Water and Sewerage Company (MAWASCO) called a meeting of all water sector stakeholders at a Malindi hotel to discuss the proposed new water tariffs in May, 2017. Among the notable stakeholders were the Coast Water Services Board, Civil Society Organizations and consumers. The exercise was to encourage public participation in the tariff approval process.

### **Customer Satisfaction Survey**

WASREB through SBO Research Company, conducted a nationwide Customer Satisfaction Survey between October and November 2016 aimed at gauging the public's understanding of their right to water and the role of Wasreb in regulation of water services. The survey findings will be used as a basis of various awareness campaigns by Wasreb.

### **Media Interventions**

Notices to the public on upward increment for tariffs for Kisumu, Thika, Bomet, Nakuru Rural Water companies, were published in the dailies between August 2016 and May 2017 respectively. This was to encourage consumers to air their views on adjustment of tariffs in water and sanitation services their areas.

WASREB began a series of media campaigns through electronic and print media on conserving water and a call to the public to report cases of vandalism. The messages ran between March and April 2017.

## **REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of Water Services Regulatory Board (WASREB) affairs.

### **Principal activities**

The principal activity of WASREB is to protect the interests and rights of consumers in the provision of water services.

### **Results**

The results of the entity for the year ended June 30, 2018 are set out on page 1 - 5

### **Directors**

The members of the Board of Directors who served during the year are shown on page V - VI

### **Auditors**

The Auditor General is responsible for the statutory audit of WASREB in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



Bernadette Njoroge  
Corporate Secretary

Nairobi

Date: 27-9-2018

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018

## STATEMENT OF DIRECTORS RESPONSIBILITIES

The directors are required to prepare financial statements which give a true and fair view of the state of affairs of the Board as at the end of each financial year and of its surplus or deficit for that year. The directors are required to ensure that the Board maintains proper accounting records which disclose, with reasonable accuracy, the financial position of the Board. They are also responsible for safeguarding the assets of the Board.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with IPSAS. This responsibility includes: designing, implementing and maintaining internal controls relevant to preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with IPSAS and in the manner required by State Corporations Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Water Services Regulatory Board as at 30<sup>th</sup> June 2018 and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statement, as well as adequate systems of internal financial controls.

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

This statement is approved by the Board Directors and it is signed on their behalf by:



**DR. JULIUS ITUNGA**  
**DIR. CORPORATE SERVICES**  
**ICPAK NO.8541**  
**DATE: 27-9-2018**



**ENG. ROBERT GAKUBIA**  
**CHIEF EXECUTIVE OFFICER**

**DATE: 27-9-2018**

# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-mail: [oag@oagkenya.go.ke](mailto:oag@oagkenya.go.ke)  
Website: [www.kenao.go.ke](http://www.kenao.go.ke)



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON WATER SERVICES REGULATORY BOARD FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Opinion

I have audited the accompanying financial statements of Water Services Regulatory Board set out on pages 1 to 18, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Water Services Regulatory Board as at 30 June 2018, and of its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Water Act, 2016.

#### Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Water Services Regulatory Board in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audit of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no Key Audit Matters to report in the year under review.

#### Other Matters

##### 1. Long Outstanding Receivables

The receivables balance as at 30 June 2018 reflects Kshs.158,922,384 which is net of provision for bad and doubtful debts of Kshs.69,762,460 as disclosed in note 12 in the

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*Report of the Auditor-General on the Financial Statements of Water Services Regulatory Board for the year ended 30 June 2018*

financial statements. Included in these receivables are trade receivables of Kshs.226,579,056, owed by various firms, companies and counties. These trade receivables further include Kshs.117,617,262 (51.9%) which has been outstanding for periods of more than one year. Efforts made by management to collect these debts which increased by Kshs.54,559,987 (32 %) during the year under review, have not yielded any meaningful results. These outstanding receivables are significant relative to the Board's annual revenue, and may negatively affect the financing of the operations of the Board, in the event that they are not recovered.

## **2. Un-budgeted Funds**

During the year under review, the Board received donor funds amounting to Kshs.15,501,600 which were utilized during the year. However, these funds were not included in the final approved budget of the Board. In addition, there was no evidence that the Cabinet Secretary, National Treasury was informed of such budgetary changes as required under Section 47 (1) of the Public Finance Regulations 2015. In the absence of inclusion of the above funds in the Board's final approved budget, it has not been possible to confirm that the funds were utilized for approved and authorized purposes.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for conclusion**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance on whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities which govern them. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance, were not effective.

## **Basis for Conclusion**

The audit was conducted in accordance to ISSAI 1315 and 1330. The standards require that I plan and perform the audit to obtain assurance on whether effective processes and systems of internal control, risk management and governance, were operating effectively, in all material respects. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **Responsibilities of Management and those Charged with Governance**

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 maintaining effective internal control as management determines is necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of the internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the management is either aware of any intention to cease operations of the Board, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Board's financial reporting process, reviewing the effectiveness of management's systems for monitoring compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

## **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report which includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is

not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion on whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution, and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control which might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts which would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Board's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

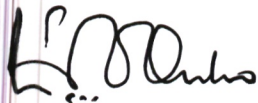
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty

exists related to events or conditions which may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Board to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control which are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters which may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

**Nairobi**

**17 April 2019**

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018

**STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2018**

|   | Note | 2017-2018                 | 2016-2017                 |
|---|------|---------------------------|---------------------------|
|   |      | Kshs                      | Kshs                      |
| <b>Revenue from non-exchange transactions</b> |      |                           |                           |
| GOK Grants                                    | 4    | 41,500,000                | 90,000,000                |
| Regulatory Levy                               | 5    | 188,648,504               | 186,897,978               |
| Miscellaneous Income                          | 6    | 7,887,519                 | 3,189,934                 |
| Donor Grants                                  | 7    | 15,701,600                | 8,976,198                 |
| <b>Total revenue</b>                          |      | <b><u>253,737,623</u></b> | <b><u>289,064,110</u></b> |
| <b>Expenses</b>                               |      |                           |                           |
| Employee costs                                | 8    | 119,736,012               | 109,999,645               |
| Board expenses                                | 9    | 13,969,448                | 21,994,011                |
| Administrative Expense                        | 10   | 117,612,427               | 110,172,824               |
| <b>Total expenses</b>                         |      | <b><u>251,317,887</u></b> | <b><u>242,166,521</u></b> |
| <b>(Deficit)/Surplus for the period</b>       |      | <b><u>2,419,736</u></b>   | <b><u>46,897,589</u></b>  |

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018

**STATEMENT OF FINANCIAL POSITION  
AS AT 30<sup>th</sup> JUNE 2018**

|   | Note | 2017-2018                 | 2016-2017                 |
|---|------|---------------------------|---------------------------|
|   |      | Kshs                      | Kshs                      |
| <b>Assets</b>                           |      |                           |                           |
| <b>Current assets</b>                   |      |                           |                           |
| Cash and cash equivalents               | 11   | 50,763,059                | 73,853,552                |
| Receivables                             | 12   | 158,922,384               | 113,486,346               |
| Other current assets                    | 13   | 9,074,897                 | 45,262,762                |
|   |      | <b>218,760,340</b>        | <b>232,602,660</b>        |
| <b>Non-current assets</b>               |      |                           |                           |
| Property, plant and equipment           | 14   | 11,357,041                | 17,854,985                |
| Long term Mortgage Facility             |      | 15,771,795                | -                         |
| <b>Total assets</b>                     |      | <b>245,889,176</b>        | <b>250,457,645</b>        |
| <b>Liabilities</b>                      |      |                           |                           |
| <b>Current liabilities</b>              | 15   | 13,996,786                | 18,388,191                |
| <b>Net assets</b>                       |      | <b><u>231,892,390</u></b> | <b><u>232,069,454</u></b> |
| <br>                                    |      |                           |                           |
| Capital Reserve                         | 16   | 36,487,577                | 36,487,577                |
| Revaluation Reserve                     | 17   | 492,665                   | 3,089,465                 |
| Accumulated surplus                     | 18   | 194,912,148               | 192,492,412               |
| <b>Total net assets and liabilities</b> |      | <b><u>231,892,390</u></b> | <b><u>232,069,454</u></b> |



**DR. JULIUS TUNGA**  
**DIR. CORPORATE SERVICES**  
**ICPAK NO.8541**

DATE: 27-9-2018



**ENG. ROBERT GAKUBIA**  
**CHIEF EXECUTIVE OFFICER**

DATE: 27-9-2018

**STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

|  | <b>Capital<br/>Reserves</b> | <b>Revenue Reserve</b>    | <b>Revaluation<br/>Reserve</b> | <b>Total</b>              |
|--|-----------------------------|---------------------------|--------------------------------|---------------------------|
|  | <b>Kshs</b>                 | <b>Kshs</b>               | <b>Kshs</b>                    | <b>Kshs</b>               |
| <b>Balance as at 1st July 2016</b>             | 36,487,577                  | 145,513,307               | 5,686,265                      | 187,687,149               |
| Depreciation on the revalued assets            | -                           | -                         | (2,596,800)                    | (2,596,800)               |
| Surplus/ (Deficit) for the period              | -                           | 46,897,589                | -                              | 46,897,589                |
| Prior Year Adjustments                         | -                           | 81,516                    | -                              | 81,516                    |
| <b>Balance as at 30<sup>th</sup> June 2017</b> | <b><u>36,487,577</u></b>    | <b><u>192,492,412</u></b> | <b><u>3,089,465</u></b>        | <b><u>232,069,454</u></b> |
| <b>Balance as at 1st July 2017</b>             | 36,487,577                  | 192,492,412               | 3,089,465                      | 232,069,454               |
| Depreciation on the revalued assets            | -                           | -                         | (2,596,800)                    | (2,596,800)               |
| Surplus/ (Deficit) for the period              | -                           | 2,419,736                 | -                              | 2,419,736                 |
| <b>Balance as at 30<sup>th</sup> June 2018</b> | <b><u>36,487,577</u></b>    | <b><u>194,912,148</u></b> | <b><u>492,665</u></b>          | <b><u>231,892,390</u></b> |

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

|   | <u>2017/2018</u>          | <u>2016/2017</u>         |
|---|---------------------------|--------------------------|
|   | KShs.                     | KShs.                    |
| Surplus/Deficit generated from Operating activities | 2,419,736                 | 46,897,589               |
| Adjustment for                                      |                           |                          |
| Prior Year Adjustment                               | -                         | 81,516                   |
| Depreciation  | 4,849,699                 | 1,820,037                |
| <b>Cash flow from operating activities before</b>   | <hr/>                     | <hr/>                    |
| <b>Working capital changes</b>                      | <b>7,269,435</b>          | <b>48,799,142</b>        |
| (Increase)/Decrease in Receivables & other          |                           |                          |
| Current assets                                      | (25,019,969)              | (42,605,634)             |
| Increase/ (Decrease) in Payables                    | (4,391,405)               | 4,214,094                |
| <b>Net Cash flow from operating activities</b>      | <hr/> <b>(22,141,939)</b> | <hr/> <b>10,407,602</b>  |
| <b>Cash flow from investing activities</b>          |                           |                          |
| Acquisition of assets                               | (948,554)                 | (9,437,517)              |
| <b>Net Cash flow from Investing activities</b>      | <hr/> <b>(948,554)</b>    | <hr/> <b>(9,437,517)</b> |
| <b>Net increase in cash and cash equivalent</b>     | <b>(23,090,493)</b>       | <b>970,085</b>           |
| Cash and cash equivalents at start of year          | 73,853,552                | 72,883,467               |
| <b>Cash and cash equivalents at end of year</b>     | <b><u>50,763,059</u></b>  | <b><u>73,853,552</u></b> |

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

|                                 | <b>Original<br/>budget</b> | <b>Final budget</b> | <b>Actual on<br/>comparable<br/>basis</b> | <b>Performance<br/>difference</b> | <b>Explanation of Variance</b> |
|---------------------------------|----------------------------|---------------------|---|-----------------------------------|--------------------------------|
|                                 | <b>2017-2018</b>           | <b>2017-2018</b>    | <b>2017-2018</b>                          | <b>2017-2018</b>                  |                                |
| <b>Revenue</b>                  |                            |                     |   |                                   |                                |
| Regulatory levies               | 165,000,000                | 165,000,000         | 188,648,504                               | 23,648,504                        | Increased Wsp billing          |
| Government grants and subsidies | 60,000,000                 | 60,000,000          | 41,500,00                                 | (18,500,000)                      | Reduced GOK funding            |
| Miscellaneous Income            | 2,500,000                  | 2,500,000           | 7,887,519                                 | 5,387,519                         | Reduction in debt provision    |
| Donor Grants                    | -                          | -                   | 15,701,600                                | 15,701,600                        |                                |
| Retained Earnings               | 32,500,000                 | 32,500,000          | -   | (32,500,000)                      |                                |
| <b>Total income</b>             | <b>260,000,000</b>         | <b>260,000,000</b>  | <b>253,737,623</b>                        | <b>(6,262,377)</b>                |                                |
| <b>Expenses</b>                 |                            |                     |   |                                   |                                |
| Compensation of employees       | 118,402,018                | 118,402,018         | 119,736,012                               | 1,333,994                         | Being recruitment of interns   |
| Administrative expenses         | 90,943,122                 | 114,597,982         | 112,762,728                               | (1,835,254)                       |                                |
| Board Expenses                  | 23,000,000                 | 23,000,000          | 13,969,448                                | (9,030,552)                       | Board term ended early         |
| Other payments - Depreciation   | 4,000,000                  | 4,000,000           | 4,849,699                                 | 849,699                           |                                |
| <b>Total expenditure</b>        | <b>260,000,000</b>         | <b>260,000,000</b>  | <b>251,317,887</b>                        | <b>(8,682,113)</b>                |                                |
| <b>Surplus for the period</b>   | <b>-</b>                   | <b>-</b>            | <b>2,419,736</b>                          | <b>2,419,736</b>                  |                                |

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

Water Services Regulatory Board (WASREB) is established by and derives its authority and accountability from Water Act 2016. WASREB is wholly owned by the Government of Kenya and is domiciled in Kenya. WASREB's principal activity is to protect the interests and rights of consumers in the provision of water services.

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

WASREB'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 shilling. 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.

### 3. ADOPTION OF NEW AND REVISED STANDARDS

#### i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

#### **IPSAS 33:** First time adoption of Accrual Basis IPSAS

Wasreb adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to WASREB.

#### **IPSAS 34:** Separate Financial Statements

Wasreb does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.

#### **IPSAS 35:** Consolidated Financial Statements

Wasreb does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.

#### **IPSAS 36:** Investments in Associates and Joint Ventures

The entity does not have investments in associates or joint ventures.

#### **IPSAS 37:** Joint Arrangements

The entity does not have an interest in a joint arrangement and therefore the standard does not apply.

**IPSAS 38: Disclosure of Interests in Other Entities**

The entity does not have any interests in other entities and therefore the standard does not apply.

**ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018**

**IPSAS 39: Employee Benefits**

**Applicable: 1<sup>st</sup> January 2018**

The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.

**IPSAS 40: Public Sector Combinations**

**Applicable: 1<sup>st</sup> January 2019:**

The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.

**iii) Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2018.

**4. Summary of significant accounting policies**

**a) Revenue recognition**

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

**Regulatory levy and fines**

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

**Transfers from other government entities**

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

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

**Miscellaneous income**

These include penalties charged, sale of tender and interest income which 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.

**b) Budget information – IPSAS 24**

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the 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.

**c) Taxes – IAS 12**

**Current income tax**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses or revaluation less amortised amount. 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. Property and equipment are stated at historical cost or revalued amount less accumulated depreciation/amortization. Depreciation/Amortization is calculated on the straight-line basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018

| <b>Per Annum</b>                         | <b>%</b> |
|--|----------|
| Motor Vehicle                            | - 20     |
| Furniture, Fittings and Office Equipment | - 15     |
| Computers, software                      | - 33.33  |

**g) Intangible assets – IPSAS 31**

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

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

**h) Research and development costs**

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

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

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

**i) Provisions – IPSAS 19**

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.

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018

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

**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.

**Contingent assets**

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

**j) Nature and purpose of reserves**

WASREB creates and maintains reserves in terms of specific requirements. WASREB maintains both capital, revenue and revaluation reserves.

Capital reserve is a fund which is created to finance long term projects or write off capital expenses.

Revenue reserve refers to funds retained in the business to meet future contingencies.

Revaluation reserve refers to the specific line item or record required when the revaluation of an asset has resulted in a surplus.

**k) Changes in accounting policies and estimates – IPSAS 3**

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

**l) Employee benefits – IPSAS 25**

**Retirement benefit plans**

Wasreb provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an entity pays 20% fixed contributions based on the employees basic salaries and the employee contributes 10% of their basic salaries into a separate 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

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018

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.

**m) Related parties – IPSAS 20**

Wasreb regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the board directors, the chairperson, the CEO, senior managers, Ministry of Water and Sanitation, Athi Water Services Board and GIZ.

**n) 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 deposits, cash and cash at bank.

**o) Comparative figures**

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

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

The preparation of Wasreb's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses (depreciation and amortization, general provision for doubtful debts), 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.

**q) Provisions for bad debts**

Trade receivables are recognized and carried at original amount less any unrecoverable amount and the general provision for bad debts at 10% of the amount outstanding and specific provision at 50%.

**r) Subsequent events – IPSAS 14**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30<sup>th</sup>, 2018.

**s) Currency**

The financial statements are presented in Kenya Shillings (Kshs).

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018

**NOTES TO THE FINANCIAL STATEMENTS**

**4. GOK Grants**

|  | <b>2018</b>              | <b>2017</b>              |
|--|--------------------------|--------------------------|
|  | <b>Shs</b>               | <b>Shs</b>               |
| <b>Unconditional grants</b>                  |                          |                          |
| Recurrent/ Development Grant                 | 41,500,000               | 90,000,000               |
| <b>Total government grants and subsidies</b> | <b><u>41,500,000</u></b> | <b><u>90,000,000</u></b> |

**5. Regulatory Levy**

|                 |                           |                           |
|-----------------|---------------------------|---------------------------|
| Regulatory levy | 188,648,504               | 186,897,978               |
| <b>Total</b>    | <b><u>188,648,504</u></b> | <b><u>186,897,978</u></b> |

**6. Miscellaneous Income**

|                               |                         |                         |
|-------------------------------|-------------------------|-------------------------|
| Prequalification of suppliers | 379,100                 | 96,523                  |
| Surcharges & Loss Recovery    | 78,718                  | 240,000                 |
| Insurance Compensation        | -                       | 88,000                  |
| Licenses                      | 1,050,000               | 500,000                 |
| Reduction in Provision        | 6,305,728               |                         |
| Interest Income               | 73,973                  | 2,265,411               |
| <b>Total other income</b>     | <b><u>7,887,519</u></b> | <b><u>3,189,934</u></b> |

**7. Donor Grants**

|                           |                          |                         |
|---------------------------|--------------------------|-------------------------|
| Athi Water Services Board | 14,000,000               | 6,795,000               |
| GIZ                       | 1,701,600                | 2,181,198               |
| <b>Total Donor Grants</b> | <b><u>15,701,600</u></b> | <b><u>8,976,198</u></b> |

**8. Employee costs**

|                           |                           |                           |
|---------------------------|---------------------------|---------------------------|
| <b>No of employees</b>    | <b>34</b>                 | <b>34</b>                 |
| Salaries and wages        | 98,543,738                | 91,092,652                |
| Contributions to pensions | 8,502,753                 | 6,828,680                 |
| Gratuity                  | 7,419,237                 | 7,067,533                 |
| Surcharge                 | 78,718                    |                           |
| Leave Allowance           | 5,191,566                 | 5,010,821                 |
| <b>Employee costs</b>     | <b><u>119,736,012</u></b> | <b><u>109,999,686</u></b> |

**9. Board Expenses**

|                                 |                          |                          |
|---------------------------------|--------------------------|--------------------------|
| Chairpersons Honoraria          | -                        | 595,000                  |
| Night Out                       | 6,951,864                |                          |
| Training                        | 1,727,473                |                          |
| Mileage                         | 1,447,957                |                          |
| Sitting Allowance               | 3,842,154                | 21,399,011               |
| <b>Total Board remuneration</b> | <b><u>13,969,448</u></b> | <b><u>21,994,011</u></b> |

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018

**NOTES TO THE ACCOUNTS CONT'**

**10. Administrative Expenses**

|                                      | <b>2018</b>               | <b>2017</b>               |
|--------------------------------------|---------------------------|---------------------------|
|                                      | <b>Shs</b>                | <b>Shs</b>                |
| Advertising & Publicity              | 5,613,169                 | 22,396,887                |
| Audit fees                           | 464,000                   | 464,000                   |
| Conferences expenses                 | 5,965,988                 | 1,702,910                 |
| Consulting fees                      | 7,563,674                 | 4,096,350                 |
| Office running Expenses              | 4,094,239                 | 4,404,493                 |
| Computer Expense                     | 741,053                   | 644,215                   |
| Staff Welfare Expenses               | 936,110                   | 903,808                   |
| Insurance expenses                   | 12,281,361                | 10,602,784                |
| Internet                             | 1,277,570                 | 1,533,573                 |
| Printing and stationery              | -                         | 915,866                   |
| Rental                               | 15,440,209                | 16,013,912                |
| Bank Charges & Other Operating Exp   | 1,499,878                 | 1,579,102                 |
| Telecommunication                    | 278,678                   | 326,608                   |
| Capacity building                    | 8,700,737                 | 5,385,693                 |
| Allowances for Impairment (General)  | -                         | 1,207,656                 |
| Allowances for Impairment (Specific) | 16,206,215                | 8,573,870                 |
| Bad debt written off                 | -                         | 182,800                   |
| Travel & Accommodation Expenses      | 30,255,208                | 25,452,585                |
| Fuel and oil                         | 1,444,639                 | 1,965,675                 |
| Depreciation                         | <u>4,849,699</u>          | <u>1,820,037</u>          |
| <b>Total Administrative Expenses</b> | <b><u>117,612,427</u></b> | <b><u>110,172,824</u></b> |

**11. Cash and cash equivalents**

|   |                          |                          |
|---|--------------------------|--------------------------|
| National Bank Of Kenya (Account No 01001032110300)          | 8,556,954                | 33,118,632               |
| National Bank Of Kenya (Account No 01001032110301)          | 755,978                  | 755,978                  |
| National Bank Of Kenya (Fixed Deposit)                      | -                        | 30,000,000               |
| Kenya Commercial Bank                                       | 12,877,772               | 8,129,965                |
| Cooperative Bank Of Kenya (Account No 01136160928601)       | 3,075,331                | 1,747,883                |
| Cooperative Bank Of Kenya (Account No 01136160928600)       | 97,024                   | 101,094                  |
| National Bank Of Kenya Mortgage (Account No 01288032110302) | 25,400,000               | =                        |
| <b>Total cash and cash equivalents</b>                      | <b><u>50,763,059</u></b> | <b><u>73,853,552</u></b> |

**12. Receivables**

|                                  | <b>2018</b>               | <b>2017</b>               |
|----------------------------------|---------------------------|---------------------------|
|                                  | <b>Shs</b>                | <b>Shs</b>                |
| <b>Current receivables</b>       |                           |                           |
| Staff Debtors                    | 1,529,288                 | 752,750                   |
| Water Service Boards             | 576,500                   | 576,500                   |
| Trade debtors                    | 226,579,056               | 172,019,069               |
| Less: impairment allowance       | <u>(69,762,460)</u>       | <u>(59,861,973)</u>       |
| <b>Total current receivables</b> | <b><u>158,922,384</u></b> | <b><u>113,486,346</u></b> |

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018

**Reconciliation of impairment of receivables**

|  |                          |                          |
|--|--------------------------|--------------------------|
| As at 1 <sup>st</sup> July 2017              | 59,861,973               | 50,080,447               |
| Charges in provision for the year (General)  | (6,305,728)              | 1,207,656                |
| Charges in provision for the year (Specific) | <u>16,206,215</u>        | <u>8,573,870</u>         |
| <b>As at June 2018</b>                       | <b><u>69,762,460</u></b> | <b><u>59,861,973</u></b> |

**13. Other Current Assets**

|                   | 2018<br>Shs             | 2017<br>Shs              |
|-------------------|-------------------------|--------------------------|
| Mortgage Facility | 3,928,205               | 40,000,000               |
| Accrued Interest  | -                       | 599,178                  |
| Prepaid Insurance | 5,146,692               | 4,663,584                |
| <b>Total</b>      | <b><u>9,074,897</u></b> | <b><u>45,262,762</u></b> |

**14. Property, plant and equipment**

|                                    | Motor Vehicles<br>Shs   | Furniture &<br>Fittings<br>Shs | Computer &<br>Equipment<br>Shs | Total<br>Shs             |
|------------------------------------|-------------------------|--------------------------------|--------------------------------|--------------------------|
| <b>Cost</b>                        |                         |                                |                                |                          |
| At 1 July 2016                     | 12,984,000              | 9,039,990                      | 20,467,333                     | 42,491,323               |
| Additions                          | -                       | -                              | 9,437,517                      | 9,437,517                |
| <b>At 30 June 2017</b>             | <b>12,984,000</b>       | <b>9,039,990</b>               | <b>29,904,850</b>              | <b>51,928,840</b>        |
| <b>Depreciation and impairment</b> |                         |                                |                                |                          |
| At 1 July 2016                     | (5,193,600)             | (6,454,661)                    | (18,008,756)                   | (29,657,017)             |
| Charge for the year                | (2,596,800)             | (683,758)                      | (1,136,280)                    | (4,416,838)              |
| <b>At 30 June 2017</b>             | <b>(7,790,400)</b>      | <b>(7,138,419)</b>             | <b>(19,145,036)</b>            | <b>(34,073,855)</b>      |
| <b>Net book values</b>             |                         |                                |                                |                          |
| <b>At 30 June 2017</b>             | <b><u>5,193,600</u></b> | <b><u>1,901,571</u></b>        | <b><u>10,759,814</u></b>       | <b><u>17,854,985</u></b> |

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018

| <b>Cost</b>                        |                         |                         |                         |                          |
|------------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| <b>At 1 July 2017</b>              | <b>Shs</b>              | <b>Shs</b>              | <b>Shs</b>              | <b>Shs</b>               |
| Additions                          | 12,984,000              | 9,039,990               | 29,904,850              | 51,928,840               |
| <b>At 30 June 2018</b>             | -                       | 483,600                 | 464,954                 | 948,554                  |
|                                    | <b>12,984,000</b>       | <b>9,523,590</b>        | <b>30,369,804</b>       | <b>52,877,394</b>        |
| <b>Depreciation and impairment</b> |                         |                         |                         |                          |
| At 1 July 2017                     |                         |                         |                         |                          |
| Charge for the year                | (7,790,400)             | (7,138,419)             | (19,145,036)            | (34,073,855)             |
| <b>At 30 June 2018</b>             | (2,596,800)             | (682,540)               | (4,167,159)             | (7,446,499)              |
| <b>Net book values</b>             | <b>(10,387,200)</b>     | <b>(7,820,959)</b>      | <b>(23,312,195)</b>     | <b>(41,520,354)</b>      |
| <b>At 30 June 2018</b>             | <b><u>2,596,800</u></b> | <b><u>1,702,631</u></b> | <b><u>7,057,610</u></b> | <b><u>11,357,041</u></b> |

**15. Trade and other payables**

|                                       | <b>2018</b>              | <b>2017</b>              |
|---------------------------------------|--------------------------|--------------------------|
|                                       | <b>Shs</b>               | <b>Shs</b>               |
| Trade payables                        |                          |                          |
| Audit fees                            |                          |                          |
| Performance Guarantee                 | 3,000                    | 3,068,847                |
|                                       | 928,464                  | 928,464                  |
| Gratuity                              | 979,500                  | 979,500                  |
| <b>Total trade and other payables</b> | <b>12,085,822</b>        | <b>13,411,380</b>        |
|                                       | <b><u>13,996,786</u></b> | <b><u>18,388,191</u></b> |

**16. Capital Reserve**

|                        |                          |                          |
|------------------------|--------------------------|--------------------------|
| Brought Forward        | 36,487,577               | 36,487,577               |
| <b>Carried Forward</b> | <b><u>36,487,577</u></b> | <b><u>36,487,577</u></b> |

**17. Revaluation Reserve**

|                          |                       |                         |
|--------------------------|-----------------------|-------------------------|
| Amortization in the year | 3,089,465             | 5,686,265               |
| Carried Forward          | (2,596,800)           | (2,596,800)             |
|                          | <b><u>492,665</u></b> | <b><u>3,089,465</u></b> |

**18. Revenue Reserve**

|                        | <b>2018</b>               | <b>2017</b>               |
|------------------------|---------------------------|---------------------------|
|                        | <b>Shs</b>                | <b>Shs</b>                |
| Brought Forward        | 192,492,412               | 145,513,307               |
| Surplus for the years  | 2,419,736                 | 46,897,589                |
| Prior Year Adjustment  | -                         | 81,516                    |
| <b>Carried Forward</b> | <b><u>194,912,148</u></b> | <b><u>192,492,412</u></b> |

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018

**19. RELATED PARTIES TRANSACTIONS**

|                                  | <b>2018</b>               | <b>2017</b>               |
|----------------------------------|---------------------------|---------------------------|
|                                  | <b>Shs</b>                | <b>Shs</b>                |
| Wasreb's CEO & Senior Management | 30,886,495                | 30,886,495                |
| Board of Directors               | 13,949,771                | 21,994,011                |
| Athi Water Services Board        | 14,000,000                | 6,795,000                 |
| GIZ                              | 1,701,600                 | 2,181,198                 |
| Ministry of Water and Sanitation | <u>41,500,000</u>         | <u>90,000,000</u>         |
| <b>TOTAL</b>                     | <b><u>102,037,866</u></b> | <b><u>151,856,704</u></b> |

**APPENDIX I: 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  | Outstanding Receivables – The recoverability of the receivables balance of Kshs 576,500 of unpaid penalties. | Given the nature of this debt, the board has recognized the challenges of recoverability and has subsequently provided a provision for this debt at 50% and negotiation for settlement with the WSBs is ongoing | DCS  | Not Resolved                      | 30 <sup>th</sup> June 2018                                       |
| 2  | Administrative Costs – There was over expenditure of budget and no approval was availed for the same         | The over expenditure on the administrative expenses was due to donor support which was not anticipated during the budget process and provision for bad and doubtful debts.                                      | DCS  | Resolved                          | 30 <sup>th</sup> June 2017                                       |

Water Services Regulatory Board  
Annual Report and Financial Statements for the year ended 30 June 2018

**APPENDIX II: INTER-ENTITY TRANSFERS**

| <b>ENTITY NAME:</b>   |                                | <b>WATER SERVICES REGULATORY BOARD</b> |                      |  |
|---|--------------------------------|--|----------------------|--|
| <b>Break down of Transfers from the MINISTRY OF WATER &amp; SANITATION, ATHI WATER SERVICES BOARD and GIZ</b> |                                |  |                      |  |
| <b>FY 17/18</b>   |                                |  |                      |  |
| a.  | Recurrent Grants               |  |                      |  |
|   |                                | <u>Bank Statement Date</u>             | <u>Amount (KShs)</u> | <u>Indicate the FY to which the amounts relate</u> |
|   | Ministry of Water & Sanitation | 31/10/2017                             | 4,000,000            | 2016/2017  |
|   | “                              | 31/10/2017                             | 15,000,000           | 2017/2018  |
|   | “                              | 30/04/2018                             | 7,500,000            | 2017/2018  |
|   | “                              | 30/04/2018                             | 15,000,000           | 2017/2018  |
|   |                                | <b>Total</b>                           | <b>41,500,000</b>    |  |
| b.  | Donor Receipts                 |  |                      |  |
|   |                                | <u>Bank Statement Date</u>             | <u>Amount (KShs)</u> | <u>Indicate the FY to which the amounts relate</u> |
|   | Athi Water Services Board      | 20/08/2017                             | 14,000,000           | 2017/2018  |
|   | GIZ                            | 30/6/2018                              | 1,701,600            | 2017/2018  |
|   |                                | <b>Total</b>                           | <b>15,701,600</b>    |  |

The above amounts have been communicated to and reconciled with the Ministry of Water & Sanitation