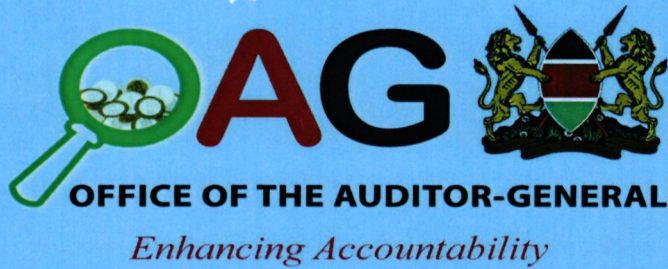


REPUBLIC OF KENYA



# REPORT

OF

PARLIAMENT  
OF KENYA  
LIBRARY

THE AUDITOR-GENERAL

ON

**WATER SECTOR DEVELOPMENT  
PROGRAMME LAKE VICTORIA SOUTH  
(KERICHO, KISII, NYAMIRA AND LITEIN)  
LOAN NO BMZ-NO.2010 65 861 AND GRANT  
NO. BMZ 2010 70 457**

**FOR THE YEAR ENDED  
30 JUNE, 2021**

**LAKE VICTORIA SOUTH WATER WORKS  
DEVELOPMENT AGENCY**

THE NATIONAL ASSEMBLY  
PAPERS I AID

DATE: 10 FEB 2022

TABLED BY: LDM

CLERK AT THE TABLE: B. Inzofu

Gov. Thrusi



**KFW**



**KENYA**  
**VISION 2030**

**Project Name: WATER SECTOR DEVELOPMENT PROGRAMME -LAKE VICTORIA SOUTH; BMZ- NO.2010 65 861 & BMZ-NO. 2010 70 457 (KERICHO, KISII, NYAMIRA AND LITEIN).**

**Implementing Entity LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY**

**PROJECT: CREDIT NUMBER BMZ No.2010 65 861  
GRANT NUMBER BMZ-No. 2010 70 457**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 2021**

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

***Water Sector Development Programme***  
***Reports and Financial Statements For the financial year ended June 30, 2021***

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**Water Sector Development Programme**  
**Reports and Financial Statements For the financial year ended June 30, 2021**

**1. PROJECT INFORMATION AND OVERALL PERFORMANCE**

**1.1 Name and registered office**

**Name:** The project's official name is Water Sector Development Programme -Lake Victoria South; BMZ- No.2010 65 861 & BMZ-No. 2010 70 457 (Kericho, Kisii, Nyamira and Litein)

**Objective:** The key objective of the project is,

- a) To improve Water Supply and Sanitation Services in the Towns of Kericho, Kisii, Nyamira and Litein to meet the year 2030 demands.
- b) The investments in the 4 Nr. Project Towns will be restricted to the Core Urban and Peri Urban of the Project Towns and areas with close geographical proximity to Urban Core Areas.

**Address:** The project headquarters office is in Kisumu city, Kisumu County, Kenya.

The address of its registered office is:

Lake Victoria south water services board

P. O Box 3325-40100 kisumu

The project also has consultant offices as follows:

- Kisii
- Nyamira

**Contacts:** The following are the project contacts

**Telephone:** (254) 57 2025127

**E-mail:** info@lvswaterboard.go.ke

**Website:** www.lvswaterboard.go.ke

**1.2 Project Information**

Project Start Date:	The Program start date is 03/03 /2014
Project End Date:	The Program end date is 31/12/2022
Project Manager:	The Program Manager is Chrispine Juma Omondi.
Project Sponsor:	The Program sponsor/Development Partner is German financial cooperation (KFW) /GOK

**PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)**

**1.3 Project Overview**

Line Ministry/State Department of the project	The Program is under the supervision of the Ministry of Water and Sanitation.
Program number	BMZ No.2010 65 861 & BMZ-No. 2010 70 457
Strategic goals of the Program	<ul style="list-style-type: none"> <li>(i) Increase water coverage to 85%-90% in Kericho and 80-85% for Kisii, Nyamira and Litein towns.</li> <li>(ii) Increase sewerage coverage to 45% for Kericho and 40% in Kisii and improved sanitation in Nyamira town.</li> <li>(iii) Reduce Non-Revenue Water (NRW) from 50-65% to 30% in all towns</li> <li>(iv) Increase collection efficiency of GWASCO and KEWASCO to over 90%</li> <li>(v) Attain 100% Operation and Maintenance Cost recovery within 1 year of completion</li> <li>(vi) Drinking water quality to meet the WHO standards.</li> </ul>
Achievement of strategic goals	<p>The Program management aims to achieve the goals through the following means:</p> <ul style="list-style-type: none"> <li>(i) Construction of Drinking Water Treatment Units</li> <li>(ii) Construction of Water Transmission and Distribution Mains</li> <li>(iii) Construction of Water Storage Reservoirs</li> <li>(iv) Purchase of Non-Revenue Water Management Equipment/Vehicles</li> <li>(v) Construction and Equipping of Laboratory</li> <li>(vi) Improved Operation and Maintenance of the Water Treatment System</li> </ul>
Other important background information of the Program	The project aims at providing sufficient, hygiene, economically viable and affordable water to 485,000 people and improved sanitation to 70,000 people within the towns of Kericho, Kisii, Nyamira and Litein-Sotik towns.
Current situation that the project was formed to intervene	<p>The Program was formed to intervene in the following areas:</p> <ul style="list-style-type: none"> <li>(i) To ensure the provision of sufficient, hygienic, economically viable and affordable Water and Sanitation Services for the population of the selected towns, thus contributing to the overall development goal of improving the health of the urban population by reducing waterborne diseases and favouring economic development.</li> <li>(ii) The Program also supports enhancement of water supply and sanitation service delivery and sustainability through improved commercialization, pro-poor orientation and clustering of schemes.</li> </ul>

**Water Sector Development Programme**  
**Reports and Financial Statements for the financial year ended June 30, 2021**

Program duration	The project started on 3rd March 2014 and is expected to run until 31 <sup>st</sup> December 2022.
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**1.4 Bankers**

- i. The KFW/ financier is the bankers for the current year.
- ii. Kenya Commercial Bank Limited  
 Kisumu Branch  
 P O Box 17-40100  
 KISUMU, KENYA

**1.5 Auditors**

Auditor General

Office of the Auditor General

P.O Box 30084-00100

**Nairobi**

**1.6 Roles and Responsibilities**

Names	Title designation	Key qualification	Responsibilities
Chripine O. Juma, HSC	Chief Executive officer	B.Sc. degree Hydrology	Accounting Officer
Eng. Michael Opany	Manager Planning and Design	Bsc Civil Engineering, Msc.	Program Coordinator
Ms. Rosemary Chelangat	Chief Accountant	BBM Degree, CPA III	Project Accountant
Mr. George Ageng'o	Chemist/Environmentalist	Ma in Project planning and management	Project implementation team
Mr. Martin Mayi	Procurement Manager	BA Degree, MBA	Procurement Expert
Mr. Samwel Chacha	Water Engineer	Bsc Civil Engineering	Asst. Project Eng.

**1.7 Funding summary**

The Project is for duration of 5 years from 3rd March 2014 to 31st December 2022 with an approved budget of Euro 33Million equivalent to Kshs 4.2billion: Below is the funding summary:

**PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)**

Below is the funding summary:

**A. Source of Funds**

Source of funds	Donor Commitment-		Amount received to date (30.06.21)		Undrawn balance to date (30.06.21)	
	Donor currency	Kshs	Donor currency	Kshs	Donor currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
KFW	33,000,000	3,842,000,000	25,931,433	3,019,047,499	7,068,567	822,952,501
(ii) Grant						
KFW	1,000,000	116,420,000	116,475	13,560,000	883,525	102,860,000
(iii) Counterpart funds						
Government of Kenya	3,300,000	372,900,000	2,554,404	288,647,624	745,596	84,252,376
<b>Total</b>	<b>37,300,000</b>	<b>4,331,320,000</b>	<b>28,602,312</b>	<b>3,321,255,124</b>	<b>8,697,688</b>	<b>1,010,064,876</b>

**PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)**

**B. Application of Funds**

Application of funds	Amount received to date – (30 <sup>th</sup> June 2021)		Cumulative Amount paid to date – (30 <sup>th</sup> June 2021)		Unutilised balance to date (30 <sup>th</sup> June 2021)	
	Donor currency (A)	Kshs (A')	Donor currency (A)	Kshs (B')	Donor currency (A)-(B)	Kshs (A')-(B')
(i) Loan						
KFW	25,931,433	3,019,047,499	25,931,433	3,019,047,499	-	-
(ii) Grant						
KFW	116,475	13,560,000	116,475	13,560,000	-	-
(iii) Counterpart funds						
Government of Kenya	2,554,404	288,647,624	2,554,404	288,647,624	-	-
<b>Total</b>	<b>28,602,312</b>	<b>3,321,255,124</b>	<b>28,602,312</b>	<b>3,321,255,124</b>	<b>-</b>	<b>-</b>

***Water Sector Development Programme  
Reports and Financial Statements For the financial year ended June 30, 2021***

**PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)**

**1.8 Summary of Overall Project Performance:**

- i. Budget performance for the project for the current year under review was at 61% Absorption and the overall programme budget is at 77% drawn cumulative to-date.
- ii. The physical progress of the project as at end of the year under review is at 85% based on awards.
- iii. The project will receive value for money since the already completed components are operational.
- iv. The absorption rate for each year since the commencement of the project has been steady.
- v. The implementation challenges are basically on land issues and budget constraints which the Government have intervene and more support has been received.

**1.9 Summary of Project Compliance:**

- There are no non-compliance issues with applicable laws and regulations, and essential external financing agreements/covenants that are in the project.

## 2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETERMINED OBJECTIVES

### Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives.

The key development objectives of the project's 2014-2022 plan are to:

- (i) Increase water coverage to 85%-90% in Kericho and 80-85% for Kisii, Nyamira and Litein towns.
- (ii) Increase sewerage coverage to 45% for Kericho and 40% in Kisii and improved sanitation in Nyamira town.
- (iii) Increase collection efficiency of GWASCO and KEWASCO to over 90%
- (iv) Attain 100% Operation and Maintenance Cost recovery within 1 year of completion
- (v) Drinking water quality to meet the WHO standards.

### Progress on attainment of Strategic development objectives

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement: Below we provide the progress on attaining the stated objectives:

Project	Objective	Outcome	Indicator	Performance
Water Sector Development Program	Increase water coverage to 85%-90% in Kericho and 80-85% for Kisii, Nyamira and Litein towns.	Construction of Kimugu water treatment Plant Construction of Kegati Water treatment Plant	-Additional supply 13,000m <sup>3</sup> /day of treated water in Kericho -Additional supply of 1,500m <sup>3</sup> /day of treated water in the urban and peri-urban areas of Kisii	Construction of the treatment plant is in progress Additional 2,500m <sup>3</sup> /day is completed and operational.
	Increase sewerage coverage to 45% for Kericho and 40% in Kisii and improved sanitation in Nyamira town.	Expansion of Suneka Waste Water Treatment Plant	4,300m <sup>3</sup> /day treatment capacity of waste water for Kisii town	The plant is completed and operational.
	Attain 100% Operation and Maintenance Cost recovery within 1 year of completion	Improved Operation and Maintenance of the Water Treatment	100% operation and maintenance cost recovery	Increased revenue for the Water Companies that has improved cost recovery
	Drinking water quality to meet the WHO standards.	Construction and Equipping of Laboratory	100% compliance with WHO water quality standards/WASREB water quality regulations	Currently Kericho and Kisii complies.

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

Water Sector Development Project exists to transform lives by ensuring the provision of sufficient, hygienic, economically viable and affordable Water and Sanitation Services for the population of the selected towns, thus contributing to the overall development goal of improving the health of the urban population by reducing waterborne diseases and favouring economic development. The other main purpose was to support enhancement of water supply and sanitation service delivery and sustainability through improved commercialization, pro-poor orientation and clustering of schemes. Below is a brief highlight of our achievements in each pillar.

#### **1. Sustainability strategy and profile-**

In performing her mandate, LVSWWDA is committed to perform ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. LVSWWDA undertakes to conduct business in a way which will achieve sustainable growth, in line with legal and moral obligations. We aim to achieve our business objectives in a caring and responsible manner taking into account economic, social and environmental impacts. In light of this, LVSWWDA has conducted various CSR projects under the different projects we are implementing.

#### **2. Environmental performance**

The Agency is operating as per the NEMA provisions of the EMCA 1999, and Environmental (Impact Assessment and Audit) Regulations 2003 as well as other environmental regulations (statutory requirements). The Agency therefore conducts environmental and social impact assessment for all its projects to ensure compliance with the regulations. The Projects were licenced by NEMA before constructions commences and regular monitoring is done during construction to ensure compliance and protection of the environment. Catchment management activities are incorporated in the projects. The Agency has an environmentalist who is a Project Implementation Team member for all the projects.

#### **3. Employee welfare**

The project management is by LVSWWDA staff and therefore the entity's employee welfare policies and guidelines apply as detailed below:

The Agency has developed an approved Human Resource Instruments in which one of the guidelines is a comprehensive Human Resource Policy and Procedures Manual which is the primary document in the management of the Human Resources at the Agency. The document contains provisions for managing the entire scope of Human Resource Management and Development cycle.

It generally guides the implementation of the policies and decision making at various levels within the Agency on matters human capital. The policy provision covers the entire recruitment process, pay and benefits, employee relations, performance management, training & development and the health and safety issues. In consideration of the affirmative actions, the policy addresses issues related to gender balance, persons with disability and consideration of the marginalized communities in all aspects of human resources dynamics.

Under the career development, LVSWWDA has a comprehensive career progression document that outlines employee succession plans including requirements for internal promotions and the external engagements where talents may be required within its establishment. This is an instrument that outlines job descriptions for each cadre of employee. Together with the annual departmental workplans and the Government's performance contracting tool enables employees set their targets and eventually evaluated through annual appraisals. The evaluation enables employees of the Agency to be upskilled, helped or otherwise redeployed and upscaled.

The Agency also recognizes and commits itself to the achievement of the highest standards of health and safety in the workplace, and the elimination or minimization of health and safety hazards and risks that may affect its employees. In this regard, it implements policies and programmes that assure their protection from such hazards and disasters. The policies and programmes are implemented in compliance with the provisions of Occupational Safety and Health Act, 2007 and other Labour Laws.

**4. Market place practices-**

The Agency ensures incorporation of competitive market practices through, encouraging competitive bidding by Placing advertisements for all tenders in our local dailies, our website and The Govt. of Kenya Treasury portal. This enables all prospective bidders to access the information and to participate. At the close of all tenders, representatives who choose to attend are invited to witness the opening of the tenders to ensure transparency in the bidding process. All the participants are informed of the outcome of the procurement process.

LVSWWDA has always maintained an effective feedback mechanism by holding an annual supplier meeting to get feedback from suppliers and contractors. Any concerns raised during the forum are adequately addresses.

All engagements between LVSWWDA and suppliers and/or contractors take the form of purchase orders and contracts which are signed by both parties and they clearly enumerate responsibilities and obligations of either party. The payment schedules also form part of the contracts and they are strictly adhered to during the contract period. LVSWWDA encourages public participation and also clearance by relevant Govt agencies to ensure consumer rights and interests are not infringed

**5. Community Engagements-**

The Agency through the project has undertaken various CSR activities in its area of jurisdiction. Notably, the Agency has constructed two VIP latrine blocks in both Nyanguru and Bobaracho Primary Schools in Kisii County. The sanitation blocks were constructed in 2019 to alleviate the sanitation challenges facing the school populations.

#### **4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES**

The Chief Executive officer for the Lake Victoria South Water Works Development Agency and the Program Coordinator for Water Sector Development Programme are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2021. This responsibility includes: (i) Maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the Project; (v) Selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

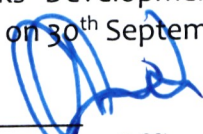
The Chief Executive officer for the Lake Victoria South Water Works Development Agency and the Program Engineer for Water Sector Development Programme accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Chief Executive officer for the Lake Victoria South Water Works Development Agency and the Program Coordinator for Water Sector Development Programme are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2021 and of the Project's financial position as at that date. The Chief Executive officer for the Lake Victoria South Water Works Development Agency and the Program Coordinator for Water Sector Development Programme further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

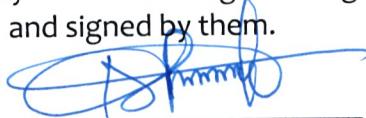
The Chief Executive officer for the Lake Victoria South Water Works Development Agency and the Program Coordinator for Water Sector Development Programme confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

#### **Approval of the Project financial statements**

The Project financial statements were approved by Chief Executive officer for the Lake Victoria South Water Works Development Agency and the Program Engineer for Water Sector Development Programme on 30<sup>th</sup> September 2021 and signed by them.



**Ag. Chief Executive Officer**  
Chrispin Juma Omondi, HSC



**Program Coordinator**  
Eng. Michael Opany



**Project Accountant:**  
Rosemary Chelangat  
ICPAK MNO.:6361

# REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR GENERAL

*Enhancing Accountability*

**HEADQUARTERS**  
Anniversary Towers  
Monrovia Street  
P.O. Box 30084-00100  
NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON WATER SECTOR DEVELOPMENT PROGRAMME LAKE VICTORIA SOUTH (KERICHO, KISII, NYAMIRA AND LITEIN) LOAN NO BMZ-NO.2010 65 861 AND GRANT NO. BMZ 2010 70 457 FOR THE YEAR ENDED 30 JUNE, 2021- LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY**

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### PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazetted notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

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*Report of the Auditor-General on Water Sector Development Programme Lake Victoria South (Kericho, Kisii, Nyamira and Litein) Loan No BMZ- No.2010 65 861 and Grant No. BMZ 201070457 for the year ended 30 June, 2021- Lake Victoria South Water Works Development Agency*

## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of Water Sector Development Programme Lake Victoria South (Kericho, Kisii, Nyamira and Litein) set out on pages 1 to 20, which comprise the statement of financial assets as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows and statement of comparative of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015 and the financing Loan Agreement Credit No. BMZ 2010 65 861 dated 30 December, 2011 between the Republic of Kenya and KfW Development Bank. 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Water Sector Development Programme Lake Victoria South (Kericho, Kisii, Nyamira and Litein) Loan No. BMZ 2010 65 861 as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Financing Loan Agreement No. BMZ 2010 65 861 dated 30 December, 2011 between KfW Development Bank, and the Republic of Kenya, and Subsidiary Grant Agreement No. BMZ 2010 70 457 dated 10 April, 2013 between the Government of Kenya and Lake Victoria South Water Works Development Agency and the Public Finance Management Act, 2021.

### Basis for Qualified Opinion

#### 1. Failure to Open Bank Account and Maintain a Separate Cash Book

The statement of financial assets reflects a nil balance for cash and cash equivalents. However, review of the Project's records indicated that the Project Management used the Implementing Agency's bank account and cash book to process receipts and payments relating to the Project. This is contrary to Regulation 76 (1) of Public Finance Management (National Government) Regulations, 2015 which provides that, for the purpose of disbursement of Project funds, there shall be opened and maintained a Project account for every Project at the Central Bank of Kenya unless it is exempted by the Cabinet Secretary in writing, into which all funds shall be kept and such an account shall be known by the name of the Project for which it is opened and each Project shall maintain only one bank account. Section 6.1 (d) of the financing agreement further states that the recipient of the funds shall maintain separate books and reports showing all costs incurred in connection with the expert services and clearly identifying the services financed from the financial contribution.

Although it is indicated in the financial statements under project information and overall performance that the Project banker is Kenya Commercial Bank Limited, Kisumu Branch, no cashbook or certificate of bank balance was provided to show the existence of the banking facility as at 30 June, 2021.

Under the circumstances, the accuracy of the financial statements could not be ascertained as the Project did not maintain a cash book. Management was also in breach of the law and the Financing Agreement.

## 2. Ownership of Project Vehicles

The fixed assets register as reflected at Annex 3 of the financial statements show total fixed assets amounting to Kshs.170,259,603 comprising motor vehicles, motor cycles, water distribution pipes and equipment and laboratory equipment. However, logbooks provided for audit as proof of ownership indicated that four vehicles valued at Kshs.29,477,500 were registered in the name of the contractor as detailed below:

Registration Number	Value (Kshs.)	Ownership
KCR 854R	6,438,600	Contractor
KCR 855R	6,438,400	Contractor
KCP975M	7,245,000	Contractor
KCP064N	9,355,500	Contractor
<b>Total</b>	<b>29,477,500</b>	

Further, the logbook in respect of vehicle registration No. KCR 859R valued at Kshs.6,438,600 was not provided for audit review. Management did not explain the circumstances under which Project vehicles were registered in the name of the contractor neither has there been evidence of efforts to transfer the vehicles to the Project.

Under the circumstances, the ownership of fixed assets amounting to Kshs.35,916,100 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Water Sector Development Programme Lake Victoria South (Kericho, Kisii, Nyamira and Litein) Project Management in accordance with ISSAI 130 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 audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified 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. Except for the matter described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

## **Other Matter**

### **1. Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects an approved budget of Kshs.1,188,508,296 and actual expenditure of Kshs.719, 544,418 or approximately 61% resulting in under-expenditure of Kshs.468,963,878 or approximately 39% of the budget. This clearly indicates that some of the planned activities for the Project were not undertaken, which in turn implies that the Project's objectives may not be achieved.

Failure to use the funds as budgeted means the citizens did not receive the benefits that would have accrued from the implemented Projects.

### **2. Pending Bills**

Note 8(1) to the financial statements on other important disclosures and Annexure 2 reflects pending accounts payables balance of Kshs.24,637,368 relating to Government of Kenya (GOK) counterpart funding as at 30 June, 2021 relating to the period 2016 and 2019. Although the Management has explained that the same were paid during the first quarter of 2021/2022, no documentary evidence was provided in support of the paid bills. Failure to clear bills during the year to which they relate distorts the financial statements and adversely affects the implementation of activities of the subsequent year as they are to form a first charge.

## **Other Information**

The Management is responsible for the other information, which comprises project information and overall performance, the statement of performance against project pre-determined objectives, statement of corporate social responsibility and the statement of management responsibilities. The other information does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

## **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, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else 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**

### **1. Summary of Fixed Assets Register**

The summary of fixed assets register at Annexure 3 to the financial statements reflects assets balance of Kshs.170,529,603 as at 30 June, 2021 which includes motor vehicle registration number KCP 064N, Toyota Land Cruiser Prado, valued at Kshs.9,355,500 purchased for the project supervision as per the bills of quantities. However, the vehicle was not provided for physical verification during the audit in October, 2021. Information available indicates that the motor vehicle was directly handed to the Ministry of Water and Sanitation by the Contractor in 2018 but there is no evidence that the same was authorised by the Chief Executive Officer of the implementing agency. No reason was provided for the handing over of the vehicle to the Ministry, which is contrary to Section 139 (1) (a) and (b) of the Public Finance Management (National Government) Regulations, 2015, that requires prudent management of public assets.

In the circumstances, the Management is in breach of the law.

### **2. Expansion of Water Supply Systems in Kericho**

The statement of receipts and payments reflects acquisition of non-financial assets amounting to Kshs.686,098,281 in respect of rehabilitation of civil works as disclosed in Note 5 to the financial statements. The amount includes expenditure of Kshs.302,909,632 incurred towards the expansion of water supply systems for Kericho through Contract No.LVSWSB/PQ/1/2017-2018/C/LOT3 awarded to a foreign Engineering Company at a contract sum of Kshs.1,189,805,385. Physical verification of the Project in the month of October, 2021 showed that the Project was on-going with the contractor still on site and the Project was at 58% completion. However, according to the Engineer's progress of work report, the ownership of the parcel of land on which the Project stands had not been confirmed as the document of title was yet to be obtained. Although Management has indicated that the County Government of Kericho is in the process of transferring the land ownership of the parcel of land from M/s Unilever, no reason has been provided as to why the process that started in 2017 had not been completed as at the time of audit.

Consequently, it could not be confirmed that the land and development thereon are properly safeguarded.

### **3. Expansion of Water Supply and Sanitation Systems in Kisii and Nyamira**

The rehabilitation of civil works expenditure amounting to Kshs.686,098,281 as disclosed in Note 5 to the financial statements includes Kshs.383,188,649 in respect of expansion of Water Supply and Sanitation Systems at Kisii and Nyamira implemented vide Contract No.LVSWSB/PQ/19/2014-15/C/LOT1 awarded to an International Company at a contract price of Kshs.2,289,840,260. Although physical verification of the Project during the month of October, 2021 showed that both Projects at Kisii and Nyamira were complete and had been handed over to the Gusii Water and Sanitation Company (GWASCO) Ltd, the Nyamira Project was not operational and there has been no value generated from the Project. In addition, the production and billing reports generated from the system of the

GWASCO in respect of the Project and provided for audit verification showed that the expected water production during the year was to be 2,913,761M<sup>3</sup>. However, only 58,595M<sup>3</sup> was billed during the year under review, which is approximately 2% of the planned production.

Consequently, the citizens did not get value for money in respect of Kshs.2,289,840,260 incurred on the Project.

#### **4. Irregular Contract Variation**

During the audit, it was noted that Lake Victoria Water Works Development Agency entered into a contract with a Consulting Engineering firm for consultancy services for Kericho, Kisii, Nyamira and Litein BMZ-No 201065861 Project at a contract sum of EUR1,633,966 equivalent to Kshs.189,972,403 on 17 January, 2014. The contract sum was amended five (5) times to a final revised contract of EUR.2,698,350 on 15 June, 2019 equivalent to Kshs.302,727,887. This resulted to a variation of Kshs.112,755,484 which is approximately 59% of the initial contract price contrary to Section 139(4) (c) of the Public Procurement and Asset Disposal Act, 2015 which provides that any variation to a contract shall only be considered if the cumulative value of all contract variations do not result in an increment of a total contract price of more than twenty five per cent of the original contract price.

Further, the amendments and variations were not supported by the respective tender awarding authority within the procuring entity in accordance with Section 139(1)(b) of the Public Procurement and Assets Disposal Act, 2015 which provides that an amendment or a variation to a contract resulting from a procurement proceeding is effective only if the variation or amendment has been approved in writing by the respective tender awarding authority within a procuring entity. In addition, amendments 2 and 3 were signed but were not dated to show when the amendment took place. Also, details on varied works that necessitated the five amendments were not provided for audit.

Consequently, Management was in breached to the law.

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 about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit 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 overall governance were not effective.

## **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

As required by KfW Development Bank, I report based on my audit, that:

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and,
- iii. The Project's financial statements are in agreement with the accounting records and returns.

## **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 (Cash Basis and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to terminate the Project or to cease operations.

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 Project's financial reporting process, reviewing the effectiveness of how the entity monitors 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 that 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 audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that 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 that 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 that 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 Project's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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 that 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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue to sustain its services. 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 Project to cease to sustain its services.
- 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 that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project 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 that are identified during the audit.

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

  
CPA Nancy Gatundu, CBS  
**AUDITOR-GENERAL**

**Nairobi**

**23 December, 2021**

*Water Sector Development Programme  
Reports and Financial Statements For the financial year ended June 30, 2021*

6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30TH JUNE 2021.

	2020/2021			2019/2020			Cumulative to-date (From inception)
	Receipts and payments controlled by the entity KShs	Payments made by third parties KShs	Total KShs	Receipts and payment controlled by the entity KShs	Payments made by third parties KShs	Total KShs	
<b>RECEIPTS</b>							KShs
Transfer from Government entities	81,654,996	-	81,654,996	90,155,107	-	90,155,107	288,647,624
Grants from external development partners	-	-	-	-	-	-	13,560,000
Loan from external development partners	-	637,889,421	637,889,421	0	471,733,817	471,733,817	3,019,047,499
<b>TOTAL RECEIPTS</b>	<b>81,654,996</b>	<b>637,889,421</b>	<b>719,544,418</b>	<b>90,155,107</b>	<b>471,733,817</b>	<b>561,888,924</b>	<b>3,321,255,124</b>
<b>PAYMENTS</b>							
Purchase of goods and services	-	33,446,137	33,446,137	-	44,861,913	44,861,913	301,295,568
Acquisition of non-financial assets-Works	81,654,996	604,443,284	686,098,281	89,111,377	426,871,904	515,983,281	3,014,040,018
Other payments	-	-	-	1,043,730	-	1,043,730	5,919,538
<b>TOTAL PAYMENTS</b>	<b>81,654,996</b>	<b>637,889,421</b>	<b>719,544,418</b>	<b>90,155,107</b>	<b>471,733,817</b>	<b>561,888,924</b>	<b>3,321,255,124</b>
<b>SURPLUS/(DEFICIT)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.



Ag. Chief Executive Officer  
Chrispin Juma Omondi, HSC



Program Coordinator  
Eng. Michael Opany



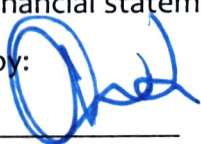
Project Accountant:  
Rosemary Chelangat  
ICPAKMINO.:6361

*Water Sector Development Programme  
Reports and Financial Statements For the financial year ended June 30, 2021*

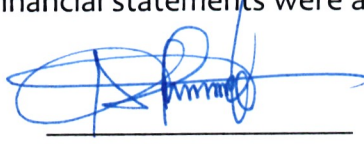
**7. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2021**

	Note	2020-2021	2019-2020
		KShs	KShs
<b>FINANCIAL ASSETS</b>			
<b>Cash and Cash Equivalents</b>			
Bank Balances		-	-
Cash Balances		-	-
Cash Equivalents (short-term deposits)		-	-
<b>Total Cash and Cash Equivalents</b>		-	-
Accounts Receivables		-	-
<b>TOTAL FINANCIAL ASSETS</b>		-	-
<b>FINANCIAL LIABILITIES</b>			
Payables- Deposits and Retentions		-	-
<b>NET ASSETS</b>		-	-
<b>REPRESENTED BY</b>			
Fund balance b/fwd		-	-
Prior year adjustments		-	-
Surplus/(Deficit) for the year		-	-
<b>NET FINANCIAL POSITION</b>		-	-


The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30/06/2021 2021 and signed by:

  
\_\_\_\_\_

**Ag. Chief Executive Officer**  
Date 30/06/2021

  
\_\_\_\_\_

**Project Coordinator**  
Date 30/06/2021

  
\_\_\_\_\_

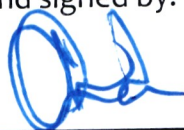
**Project Accountant**  
Date 30/06/2021  
ICPAK Member No.

**Water Sector Development Programme**  
**Reports and Financial Statements for the financial year ended June 30, 2021**

**8. STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30TH JUNE 2021**

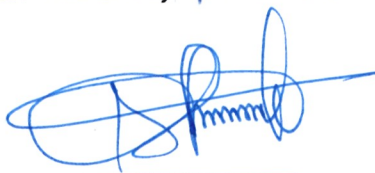
		2020-2021	2019-2020
	Note	KShs	KShs
<b>CASHFLOW FROM OPERATING ACTIVITIES</b>			
<b>Receipts from operating activities</b>			
Transfer from Government entities	1	81,654,996	90,155,107
		<u>81,654,996</u>	<u>90,155,107</u>
<b>Payments from operating activities</b>			
Purchase of goods and services	4	33,446,137	44,861,913
Other Payments	6		1,043,730
		<u>33,446,137</u>	<u>45,905,643</u>
<b>Net cash flow from operating activities</b>		<u>48,208,859</u>	<u>44,249,464</u>
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>			
Acquisition of Assets	5	(686,098,281)	(515,983,281)
<b>Net cash flows from Investing Activities</b>			
<b>CASHFLOW FROM BORROWING ACTIVITIES</b>			
Proceeds from Foreign Borrowings	3	637,889,421	471,733,817
<b>Net cash flow from financing activities</b>		<u>637,889,421</u>	<u>471,733,817</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		-	-
<b>Cash and cash equivalent at BEGINNING of the year</b>		0	0
<b>Cash and cash equivalent at END of the year</b>			

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30/09/2021 2021 and signed by:



**Ag. Chief Executive Officer**

Date 30/09/2021



**Project Coordinator**

Date 30/09/2021



**Project Accountant**

Date 30/09/2021

ICPAK MNo:6361

*Water Sector Development Programme  
Reports and Financial Statements For the financial year ended June 30, 2021*

**9. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS**

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
<b>Receipts</b>						
Transfer from Government	130,000,000	-	130,000,000	81,654,996	48,345,004	63%
Proceeds from foreign borrowing	400,000,000	658,508,296	1,058,508,296	637,889,421	420,618,875	60%
<b>Total Receipts</b>	<b>530,000,000</b>	<b>658,508,296</b>	<b>1,188,508,296</b>	<b>719,544,418</b>	<b>468,963,878</b>	<b>61%</b>
<b>Payments</b>						
<i>Purchase of services &amp; Works:</i>						
i. Consultancy Services for works supervision		44,000,000	44,000,000	33,446,137	10,553,863	76%
ii. Consultancy Services for accompanying measures		12,000,000	12,000,000	-	12,000,000	0%
iii. Construction of water works - Expansion of Water Supply system in Kericho	408,000,000	274,508,296	682,508,296	302,909,632	379,598,664	44%
iv. Construction of water works - Expansion of Water Supply system in Kisii	122,000,000	328,000,000	450,000,000	383,188,649	66,811,351	85%
<b>Total Payments</b>	<b>530,000,000</b>	<b>658,508,296</b>	<b>1,188,508,296</b>	<b>719,544,418</b>	<b>468,963,878</b>	<b>61%</b>

Note: The significant budget utilisation/performance differences in the last column are explained in Annex 1 to these financial statements.



Ag. Chief Executive Officer

Date 30/09/2021



Project Coordinator

Date 30/09/2021



Project Accountant

Date 30/09/2021

ICPAKMN:6361

*Water Sector Development Programme  
Reports and Financial Statements For the financial year ended June 30, 2021*

## **10. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below:

### **10.1 Basis of Preparation**

### **10.2 Statement of compliance and basis of preparation**

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

The accounting policies adopted have been consistently applied to all the years presented.

### **10.3 Reporting entity**

The financial statements are for the Project Water Sector Development Programme under the Ministry of Water & Sanitation and irrigation. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

#### **10.3.1 Reporting currency**

The financial statements are presented in Kenya Shillings (KShs), which is the functional and reporting currency of the Project and all values are rounded to the nearest Kenya Shilling.

**10.4 Significant Accounting Policies**

**a) Recognition of receipts**

The Project recognises all receipts from the various sources when the event occurs, and the related cash has actually been received by the Government.

**i) Transfers from the Exchequer**

Transfer from Exchequer is be recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

**ii) External Assistance**

External assistance is received through grants and loans from multilateral and bilateral development partners.

**iii) Other receipts**

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognized in the financial statements the time associated cash is received.

**b) Donations and grants**

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

**Significant Accounting Policies (Continued)**

**c) Proceeds from borrowing**

Borrowing includes Treasury bill, treasury bonds, corporate bonds, sovereign bonds and external loans acquired by the Project or any other debt the Project may take on will be treated on cash basis and recognized as a receipt during the year they were received.

**d) Undrawn external assistance**

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for the Project currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. An analysis of the Project's undrawn external assistance is shown in the funding summary

**e) Recognition of payments**

The Project recognises all payments when the event occurs, and the related cash has actually been paid out by the Project.

**i) Compensation of employees**

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid. The project did not employ staff directly.

**ii) Use of goods and services**

Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. If not paid for during the period where goods/services are consumed, they shall be disclosed as pending bills.

**Significant Accounting Policies (Continued)**

**iii) Interest on borrowing**

Borrowing costs that include interest are recognized as payment in the period in which they incurred and paid for.

**iv) Repayment of borrowing (principal amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements.

**v) Acquisition of fixed assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

**f) In-kind donations**

In-kind contributions are donations that are made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Project includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

## **Significant Accounting Policies (Continued)**

### **g) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

Bank

account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

### **Restriction on cash**

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits.

### **h) Accounts receivable**

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

**Significant Accounting Policies (Continued)**

**i)Contingent Liabilities**

A contingent liability is:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) A present obligation that arises from past events but is not recognised because:
  - i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
  - ii) The amount of the obligation cannot be measured with sufficient reliability.

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships, 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.

Section 89 (2) (i) of the PFM Act requires the National Government to report on the payments made, or losses incurred, by the county government to meet contingent liabilities as a result of loans during the financial year, including payments made in respect of loan write-offs or waiver of interest on loans

**j)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.

#### **Significant Accounting Policies (Continued)**

##### **k) Pending bills**

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Project at the end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

##### **l) Budget**

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation.

A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

##### **m) Third party payments**

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third party's column in the statement of receipts and payments.

During the year Kshs 637,889,421 being loan disbursements were received in form of direct payments from third parties.

**Significant Accounting Policies (Continued)**

**n) Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

**o) Comparative figures**

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

**p) Subsequent events**

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2021.

**q) Errors**

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.



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**11. NOTES TO THE FINANCIAL STATEMENTS**

**1. RECEIPTS FROM GOVERNMENT OF KENYA**

These represent counterpart funding and other receipts from government as follows:

	2020/21	2019/20	Cumulative
	KShs	KShs	to-date
<b>Counterpart funding through Ministry Water &amp; Sanitation</b>			
Counterpart funds for the year received	81,654,996	90,155,107	288,647,625
<b>Total</b>	<b>81,654,996</b>	<b>90,155,107</b>	<b>288,647,625</b>

**2. PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS**

During the 12 months to 30 June 2021 we did not received grants from donors:

**3. LOAN FROM EXTERNAL DEVELOPMENT PARTNERS**

During the 12 months to 30 June 2021 we received funding from development partners in form of loans negotiated by the National Treasury donors as detailed in the table below:

Name of Donor	Date received	Amount in loan currency	Loans received in cash	Loans received as direct payment*	Total amount in KShs	
					FY 2020/21	FY 2019/20
			KShs	KShs	KShs	KShs
<b>Loans Received from Bilateral Donors (Foreign Governments)</b>						
KFW	01.07.2021					471,733,817
KFW	27.04.2020	8,392		952,640	952,640	
KFW	22.09.2020	233,647		29,623,426	29,623,426	
KFW	04.01.2021	28,622		3,822,711	3,822,711	
KFW	07.10.2020	2,244,976		256,380,055	256,380,055	
KFW	04.05.2021	481,714		55,012,593	55,012,593	
KFW	04.09.2020	457,081		53,630,875	53,630,875	
KFW	20.11.2020	464,466		54,497,368	54,497,368	
KFW	28.01.2021	285,508		33,499,590	33,499,590	
KFW	05.03.2021	549,928		64,524,854	64,524,854	
KFW	27.05.2021	732,489		85,945,310	85,945,310	
<b>Total</b>		<b>5,486,823</b>	-	<b>637,889,421</b>	<b>637,889,421</b>	<b>471,733,817</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4. PURCHASE OF GOODS AND SERVICES**

	FY 2020/21			FY 2019/20	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
<b>Services</b>	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>		<b>KShs</b>
Services- Technical assistance, Design and Supervision	-	33,446,137	33,446,137	44,861,913	287,735,569
Services- Accompanying Measure	-	-	-		13,560,000
<b>Total</b>	-	<b>33,446,137</b>	<b>33,446,137</b>	<b>44,861,913</b>	<b>301,295,569</b>

**5. ACQUISITION OF NON-FINANCIAL ASSETS**

	2020/2021			2019/2020	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments	
	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>
Rehabilitation of civil works	81,654,996	604,443,284	686,098,281	515,983,281	3,014,040,018
<b>Total</b>	<b>81,654,996</b>	<b>604,443,284</b>	<b>686,098,281</b>	<b>515,983,281</b>	<b>3,014,040,018</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**6. TRANSFERS TO OTHER GOVERNMENT ENTITIES**

During the 12 months to 30 June 2021, there were no transferred funds to reporting government entities.

**7. CASH AND CASH EQUIVALENTS**

The project has no project accounts within the project implementation area and no foreign currency designated accounts managed by the National Treasury.

**8. OTHER IMPORTANT DISCLOSURES**

**1. PENDING ACCOUNTS PAYABLE (See Annex 2)**

	Balance b/f FY 2019/2020	Additions for the period	Paid during the year	Balance c/f FY 2020/2021
Description	Kshs	Kshs	Kshs	Kshs
Expansion of Water Supply for Kisii & Nyamira	34,001,529	42,954,342	70,843,361	6,112,510
Quick Interventions	-	129,905	-	129,905
Expansion of Water Supply for Kericho	-	29,206,587	10,811,635	18,394,952
<b>Total</b>	<b>34,001,529</b>	<b>72,290,835</b>	<b>81,654,996</b>	<b>24,637,368</b>

**9. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S 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.

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Ref. No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
	Discrepancies in reported Cumulative receipts under section 1.7 funding summary and statement of receipts and payments	The differences have been reconciled and corrected	Resolved	30 <sup>th</sup> June 2021
	Failure to Open Bank Account and Maintain a separate cash book.	The Bank accounts for GOK Counterpart use the main Development account while Donor Component is paid directly by the Financier.	Resolved	30 <sup>th</sup> June 2021
	Discrepancies between the figures in the financial statements of Receipts and Payments and the figures in the Notes	The error of omission and addition were resolved and there is no differences	Resolved	30 <sup>th</sup> June 2021
	<b>Other Matter</b> -Budgetary Performance- Statement of budget and actual amounts reflect final receipts budget and actual on comparable basis of Kshs. 665,000,000 and Kshs. 561,888,925 respectively resulting to an under-funding of Kshs. 103,111,075 or 15% of the budget.	The budget constrain may be caused by the limitation on Counterpart and delay in the project implementation for the payments to be processed on time.	Resolved	30 <sup>th</sup> June 2021
	Pending Bills	The movement of payables should reduction of pending bills to the current accruals and minimal balances.	Resolved	30 <sup>th</sup> June 2021
	<b>Basis of Conclusion</b> Stalled project Old Kegati Water Treatment Works in Kisii County	Funds were sorted and the project is currently on progress to completion.	Resolved	30 <sup>th</sup> June 2022
	Ownership and custody of project vehicles	The Vehicles transfer was done and available for transfer.	Resolved	30 <sup>th</sup> June 21
	Ownership Documents for Kimugu Water Project	The Land was acquired by the County Government and avail for the project.	Resolved	

Ag. Chief Executive Officer

Date

30/09/2021

Project Coordinator

Date

30/09/2021

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**10. ANNEXES**

**ANNEX1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS**

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance
	a	b	c=a+b	d	e=c-d	%	
<b>Receipts</b>							
Transfer from Government	130,000,000	-	130,000,000	81,654,996	48,345,004	63%	Pending bills were paid
Proceeds from foreign borrowing	400,000,000	658,508,296	1,058,508,296	637,889,421	420,618,875	60%	Delay in allocation supplementary budget
<b>Total Receipts</b>	<b>530,000,000</b>	<b>658,508,296</b>	<b>1,188,508,296</b>	<b>719,544,418</b>	<b>468,963,878</b>	<b>61%</b>	
<b>Payments</b>							
<b>Purchase of services:</b>							
i.Consultancy Services for works supervision		44,000,000	44,000,000	33,446,137	10,553,863	76%	
ii.Consultancy Services for accompanying measures		12,000,000	12,000,000	-	12,000,000	0%	Delay in allocation of supplementary Budget
iii.Construction of water works - Expansion of Water Supply system in Kericho	408,000,000	274,508,296	682,508,296	302,909,632	379,598,664	44%	
iv.Construction of water works - Expansion of Water Supply system in Kisii	122,000,000	328,000,000	450,000,000	383,188,649	66,811,351	85%	
<b>Total Payments</b>	<b>530,000,000</b>	<b>658,508,296</b>	<b>1,188,508,296</b>	<b>719,544,418</b>	<b>468,963,878</b>	<b>61%</b>	

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**ANNEX 2 - ANALYSIS OF PENDING BILLS**

Supplier of Goods or Services	Original Amount (Tax incl.)	Date Contracted	Amount To-Date	Contracts unutilized Balance 2021		Outstanding Balance 2020	Comments
				Contract(Both GOK & Donor)	Gok Pending Bill		
	a	b	C	d=a-c			
<b>Supply of services</b>							
i. Consultancy Services for works supervision	304,913,595	3 <sup>rd</sup> March 2014	286,955,424	17,958,171	-	51,404,308	
ii. Consultancy Accompanying Measures	124,664,748		13,560,000	111,104,748		111,104,748	The outstanding Gok component is the pending bills yet to be paid.
ii. Purchase of goods	100,433,743	1 <sup>st</sup> Jan 2016	99,083,743	1,350,000	-	1,350,000	
iii. Quick Interventions	343,221,348	24 <sup>th</sup> June 2016	328,424,961	14,796,387	129,905.46	15,749,027	
iv. Expansion of Water Supply for Kisii & Nyamira	2,289,840,260	31 <sup>st</sup> March 2017	2,044,393,513	245,446,747	6,112,510	627,682,756	
v. Expansion of Water Supply for Kericho	1,189,805,385	23 <sup>rd</sup> April 2019	542,137,800	647,667,585	18,394,952	950577216	
<b>Grand Total</b>	<b>4,352,879,079</b>	<b>0</b>	<b>3,314,555,442</b>	<b>1,038,323,637</b>	<b>24,637,368</b>	<b>1,757,868,055</b>	

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**ANNEX 3 – SUMMARY OF FIXED ASSETS REGISTER**

Asset class	Opening Cost	Donations in form of assets (KShs) 2020/201	*Purchases/Additions in the Year	**Disposals in the Year	Transfers in/(out)	Closing Cost
	(KShs) 2019/2020	(KShs) 2020/201	(KShs) 2020/2021	(KShs) 2020/2021	(KShs) 2020/2021	(KShs) 2020/2021
	(a)	(b)	(c)	(d)	(d)	(e) = (a) + (b) + c - (d) + (-) d
<b>Motor Vehicles:</b>						
KCK 053C Fortuner	7,418,000	0	0	0	0	7,418,000
KCK 888U Fortuner	7,418,000	0	0	0	0	7,418,000
KCK 050C Hilux D/C	5,564,520	0	0	0	0	5,564,520
KCK 052C Hilux D/C	5,564,520	0	0	0	0	5,564,520
KCK 054C Hilux D/C	5,564,520	0	0	0	0	5,564,520
KCP 064N Land Cruiser Prado	9,355,500	0	0	0	0	9,355,500
KCP 975M Fortuner	7,245,000	0	0	0	0	7,245,000
KCR 854R	6,438,600	0	0	0	0	6,438,600
KCR 855R	6,438,600	0	0	0	0	6,438,600
KCR859R	6,438,600	0	0	0	0	6,438,600
Motor Cycles ( 40 No.)	4,000,000	0	0	0	0	4,000,000
Water Meters, Meter Testing Kit, Valves & Fittings	54,884,275	0	0	0	0	54,884,275
Pipes and EFB HDPE Machine	7,307,501	0	0	0	0	7,307,501
NRW Management Equipment	16,133,450	0	0	0	0	16,133,450
Pump and Associated Items	17,655,200	0	0	0	0	17,655,200
Laboratory Equipment	3,103,317	0	0	0	0	3,103,317
<b>Total</b>	<b>170,529,603</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>170,529,603</b>