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REPORT

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THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2017**



LAKE VICTORIA SOUTH WATER SERVICES BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
30TH JUNE 2017

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

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**

Table of Content	Page
I. KEY INFORMATION AND MANAGEMENT.....	1
II. THE BOARD OF DIRECTORS.....	4
III. MANAGEMENT TEAM.....	7
IV. CHAIRMAN'S STATEMENT.....	8
V. REPORT OF THE CHIEF EXECUTIVE OFFICER.....	10
VI. CORPORATE GOVERNANCE STATEMENT.....	12
VII. MANAGEMENT DISCUSSION AND ANALYSIS	14
VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING	18
XI. REPORT OF THE INDEPENDENT AUDITORS.....	21
XII. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017	22
XIII. STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2017.....	23
XV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017.....	25
XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2017.....	26
XVII. NOTES TO THE FINANCIAL STATEMENTS.....	27
XVIII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS.....	59
I. Appendix 1: PROJECTS IMPLEMENTED BY THE ENTITY.....	63
II. Appendix 2: INTER-ENTITY TRANSFERS	64
III. Appendix 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES	66

I. KEY INFORMATION AND MANAGEMENT

(a) Background information

Lake Victoria South Water Services Board was established on 12th March 2004 vide gazette Notice No. 1714 under the Water Act 2002 as a state corporation reporting to the Ministry of Water and Irrigation. The Board is responsible for the efficient and economical provision of Water and Sanitation Services in its area of jurisdiction.

(b) Principal Activities

The principal activities of the board are the provision of water and sanitation services in its area of jurisdiction as per the Water Act 2002.

Vision

To be the most efficient and effective Water Service Board in Kenya.

Mission

To provide adequate water and sanitation infrastructure and related services in a sustainable manner

Core values

- Professionalism
- Transparency
- Accountability
- Equity
- Involvement
- Consistency

(c) Key Management

The Board's day-to-day activities are managed by the following:

- The Board of Directors
- Chief Executive Officer
- Chief Managers
- Managers

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

S/No.	Designation	Name
1.	Chief Executive Officer	Eng. Petronilla A. Ogut, OGW
2.	Chief Manager Technical Services	Eng. Sammy Mburu
3.	Chief Manager Finance	CPA Francis John Adongo
4.	Chief Manager Human Resource & Admin	Mr Sammy Kigen
5.	Chief Manager Corporate Planning	Mr Renson Makheti

Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017

(e) Fiduciary Oversight Arrangements

The Board has three (3) constituted committees out of which the key fiduciary oversight committees are:

i. Finance, Human Resource & Administration Committee This committee oversees the accounting and financial reporting processes of the Board. In this regard, the Committee is charged with the responsibility of receiving, approving and recommending guidelines for the financial matters of the Board. It is also responsible for monitoring the finances, human resource and administration policies in coordination with the managing director and the respective heads of divisions in the organization.

ii. Risk & Audit Committee. The Committee reviews the financial reports to establish the condition of the Authority and receives reports on the findings of the internal and external audits. The Committee tracks the actions on audit findings; in addition, the Committee regularly reviews and reports to the Board on the effectiveness of the Authority's systems of internal controls.

iii. Strategy, Technical & Business Development Committee. This committee deals with the issues arising from LVSWSB stewardship of essential water infrastructure and has a duty of reviewing the conditions and performance of technical assets including projects. The committee is also tasked with ensuring safeguarding the environment.

Board Meetings

The board has four scheduled meetings per year for full Board and committees and meets as necessary to deliberate on specific or urgent matters. In the financial year 2016/17 the board met every quarter.

(f) Entity Headquarters

Lake Victoria South Water Service Board
Lavictors House, Ring road Milimani
P O Box 3325- 40100
KISUMU, KENYA

(g) Entity Contacts

Telephone: (254) 020-2157233
Fax: (254)057-2025127
E-mail: info@lvswaterboard.go.ke
Website: www.lvswaterboard.go.ke

(h) Entity Bankers

1. Kenya Commercial Bank Limited
Kisumu Branch
P O Box 17-40100
KISUMU, KENYA

2. Co-operative Bank of Kenya
P.O Box
KISUMU

(i) Independent Auditors




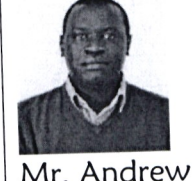
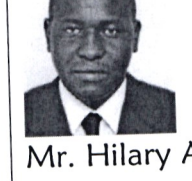
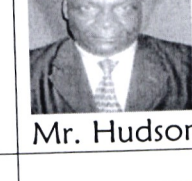
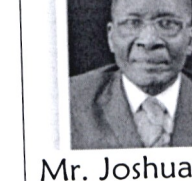
Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

(j) Principal Legal Adviser








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

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**

II. THE BOARD OF DIRECTORS

NO.	NAME	HIGHEST ACADEMIC QUALIFICATION AND RESPONSIBILITIES
1	 Hon. Amb. John K. Koech, EGH	Born on 1 st August 1946. Appointed on 17 th April 2015 as Non-Executive Chairman. BA honors Degree in Economics and Geography Post Graduate diploma in education. Chairman of the Board
2	 Mr. George Ayugi	Born on 26 th February 1977. Appointed on 17 th April 2015 as Non-Executive Director. Bachelor of Business Management. Board Member
3	 Dr. Betty Korir	Born on 27 th April 1966. Appointed on 17 th April 2015 as non-executive director PHD in Biostatistics Moi University. Board Member
4	 Mr. Andrew Leteipa Sunkuli	Born on 25 th May 1962. Appointed on 17 th April 2015 as non-executive director. Bachelor's Degree in Education. Board Member
5	 Mr. Hilary Alila	Born on 5 th December 1973. Appointed on 17 th April 2015 as non-executive director. Bachelor of Commerce (Business Administration and management) Board Member
6	 Mr. Hudson Mugodo (Rep. CS. Treasury)	Master of Education, Bachelor of Education (Hons). Retired on 31 st March 2017 as a board member representing Cabinet Secretary National Treasury
7	 Mr. Joshua Ouma (Rep. CS. MWI)	Born on 22 nd November 1956. Appointed on 17 th April 2015 to represent the Cabinet Secretary Ministry of Water and Irrigation as a non-executive director. Bachelor of Arts Public Administration and Sociology. Board Member

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**

8	 Mrs. Hellen Makone	Born on 2 nd May 1959. Appointed on 17 th April 2015 as non-executive director. Master's in Business Administration. Board Member
9	 Mrs. Rosemary Rumo	Born on 5 th December 1974. Appointed on 17 th April 2015 as non-executive director. KCSE C+ Business Lady. Board Member
10	 Mrs. Violet Omwamba	Born 1978. Appointed on 17 th April 2015 as non-executive director. Higher Diploma in Marketing. Board Member
11	 Mrs. Consolata Odhiambo Onguto	Born on 22 rd October 1965. Appointed on 17 th June 2016 as non-executive director. Bachelor of Education Arts. Board Member
12	 Mrs. Rose Aluoch Gonda	Born on 15 th December 1963. Appointed on 17 th June 2016 as non-executive director. Masters in Commerce. Board Member
13	 Mr. Victor O Omanwa	Born on 1 st November 1978. Appointed on 17 th June 2016 as non-executive director. Diploma in project management. Board Member
14	 Prof. Joash Barack Okeyo Owuor	Born on 10 th July 1949. Appointed on 17 th June 2016 as non-executive director. PHD in Environmental Biology. Professor of Environmental Biology and Health. Board Member

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III. MANAGEMENT TEAM

NAME	KEY QUALIFICATION
 <p>Eng. Petronilla A. Ogut, OGW</p>	<p>Eng. Petronilla A. Ogut is the Chief Executive Officer. Is a holder of BSC degree in Civil Engineering, MSC and MBA. She is a member of the Engineers' Registration Board (ERB) and a member of the Institution of Engineers of Kenya (IEK).</p>
 <p>Eng. Sammy Mburu</p>	<p>Eng. Sammy Mwangi Mburu is a holder of BSC degree in Civil Engineering and Master of Business Administration in Strategic Management. He is a member of the Engineers' Registration Board (ERB) and a member of the Institution of Engineers of Kenya (IEK).</p>
 <p>CPA John Francis Adongo</p>	<p>CPA John Francis Adongo is the Chief Manager Finance. He holds a Bachelor of Business Management (Finance Option) and pursuing Masters in Business Administration. He is a CPA (K) CPS (K) holder and a member of the Institute of Certified Public Accountants (ICPAK).</p>
 <p>Mr. Sammy K. Kigen</p>	<p>Mr Sammy K. Kigen is the Chief Manager Human Resources and Administration. He is a holder of BA in Anthropology and Government and a Higher Diploma in Human Resources Management. He is a member of the Institute of Human Resource Management (IHRM).</p>
 <p>Mr Renson M. Wanyonyi</p>	<p>Mr Renson M. Wanyonyi is the Chief Manager Corporate Planning Mr Makheti has BA in Economics (UON), MBA Strategic Management (UON) and is currently a PHD student in Business Administration, strategic management option in Jomo Kenyatta University of Agriculture and Technology (JKUAT).</p>
 <p>Ms Phyllis Chepkemboi</p>	<p>Ms Phyllis Chepkemboi is the Manager Legal and Compliance. She holds a bachelor of LLB, Master of Business Administration in Human Resource Management. She is an Advocate of the High Court of Kenya and a member of the Law Society of Kenya.</p>

IV. CHAIRMAN'S STATEMENT



I am pleased to present Lake Victoria South Water Services Board Financial Report for the year ended 30th June 2017. The Board is among the 8 Water Service Boards established under the Water Act 2002 through Gazette Notice No. 1714 of 12th March 2004. The Board is responsible for ensuring efficient and economic provision of Water and Sanitation Services within our area of jurisdiction which covers an area of 21,720 Sq. Km, and

covers Kisumu, Siaya, Migori, Homa Bay, Bomet, Kericho, Nyamira, Kisii and parts of Nandi and Narok Counties.

During the last one year we have realised tremendous progress in development of water and sanitation infrastructure, institutional structures and human resource capital.

The National Values as enshrined in Article 10 of the Constitution gives us responsibility as a public institution to uphold and promote them. These values are fundamental in guiding our corporate and individual actions. The Board, in executing its mandate has embraced the need to promote equity and sustainable development of water and sanitation projects. We have also demonstrated commitment to uphold integrity in the use of public resources.

Under good corporate governance, the Directors have expressed their commitment by signing the code of ethics and *Mwongozo* code of conduct. The Board encourages public participation in all project activities to enhance inclusivity, ownership and sense of responsibility.

We support the devolution of water service provision to the County Governments and champion strategic partnerships and collaboration towards economic empowerment and better health of citizens. The Board is committed to improving service provision in all areas in our jurisdiction through development of new water and sanitation projects.

During the year under review, the Board made remarkable gains in developing water supply and sanitation infrastructure and these achievements are attributed to the financial and technical support made by our Government and development partners. These development partners include AFD, AfDB, KFW, WSTF, KOICA, Kenya Italy (KIDDP), ORIO and World-Bank. We owe our development partners and the Government of Kenya gratitude for their continued support.

The Board has also continued on its commitment to quality services provision, adherence to Quality management systems and steady implementation of its Strategic Plan 2013-2017 as a guide to sustainable growth and water and sanitation infrastructure development. The board has further complied with the requirements of the Medium Term Plan II 2013-2018 of the Vision 2030 and the New Constitution of Kenya 2010. We look forward to a continued progress in the development of water and sanitation infrastructures including successful launching of new programs and projects within our area of jurisdiction in the years ahead.

I am confident that in the coming years we will strengthen our collaborations with various stake holders and source for adequate funding and timely support.

I wish to thank my Board of Directors for their continued cooperation and support which has enabled the Lake Victoria South Water Service Board to move forward in the right direction; the Management and the entire staff for their dedication and hard work without which this exemplary performances might not have been achieved. I also wish to acknowledge the significant contributions we received from all our stakeholders which led to implementation of our activities successfully during the financial year. I call upon the stake holders to uphold their support to facilitate expansion of access to adequate, quality and affordable water and sanitation services within our area of service.



HON. AMB. JOHN ARAP KOECH, EGH
CHAIRMAN OF THE BOARD OF DIRECTORS

V. REPORT OF THE CHIEF EXECUTIVE OFFICER



Lake Victoria South Water Services Board has continued to deliver on its mandate of provision of water and sanitation services to the communities and consumers as was planned in the year. It has recorded a steady growth through completion and implementation of water and sanitation infrastructure, stakeholder consultation and engagement within its area of jurisdiction.

The development of water and sanitation infrastructure has been guided by the Medium Term Budget plan, the LVSWSB Strategic Plan 2013/17 and the Kenya's vision 2030 blueprint all of which are aimed at providing adequate water and sanitation and related services in a sustainable manner. In order to realize our mission of providing adequate water and sanitation infrastructure and related services we have continued to revitalize, train and motivate our human capital.

The financial statements of LVSWSB for the year ending 30th June 2017 show the Board's financial status. The financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and in the manner required by the Public Finance Management Act which requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Receipts in form of Grants (development and recurrent) from the National Treasury was Kshs 543,805,342 as compared to Kshs.579,000,000 in the previous year and this had a negative impact on performance. The Key drivers of our expenditure were capital intensive construction of water infrastructure projects.

With a clear plan complemented with internal quality systems, the board set a stronger foundation for its current and future development. The Board further ensured its accountability to the public and responsiveness to its customers. This financial year LVSWSB strived to achieve its mandate by implementing various water infrastructure

projects which have made the Board a key player in the area of jurisdiction and the country at large. Through the support of our development partners, our vision 2030 Flagship projects (Siaya Bondo projects and Kisumu Water Supply and Sanitation Projects) and medium term projects like Bonyonyu Dam, water sector development project in Kericho, Nyamira, Kisii and Litein Towns and LVWATSAN II projects in Kericho-Keroka and Isebania were achieved and are well on course. The implementation was made possible after the National treasury and the development partners KFW, AfDB, AFD, ORIO and EIB agreed to finance the implementation of these projects through grants and loan facilities.

During the last financial year the Board played a role in Corporate Social Responsibility by supplying some schools with water storage tanks to harvest rain water. The Board also empowered communities through awareness campaigns and public consultation aimed at enhancing community participation in development programs.

Overall the Board performed well it achieved the board's development objectives and targets during the year despite institutional and economic challenges experiences. We therefore look forward for continued and strengthened partnership with development partners and stakeholders in our service delivery.



Eng. Petronilla A. Ogut, OGW
Chief Executive Officer

Date 29/9/17

VI. CORPORATE GOVERNANCE STATEMENT

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

The Role of the Board

The Board provides leadership through oversight, review and guidance whilst setting the strategic direction for the organization. It is the primary decision-making body for all matters considered as material to the Authority. The Board has a formal schedule of matters reserved for it. The Directors receive appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational, compliance and governance matters. Ultimately, the Board determines the organization's strategic objectives, values, key policies and procedures in accordance with best practice. The Board has delegated the authority for day-to-day management of the organization to the Chief Executive Officer. However, it maintains overall responsibility for the Authority's performance, compliance functions as well as monitoring of its operations and ensuring competent management of the business.

Board Composition

Currently, the Board comprises of sixteen (16) members; the Chairman who is a non-executive director, and nine non-executive directors. The Chief Executive Officer is the Secretary to the Board and its committees. The Board has an appropriate balance of skills, knowledge and experience to perform its role effectively. All directors are subject to periodic re-appointment in accordance with the State Corporations Act, the Office of the President and the Ministry of Water and Irrigation.

Induction and on-going development

On appointment, the directors receive induction training covering the organization's programmes and operations and an appreciation of the key risk areas. The programme includes specific sessions with the management across the units for clarity and better understanding of the organizations' functions, roles and accountabilities, business model and operations. The directors are advised of the legal, regulatory and other obligations of a director of a State Corporation. The directors also receive both internal and external training on corporate governance. The Board annually undertakes an evaluation of its effectiveness.

Board Committees

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

1. Finance & Human Resource & Administration Committee, whose main duties are: - to review financial statements and annual budgets and to deal with the Employees issues.
2. Risk & Audit Committee, whose main duty is to ensure that the systems of internal control are effective and complied with.
3. Technical, Strategy & Business Development Committee, whose focus is on issues arising from the Board's stewardship of essential water infrastructure and has a duty of reviewing the conditions and performance of technical assets including projects. The committee is also tasked with ensuring safeguarding the environment.

Meetings of the Board

The Board of Directors met four times during the year. The Board committees also met at least every quarter in the year.

	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Finance & HRA Committee	29 th July 2016	27 th Oct 2016	25 th Jan 2017	26 th Apr 2017
Risk & Audit Committee	23 rd Aug 2016	30 th Nov 2016	23 rd Feb 2017	30 th May 2017
Stategy Technical & Business Devt Committee	15 th Dec 2016	15 th Dec 2016	23 rd March 2017	22 nd June 2017
Full Board	22 nd September 2016	20 th Dec 2016	29 th 2017 ^h Marc	27 th June 2017

Organisation Structure

The Board has a clearly defined organisation structure within which individual responsibilities are identified in relation to internal financial controls. The structure is complimented by policies and management operates the business in compliance with these policies. There is a clear division of responsibilities between the Board and Management.

Management Team

The Chief Executive Officer leads the Management team which comprises heads of department and other senior staff. The team deals with operation matters and

Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017

coordinates activities across the board, various departments/divisions, water schemes and water services providers.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

In the period under review, the board received development grants amounting to Ksh.543,805,342 which was lower compared to the previous financial year receipts of Kshs. 579,000,000. The recurrent grant received was Kshs. 39,999,996 against a budgetary allocation of Kshs. 40,000,000. The recurrent grant increased by 7 million from Kshs. 33 million to 40 million in the financial year 2016/2017.

Other incomes category also registered a decrease as compared with the previous financial year performance, which is from Kshs. 4,914,436 to Kshs. 3,194,580 in 2016/2017. Water levies revenue from Water Service Providers performed dismally and as a result the board managed to collect Kshs. 42,838,682 down from Kshs. 45,314,813 that was collected in the financial year 2015/2016.

The board incurred a total expenditure of Kshs. 477,000,613 resulting to a surplus of Kshs. 34,392,230. The details of the expenditure is reflected in page one on statement of financial performance and the accompanying notes.

Operational Performance

In the period under review the Board undertook several water and sanitation projects:

- Water and Sanitation Sector Development Programs in Lake Victoria South for Kericho, Kisii, Nyamira and Litein Towns financed by KFW and GOK where two projects commenced for the rehabilitation and expansion of water and sanitation infrastructure in the four towns. This is to benefit 661,011 people.
- Feasibility Studies for Bunyunyu Dam water supply project financed by Orio, Netherlands. There is a continued stakeholder consultation.
- Siaya Bondo Water Supply and Sanitation Project financed by ADB and GoK were completed in December 2016 .The project benefits 130,395 people with portable water supply and 29,600 people with dignified sanitation.
- The Lake Victoria Water and Sanitation Program Phase II financed by GoK and ADB for Keroka, Isebania and Kericho Towns were implemented .The Keroka and Isebania components are complete and benefit 169,267 people. The rehabilitation of the sewerage works in Kericho is ongoing and is to be complete in the next financial year.
- Kisumu LTAP III Construction of Sewerage and rehabilitation of Nyalenda Ponds financed by AFD and GoK was completed in December 2016 and will serve 110,759 people in Kisumu County.
- Sindo Water Supply Project in Suba Sub County financed by KIDPP was completed and will benefit 12,876 people.

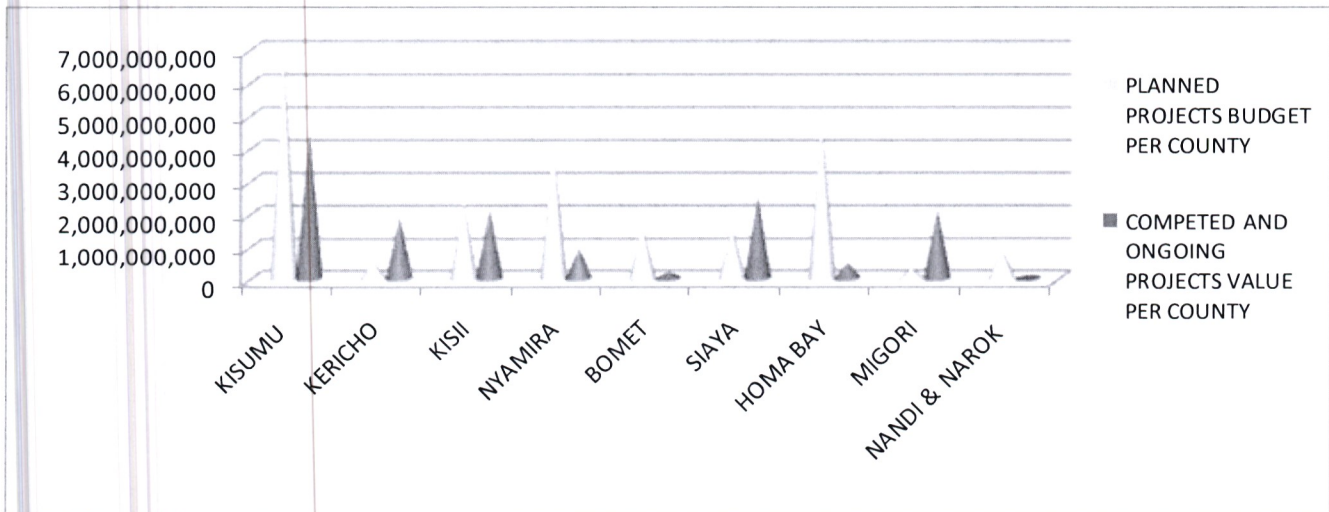
Over the years the Board has completed several project with a few still on-going and other investments are planned for implantation. Below is Board's investments analysis.

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**

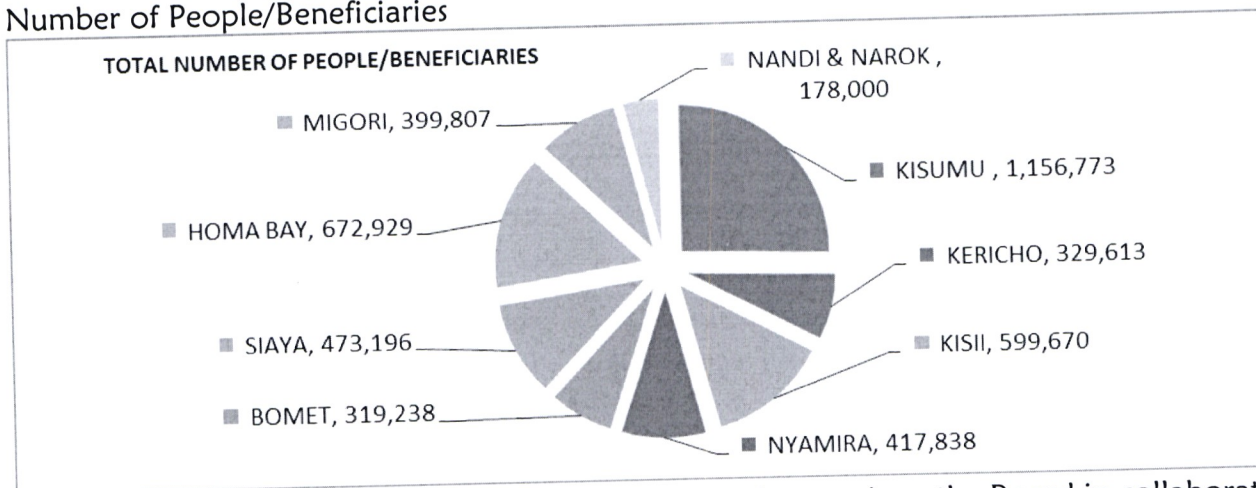
Table 1. Completed, ongoing and planned investment projects and Benefecieries per county

COUNTY	Competed and Ongoing Projects Value Per County 'Kshs'	Number of People to Benefit	Planned Projects Budget Per County 'Kshs'	Number of People to Benefit	Total Investment 'Kshs'	Total Number of People/Beneficiaries
KISUMU	4,527,766,768	606,773	6,850,000,000	550,000	11,377,766,768	1,156,773
KERICHO	1,879,825,044	259,613	500,000,000	70,000	2,379,825,044	329,613
KISII	2,125,029,106	369,670	2,338,000,000	230,000	4,463,029,106	599,670
NYAMIRA	906,486,920	187,838	4,030,800,000	230,000	4,937,286,920	417,838
BOMET	202,032,950	75,750	1,600,000,000	243,488	1,802,032,950	319,238
SIAYA	2,518,027,910	313,806	1,500,000,000	159,390	4,018,027,910	473,196
HOMA BAY	469,774,259	208,985	4,800,000,000	463,944	5,269,774,259	672,929
MIGORI	2,128,664,538	345,807	300,000,000	54,000	2,428,664,538	399,807
NANDI & NAROK	0	0	880,000,000	178,000	880,000,000	178,000
TOTAL	14,757,607,495	2,368,242	22,798,800,000	2,178,822	37,556,407,495	4,547,064

Graphical Representation of Table 1



Number of People/Beneficiaries

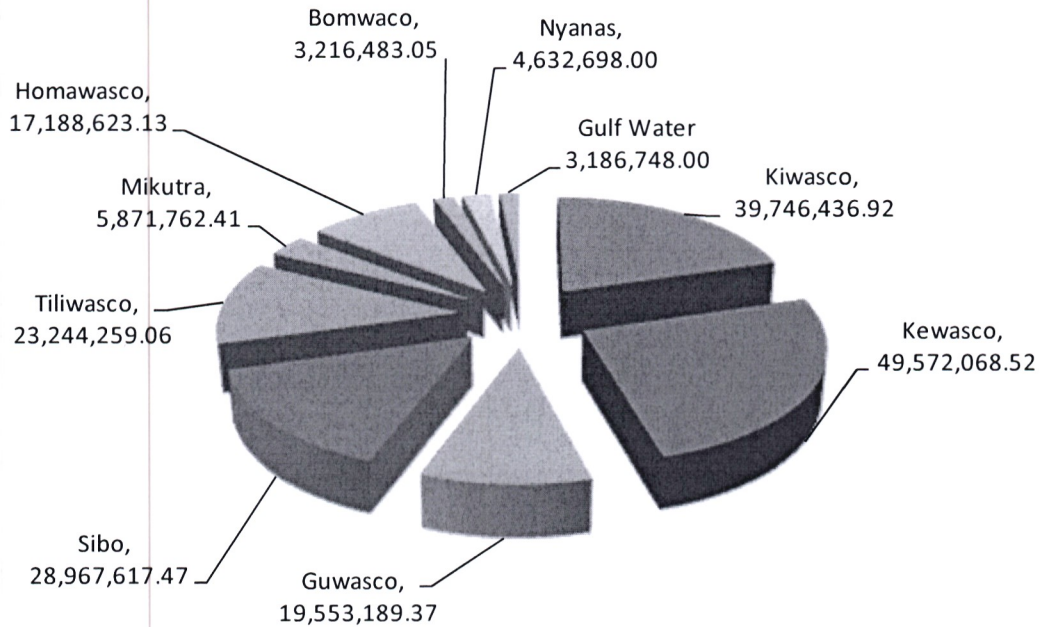


In recognition of the devolution of water and sanitation services ,the Board in collaboration with 8 counties and water service providers developed Assistance and Capacity building framework for enhancing water and sanitation infrastructure development ,staff skills and institutional capacity development in water and sanitation services.

Major Risks

The institutions mandate is changing to mainly water and sanitation infrastructure development and there are legal petitions by the council of county Government which is a major risk to the institution. Financial risk arising from the change in mandate where the water service providers will no longer remit levies to the Board therefore turning the arrears into bad debts. The below table indicate the outstanding balances at the end of the year.

WATER SERVICES PROVIDERS UNCOLLECTED REVENUE AS AT 30TH JUNE 2017



Compliance with statutory requirements

The board complied with all legal provisions of the Acts which affects the operations of the board for example the provisions of Public Finance Management Act, 2012, State Corporations Act, Water Act 2002, Tax laws among others.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Corporate Social Responsibility (CSR) has become one of the standard business practices of our time.

CSR is a crucial component of Lake Victoria South Water Services Board, hence the reason why there are procedures in place which integrate social, environmental, and ethical, human rights or consumer concerns into the Board's operations.

Lake Victoria South Water Services Board has put in place comprehensive CSR programmes through which it intends to share gains with communities that make operations possible by being good neighbours and clients.

In the financial year, 2016/2017, the Board donated plastic water tanks worth Kshs. 3,610,000 to 47 Primary and Secondary Schools, and a church.

The selected institutions lacked rain water harvesting facilities and majority of them were more than a kilometre away from a water source.

Some institutions had a water tank that was not operational, while others had limited storage facility that was not adequate to meet their water needs.

Provision of the tanks was meant to improve access to clean water for usage in the institutions, while at the same time assisting in ease of accessing quality education, since a lot of time previously wasted in going to fetch water kilometres away is now being utilized to ensure academic prowess.

Each of the tanks donated was bought and delivered at a cost of Kshs.77, 000. The tender for delivery of the plastic tanks was awarded to Jojo Tank on 26th September, 2016 after following the required procurement procedures.

The tanks were then distributed in December 2016 and verification done in January 2017.

The Board is determined to conduct more CSR activities in the 2017/2018 financial year; due to the impact such activities are creating in the society.

IX. REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 30 June 2017, which disclose the state of affairs of the board.

Principal activities

The Lake Victoria South Water Services Board was formed on 12th March 2004 as a State Corporation under the Water Act 2002. The address of the registered office is as set out on iv

Results

The results of the Board are set out in pages 1 to 5

Directors

The members of the Board of Directors who served during the year are shown on page v to vii. During the year ended 30th June 2017, director Hudson Mugodo representing the Cabinet Secretary National Treasury retired on 31st March 2017.

Auditors

The Auditor General is responsible for the statutory audit of the Lake Victoria South Water Services Board in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for period ended June 30, 2017.

By Order of the Board



ENG. PETRONILLA A. OGUT, OGW
CHIEF EXECUTIVE OFFICER

Date: 29/9/17

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors of Lake Victoria South Water Services Board to prepare financial statements in respect of the Board, which give a true and fair view of the state of affairs of the Board at the end of the financial year 2016/2017 period and the operating results. The Directors are also required to ensure that the Board keeps proper accounting records which disclose with reasonable accuracy the financial position of the Board. The Directors are also responsible for safeguarding the assets of the Board.


The Directors are responsible for the preparation and presentation of the Board's financial statements, which give a true and fair view of the state of affairs of the Board for and as at the end of the financial year ended 30th June 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the financial year 2016/2017 financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act). The Directors are of the opinion that the financial statements give a true and fair view of the state of Board's transactions during the financial year ended June 30, 2017, and of the Board's financial position as at 30th June 2017. The Directors further confirm the completeness of the accounting records maintained, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

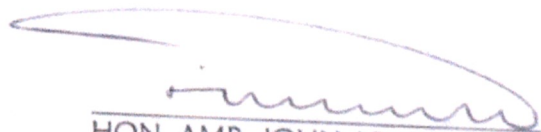
Nothing has come to the attention of the Directors to indicate that the Lake Victoria South Water Services Board will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements for 2016-2017 were approved by the Board and signed on its behalf by:



ENG. PETRONILLA A. OGUT, OGW
CHIEF EXECUTIVE OFFICER



HON. AMB. JOHN ARAP KOECH, EGH
CHAIRMAN BOARD OF DIRECTORS

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON LAKE VICTORIA SOUTH WATER SERVICES BOARD FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Lake Victoria South Water Services Board set out on pages 22 to 68, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, 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 relief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of Lake Victoria South Water Services Board as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Water Act, 2002.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters discussed in the Basis for Adverse Opinion section, I confirm that public money has not been applied lawfully and in an effective way.

Basis of Adverse Opinion

1. Inaccuracies in Financial Statements

During the year under review, the management, through various journal entries, made adjustments with an aggregate value of Kshs.38,556,884 to the Board's financial records purportedly to correct errors and adjust transactions. However, the corrections and adjustments were not authorized by the accounting officer or an officer designated by him, and no documentation was provided to facilitate accounting for the changes as required by Section 103(1) and (2) of the Public Finance Management Regulations 2015. Therefore, the validity of the corrections and adjustments could not be confirmed. Consequently, the accuracy of balances reflected in financial statements for the year under review cannot be confirmed.

Report of the Auditor-General on the Financial Statements of Lake Victoria South Water Service Board for the year ended 30 June 2017

2. Project Verification

2.1 Chuboit Water Supply

The construction of Chuboit Water Supply Project works was awarded to a local company at Kshs.3,880,367. However, the following anomalies were noted in relation to the project:

- (i) A masonry tank was installed instead of a reinforced concrete tank.
- (ii) The intake pipe was poorly constructed and inlet chamber was not covered.
- (iii) The Platform/ chemical house was built using weak timber pillars that may not last for long.
- (iv) The project was not in use at the time of the audit as it had not been handed over.

2.2 Okwanyoyo Dam

The contract for construction of Okwanyoyo dam in Rarieda valued at Kshs.3,525,700 was awarded to a local company. Audit verification revealed the following issues:

- (i) The inlet was not made of concrete as per the contract and the soil laid was steadily being washed away by the rains.
- (ii) There was no fence and gate as per the bills of quantities.
- (iii) No silt trap was constructed at the dam side as per the Bills of Quantities.
- (iv) Culverts specified in the bills of quantities were not built.
- (v) The three-door ventilated improved pit latrines had been pulled down.
- (vi) The cattle trap had cracks which may lead to the risk of losing water.

2.3 Chebirir Dam

Construction of Chebirir Dam at Kshs.1,058,150 was awarded to a local Company. The following anomalies were noted in relation to the works:

- (i) The cattle trough specified in the bills of quantities was not constructed.
- (ii) The ventilated pit latrine did not have three (3) door as specified in the bills of quantity.
- (iii) Gates to the site of the project were missing.
- (iv) The dam was leaking. Therefore it may lose all its waters and endanger lives.

2.4 Rangwe Water Project

A local company was awarded a contract to construct three (3) water tanks at a contract sum of Kshs.4,267,768 under Rangwe Water Project as shown below:

Description	Contract Amount Kshs.	Current Valuation Kshs.
100m ³ Storage Tank at Namba Nyokal	2,467,074	886,489
25m ³ Masonry Reservoir Tank at Ndiru	711,254	171,165
50 m ³ Masonry tank at Ndiru Market	1,089,440	311,935
Total	4,267,768	1,369,589

However, project verification done on 15 March 2018 revealed the following unsatisfactory issues:

- (i) Works on the three (3) water tanks had stalled and the project abandoned with the contractor having left the construction site.
- (ii) The contract period was six (6) months, start date being 12 April 2017 and no extension was given.
- (iii) The incomplete works were revalued and a fresh bid floated for completion of the works all valued at Kshs.1,369,589 during the year 2017/18. The Board did not have in its possession title deeds for the land on which the tanks were to be located.

2.5 Kegati and Kajulu Water Projects

A field visit to Kegati and Kajulu water supply revealed the following unsatisfactory issues:

- (i) A local company was awarded a tender for construction of treatment works at Kegati at a contract sum of Kshs.68,383,494.05. The contract period being nine months from 3 August 2011 to 13 May 2012. However, the works were abandoned after the contracted company was paid Kshs.65,109,295 being 80% of the work done. The company went into receivership soon thereafter.
- (ii) Four water treatment chambers were due for construction under Kajulu Water Supply Project but only three (3) were completed thus leaving the fourth one incomplete.
- (iii) No bill of quantities (BQs) for walls were availed for audit verification.

In view of these anomalies, the propriety and validity of expenditure of Kshs.77,841,280 in respect of these five (5) projects could not be confirmed.

3. Receivables from Exchange Transactions

The receivables from exchange transactions balance of Kshs.195,366,286 as at 30 June 2017 includes the following unsatisfactory issues:

- (i) Although, all the ten (10) Water Service Providers (WSPs) had outstanding receivables from exchange balances totaling Kshs.195,179,886 as reflected in Note 17 to the financial statements, debtors' circularization of receivables to the water companies was not done and as a result, it is not possible to confirm that the balances shown as owed to the Board are the correct.
- (ii) As in the previous year, the management did not provide for bad and doubtful debts in the year under review. Therefore recovery of the whole debtors balance cannot be confirmed.
- (iii) Note 17 to the financial statements reflects Kshs.4,632,698 and Kshs.3,186,748 balances due from Nyanas Water and Sanitation Company Limited and Gulf Water Service Company Limited respectively. However, the financial statements for the two companies from the years 2012 to 2017 were not prepared and submitted to the Auditor-General for audit as required and therefore it is not possible to confirm that the balances included in the financial statements in respect to the two companies are correct.

Consequently, the accuracy and validity of the receivables from exchange transactions balance of Kshs.195,366,286 as at 30 June 2017 cannot be confirmed.

4. Payables from Exchange Transactions

Note 18 to the financial statements reflects payables from exchange transactions balance of Kshs.107,898,456 as at 30 June 2017 which however contains the following anomalies:

- (i) Creditors balance of Kshs.5,848,865 has been outstanding for a long period. The Board appears not to have formulated an aging creditors policy.
- (ii) The trend analysis indicated that payables have been increasing consistently for a period of three (3) years from Kshs.32,057,977 to Kshs.107,898,456 in the year under review. The rise in the payables balance over the years denotes slowed payment of expenses and casts aspersions on the capacity of the Board to meet its expenses in good time.

5. Unsupported Expenditure

Included in the administrative and establishment expenses balance of Kshs.120,516,021 are payments of Kshs.701,922 under travelling, accommodation and subsistence which however are not supported with relevant documents such as bus and work tickets and further, the purposes for the safaris reported to have been made have not been disclosed.

Consequently, the propriety and validity of the expenditure totaling Kshs.701,922 incurred on administrative expenses during the year under review cannot be confirmed.

6. Unsupported Long Term Loan Balance

Included in long term loans balance of Kshs.4,843,082,266 is a sum of Kshs.922,362,631 which is not supported with payment schedules.

Consequently, the propriety and validity of the Kshs.4,843,082,266 long term loans balance cannot be confirmed.

7. Non-Submission of Financial Statements for Donor Funded Projects

Note 21 to the financial statements reflects expenditure totaling Kshs.46,692,418 incurred under Trilateral grant, a Fund established in August 2017 to foster reduction of poverty, economic growth and conservation of the eco system through a joint partnership with a German organization Frankfurt am Main (KFW) under a financing agreement signed on 28 September 2015 for a sum of EUR 700,000. Although, Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015 requires each accounting officer to prepare and submit for audit for each financial year, financial statements for all the donor funds, the Board did not prepare and submit for audit financial statements for Trilateral for the year under review

In the circumstance, the Board has breached the law.

8. Budgetary Control

8.1 Counter-part Funding of Pending Bills

Note 25 to the financial statements reflects counterpart funding pending bills amounting Kshs.277,684,219 accrued from the Government of Kenya for water projects under Kisumu Long Term Action Plan (LTAP), Lake Victoria Water and Sanitation II (LWATSAN), Small Towns and Water Services Board Support Programme (LVSBSBSP). Failure to settle pending bills adversely affects funding for subsequent year programmes and activities

Further, in relation to these bills, supporting documents including bills of quantities and payment certificates were not provided for audit scrutiny. Consequently, the validity and completeness of the pending bills for the year ended 30 June 2017 cannot be confirmed.

8.2 Re-allocation of Funds

During the year under review, a total of Kshs.484,608.55 was charged to the project planning, feasibility study and design vote instead of board of directors and motor vehicle expenses without approval for re-allocation as indicated below:

No	Description	Amount in Kshs.	Correct Vote Head
1	Joshn Koech – meeting with IEBC	109,600.00	Board of Directors expenses

2	Johncele Insurance	48,109.55	Motor vehicle expenses
3.	Johncele Insurance	53,149.86	Motor vehicle expenses
4.	Kenya Coach Industries	22,814.57	Motor vehicle expenses
5.	DT Dobie	204,000	Motor vehicle expenses
6.	John Koech	47,534.57	Board of Directors Expenses
	Total	484,608.57	

No explanation was provided for re-allocation of the funds. Therefore, the Board breached regulations on management of the budget.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Lake Victoria South Water Services 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 audits of financial statements in Kenya. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of financial statements. Except for the matters discussed in the Basis for Adverse Opinion section, I have determined that there are no Key Audit Matters to communicate in my report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern accounting assumption unless the management are aware of the intention to liquidate the Board or cease its 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.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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.

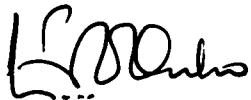
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Board's 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 that 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 that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

30 July 2018

Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017

XII. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017

	NOTE	2017 Kshs	2016 Kshs
Revenue from Non-Exchange Transactions			
Exchequer grants	6	391,011,827	308,601,496
Deferred income transfer	7	74,347,753	23,758,555
Total revenue from Non-Exchange Transactions		<u>465,359,580</u>	<u>332,360,051</u>
Revenue from Exchange Transactions			
Other Incomes	8	3,194,580	4,914,436
WSPs Revenue	9	42,838,682	45,314,814
Total revenue from exchange transactions		<u>46,033,262</u>	<u>50,229,250</u>
Total Revenue		<u>511,392,842</u>	<u>382,589,301</u>
Operations and Maintenance Expenses			
Supplies and Services	10	16,508,617	28,520,611
Administrative and Establishment Expenses	11	26,736,507	14,439,847
Transport Costs	12	120,516,021	82,058,973
Water Supplies Development	13	5,108,054	5,210,474
Employee Costs	14	86,451,574	51,872,862
Finance Costs	15	105,481,434	94,495,539
Depreciation and Amortization	16	129,294	179,190
Total Expenses	17	<u>477,000,613</u>	<u>396,470,449</u>
Surplus/(Deficit) attributable to Owners of controlling equity		<u>34,392,230</u>	<u>-13,881,147</u>

The notes set out on pages 6 to 43 form an integral part of these Financial Statements

XIII. STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2017

		2017	2016
ASSETS	NOTE	Kshs	Kshs
Current Assets			
Inventories	20	4,197,130	4,357,834
Cash and Cash Equivalents	21	251,598,688	47,746,261
Receivables from Exchange Transactions	22	195,366,286	181,741,651
		451,162,104	233,845,746
Non-Current Assets			
Property, Plant and Equipment	18	10,908,064,110	9,568,512,933
		10,908,064,110	9,568,512,933
Total Assets		11,359,226,214	9,802,358,679
LIABILITIES			
Current Liabilities			
Payables from Exchange Transactions	23	385,582,674	348,116,625
Non-Current Liabilities			
Long-Term Loans	24	4,843,082,266	3,920,719,635
Total Liabilities		5,228,664,940	4,268,836,260
Net Assets		6,130,561,273	5,533,522,419
RESERVES			
Government Grants	25	3,431,288,114	3,238,495,606
Donor Grants	26	1,773,242,840	1,475,437,518
Deferred Income	27	1,002,689,314	930,640,524
Revenue Reserve	28	-76,658,994	-111,051,224
		6,130,561,273	5,533,522,419

The Financial Statements set out on pages 22 to 26 were signed on behalf of the Board of Directors by;



Chief Executive Officer
Eng. Petronilla A. Ogut.



Head of Finance
CPA John F. Adongo
ICPAK Member No. 11066

29/09/2017

Chairman of the Board of Directors
Hon. Amb. John Arap Koeh, EGH

Date: 29/9/17

Date: 29/9/17

Date: 

**XIII. STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2017**

	Notes	Government Grants Kshs	Donor Grants Kshs	Deferred Income Kshs	Revenue Reserve Kshs	Total Kshs
Balance as at 30 JUNE 2015		2,935,097,102	954,734,844	937,414,331	-97,170,077	4,766,076,200
Surplus/(deficit) for the period	-	0	0	0	(13,881,152)	(13,881,152)
Transfer to Income Government Grant	27	0	0	(50,539,960)	0	(50,539,960)
Donor Grant	25	303,398,504		7,766,153	0	311,164,657
Donor Grant	26	0	520,702,674	0	0	520,702,674
Balance as at 30 JUNE 2016		3,238,495,606	1,475,437,518	930,640,524	-111,051,229	5,533,522,419
Balance as at 1st July 2016		3,238,495,606	1,475,437,518	930,640,524	-111,051,229	5,533,522,419
Revenue Reserves	28	0	0	0	34,392,230	34,392,230
Transfer to Income Government Grant	27	0	0	(92,300,431)	0	(92,300,431)
Donor Grant	25	192,792,508	0	164,349,221	0	357,141,733
Donor Grant	26	0	297,805,322	0	0	297,805,322
Balance as at 30 JUNE 2017		3,431,288,114	1,773,242,840	1,002,689,314	(76,658,999)	6,130,561,273

The reserves held by the Board are capital reserves representing the assets acquired by the Board at inception of the Board and those acquired over time during the development of infrastructure as financed by the Government and various development partners

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 Kshs	2016 Kshs
Receipts			
Exchequer grants	6	391,011,827	308,601,496
Deferred income transfer	7	74,347,753	23,758,555
Other Incomes	8	3,194,580	4,914,436
WSPs Revenue	9	42,838,682	45,314,814
Total revenue		511,392,842	382,589,301
Payments			
Compensation of employees	15	105,481,434	94,495,538
Goods and services	10-13	169,112,230	130,229,906
Finance cost	16	129,294	179,190
Other payments	14	86,451,574	298,521,294
Total Payments		361,174,532	523,425,928
Net cash flows from operating activities		150,218,310	-140,836,627
Cash flows from investing activities			
Purchase of property, plant & Equipment	19	-1,455,216,549	-2,043,884,973
Increase/(Decrease) in current Payables from exchange transactions	23	37,466,049	316,058,647
(Increase)/Decrease in NonCurrent receivables from exchange transactions	22	-13,624,635	-18,007,548
Net cash flows used in investing activities		-1,431,375,134	-1,745,833,874
Cash flows from financing activities			
Proceeds from borrowings	24	922,362,631	971,854,712
Proceeds from Donor Grants	26	297,805,322	520,702,674
Proceeds from Government Grants	25	192,792,508	303,398,504
(Decrease)/Increase in deferred income	27	72,048,790	-42,773,808
Net cash flows used in financing activities		1,485,009,251	1,753,182,082
Net (decrease) /increase in cash and cash equivalents		203,852,427	-133,488,419
Cash and cash equivalents at 1ST JULY 2016		47,746,261	181,234,680
Cash and cash equivalents at 30TH JUNE 2017	21	251,598,688	47,746,261

XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2017

	Original budget		Adjustments		Final budget		Actual on		Performance	
	2016/2017	Kshs	2016/2017	Kshs	2016/2017	Kshs	2016/2017	Kshs	2016/2017	difference
Income										
GoK Recurrent Grants to Board Hq	40,000,000		0		40,000,000		39,999,996		(4)	
WSB Levies & Other Income	35,000,000		0		35,000,000		42,838,682		7,838,682	
GoK Development & Counterpart	345,000,000		0		345,000,000		528,215,997		183,215,997	
Other Grants	15,588,000		170,500		15,758,500		18,782,922		3,024,422	
Total income	435,588,000		170,500		435,758,500		629,837,597		194,079,097	
Expenses										
Operations and Maintenance Expenses	29,076,143		0		29,076,143		16,508,617		-12,567,525	
Supplies and Services Administrative and Establishment	17,343,386		0		17,343,386		26,736,507		9,393,122	
Transport Costs	26,673,326		0		26,673,326		120,516,021		93,842,695	
	4,579,112		0		4,579,112		5,108,054		528,942	
Water Supplies Development & Capital Projects	298,906,667		0		298,906,667		279,244,082		-19,662,585	
Employee Costs	59,065,389		0		59,065,389		105,481,434		46,416,045	
Finance Costs	114,478		0		114,478		129,294		14,816	
Total Expenditure	435,758,500		0		435,758,500		553,724,009		117,965,509	

XVII. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Lake Victoria South Water Services Board was established on 12th March 2004 vide gazette Notice No. 1714 under the Water Act 2002 as a state corporation reporting to the Ministry of Water and Irrigation. The Board is responsible for the efficient and economical provision of Water and Sanitation Services in its area of jurisdiction

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

Lake Victoria South Water Services Board's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Board. 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 2017

Standard	Impact
IPSAS 33: First time adoption of Accrual Basis IPSAS	(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period. <i>The Board adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to the Board.</i>
IPSAS 34: Separate Financial Statements	(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. <i>The Board does not have any subsidiaries, joint ventures or</i>

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**

Standard	Impact
	<i>investments and therefore the standard does not apply.</i>
<p>IPSAS 35: Consolidated Financial Statements</p>	<p>Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. It requires an entity that controls one or more other entities to assess control over those entities based on the following:</p> <ul style="list-style-type: none"> - Its power over the other entity - Its exposure or rights to variable benefits from involvement with the other entity - Its ability to control the nature, timing and amount of benefits from the other entity. <p>Once control is assessed the controlling entity is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35.</p> <p><i>The Board does not have any subsidiaries , joint ventures or investments and therefore the standard does not apply</i></p>
<p>IPSAS 36: Investments in Associates and Joint Ventures</p>	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting for investments in associates and joint ventures and to set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.</p> <p><i>The Board does not have investments in associates or joint ventures.</i></p>
<p>IPSAS 37: Joint Arrangements</p>	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.</p> <p><i>The Board does not have an interest in a joint arrangement and therefore the standard does not apply.</i></p>
<p>IPSAS 38: Disclosure of Interests in Other Entities</p>	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that</p>

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**

Standard	Impact
	are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows. <i>The Board does not have an interest in other entities and therefore the standard does not apply.</i>

- ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	Applicable: 1 st 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 st 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

Lake Victoria South Water Services Board did not early – adopt any new or amended standards in year 2017.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees, taxes and fines

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

Transfers from other government entities

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

ii) Revenue from exchange transactions

Rendering of services

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

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

Sale of goods

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

Interest income

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

Rental income

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

b) Budget information

The original budget for FY 2016-2017 was approved by the National Assembly. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

The Board's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section xv of these financial statements.

Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

c) Taxes

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 Board 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.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Deferred tax (continued)

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value added tax

Expenses and assets are recognized net of the amount of value added tax, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of value added tax included

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

d) Investment property

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

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

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

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

e) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the board recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

f) Leases

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

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

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

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

g) Intangible assets

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

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

i) Research and development costs

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

Research and development costs (Continued)

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

h) Financial instruments

Financial assets

Initial recognition and measurement

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

Loans and receivables

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

The Board currently has loans on projects such as Small and Medium Towns Rural Water & Sanitation Project (SMRWSP) and under Water Sector Development Program (WSD). The loans were used for the development of the water infrastructures which were then leased to the water service providers to Operate and Maintain.

Held-to-maturity

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

Impairment of financial assets

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

Financial instruments (Continued)

future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

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

h) *Financial liabilities*

Initial recognition and measurement

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

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

Loans and borrowing

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

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

i) *Inventories*

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

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost. Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

j) Provisions

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

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

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

Contingent liabilities

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

Contingent assets

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

k) Nature and purpose of reserves

The Board creates and maintains reserves which are made up of accumulated surpluses accumulated surpluses or deficits.

l) Changes in accounting policies and estimates

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

m) Employee benefits

Retirement benefit plans

The Board provides retirement benefits for its employees. Defined contribution plans are post employment benefit plans under which an board pays fixed contributions into a separate board (a fund), and will have no legal or constructive obligation to pay further

Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017

contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

m) Employee benefits (Continued)

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

n) Foreign currency transactions

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

o) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

p) Related parties

The Board regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Board, or vice versa. Members of key management are regarded as related parties and comprise the directors, the Chief Executive Officer and senior managers.

q) Service concession arrangements

The Board analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Board recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through

NOTES TO THE FINANCIAL STATEMENTS (continued)

Ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the board also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

s) Comparative figures

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

t) Taxation

Lake Victoria South Water services board is a non-commercial state corporation in the provision of essential services. Provision for taxation has not been made

u) Going Concern Concept

Nothing has come to the attention of the Board that it will no longer be a going concern

v) Deferred Income

All Grant money received from Donors and GoK is initially recorded as deferred income in the financial statements. All recurrent project costs incurred in relation to the grant are debited to this account and credited to grant income. Grant expenditure relating to assets is periodically released to grant income by debiting the deferred income account with the value of the annual depreciation and crediting grant income with the same amount. Deferred income is a liability in the books of accounts.

The transactions passed are as given below: i. Cash received from donor Dr. Cash at Bank Cr. Deferred income ii. Project costs Dr. Deferred income Cr. Grant income iii. Annual depreciation Dr. Deferred income Cr. Grant income

w) Capital Commitments

This is the allocation of funds for a possible liability in the near future arising out of capital expenditure

Allocation of funds for a possible liability in the near future arising out of capital expenditure.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Board based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Board. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

u) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30th June 2017.

Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Government Grants	2017	2016
Details	Kshs	Kshs
Development Allocation	15,588,342	5,000,000
Development Allocation	157,500,000	50,000,000
Development Allocation	98,750,000	169,647,150
Development Allocation	271,965,997	354,352,850
	<u>543,804,339</u>	<u>579,000,000</u>
Transfer to Capital grants	192,792,508	303,398,504
	<u>351,011,831</u>	<u>275,601,496</u>
Recurrent Funds Received-1 st Half Year	16,666,666	18,000,000
Recurrent Funds Received-2 nd Half Year	23,333,330	15,000,000
	<u>39,999,996</u>	<u>33,000,000</u>
Totals Government grants	<u>391,011,827</u>	<u>308,601,496</u>
7. Deferred income transfer		
Transfer to Income:		
Constituency/Priority Projects	49,046,408	0
Water Projects Pans & Dams	25,301,344	23,758,555
TOTAL	<u>74,347,753</u>	<u>23,758,555</u>
8. Other Incomes	2017	2016
	(Kshs)	(Kshs)
Interest Received	1,476,602	4,204,356
Unicef	170,500	0
Tender sales	43,000	155,700
Asset Sales	767,177	0
Laboratory Charges	737,301	554,380
TOTAL	<u>3,194,580</u>	<u>4,914,436</u>

Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017

9. Water Levies		
Kiwasco	23,022,048	23,274,124
Kewasco	6,134,833	5,809,675
Guwasco	3,674,933	4,432,000
Sibo	2,303,012	4,466,960
Tiliwasco	670,542	613,386
Mikutra	1,002,712	908,127
Homa Bay County	3,895,931	3,528,729
Bomwasco	2,134,671	2,281,812
TOTAL	42,838,682	45,314,813
	2017	2016
10. Operations and Maintenance Expenses	Kshs	Kshs
Project Monitoring & Evaluation	12,746,397	14,057,793
Support Organization	-	4,604,561
Environmental Impact Assessment	-	1,319,754
Research & Development	-	130,375
Resource Mobilization	784,600	2,408,000
Project Tender Advertisements and publicity	2,971,620	5,479,128
Computer Equipment, networking, software & maintenance	6,000	521,000
Total	16,508,617	28,520,611
11. Supplies and Services		
Customer & Employee satisfaction , work environment Survey	152,070	60,000
Project Planning & Feasibility Studies	6,232,490	0
Cleaning Services	1,298,612	1,041,061
Legal Services	5,531,154	3,867,310
Security Services	1,701,700	2,166,866
Board's Publicity & Advertisement	3,140,652	3,503,091
Stationery	4,327,604	2,781,109
Telephone & Internet	544,650	890,211
Tender Committee Expenses	218,200	62,000
Maintenance of office Equipment & computers	3,589,375	0
Water and waste water quality surveillance		68,200
Total	26,736,507	14,439,848

Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017

12. Administrative and Establishment Expenses		
Maintenance of Buildings & Office Compound	2,385,769	3,058,337
ISO Certification Expenses	416,900	599,920
Board, Committee & Honoraria Expenses	23,250,227	23,775,483
Corporate Social Responsibility	865,599	164,000
Electricity	984,100	739,202
Periodicals, Newspaper, Library	700,600	432,405
Office Tea & Official Lunch	2,322,063	1,989,209
Postage & Delivery Services	464,085	873,980
Audit Fees	3,278,160	1,199,190
Conferences and Shows	547,002	2,008,758
Training & Workshops	4,219,423	4,653,149
Travel & Accommodation & Subsistence	11,361,321	13,197,966
Maintenance of office Equipment & computers	3,589,375	1,146,675
Valuation stock taking Audits & performance Audits of WSPs	1,531,397	270,700
KRA Remittance	64,600,000	27,950,000
	120,516,021	
Total		82,058,974
13. Transport Costs		
Motor Vehicle Fuel	2,442,000	3,344,055
Motor Vehicle maintenance	2,666,054	1,866,419
Total	5,108,054	5,210,474
	2017	2016
14. Water Supplies Development	Kshs	Kshs
Promotion of Safe & Sustainable Rural Water Supplies	1,363,446	3,484,970
Wash Activities & B/Holes	856,080	778,000
Drilling & Equipping of B/holes	2,660,529	11,527,416
ADB: CBO & SO & LVWATSAN II Activities	3,605,767	821,855
Sanitation Facilities Development	3,618,000	11,502,066
Constituency water projects	49,452,312	0
Water Projects Pans & Dams	24,895,440	23,758,555
Total	86,451,574	51,872,862

Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017

15. Employee Costs

Wages	81,198,244	82,860,692
Staff pension & Gratuity contribution	10,058,691	1,673,109
Leave allowance	1,362,986	0
Medical Insurance	11,548,013	9,961,738
NITA	32,600	0
Staff welfare	1,280,900	0
	105,481,434	94,495,539

	2017	2016
	Kshs	Kshs
16. Finance Costs		
Bank Charges & Commissions	122,694	172,590
-----LVWATSAN II	6,600	6,600
	129,294	179,190

17. Depreciation and Amortization

charge for the year- Refer Note 13	116,069,111	119,692,953
Transfer from last year's charge		0
	116,069,111	119,692,953

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**

18. FIXED ASSET SCHEDULE FY 2016/2017											
	FREHOLD LAND	BUILDING	M/VEH & CYCLES	WATER SUPPLY INFR	PLANT MACHINERY	FURNITURE FI	OFFICE EQUIP	COMPUTERS SOFTWARE	COMPUTERS SOFTWARE	WORK IN PROGRESS	TOTAL
RATE		2.5%	25%	2.5%	20%	12.5%	20%	33.3%	20%	0.0%	
Asset Cost											
	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh
1st July, 2015	152,395,827	139,258,800	126,370,080	2,331,051,087		7,374,931	45,114,075	5,605,192		5,117,058,490	7,924,228,482
Transfer				536,384,484	19,333,097	1,616,004	(42,680,673)	2,989,500	22,112,540	(81,013,952)	458,741,000
Additions						316,178	18,195	385,000		2,043,165,600	2,043,884,973
Disposal											
30th June 2016	152,395,827	139,258,800	126,370,080	2,867,435,571	19,333,097	9,307,113	2,451,597	8,979,692	22,112,540	7,079,210,138	10,426,854,455
Transfer											
Additions	4,611,400									1,450,605,149	1,455,216,549
Disposal											
Subtotal 30/06/17	157,007,227	139,258,800	126,370,080	2,867,435,571	19,333,097	9,307,113	2,451,597	8,979,692	22,112,540	8,529,815,287	11,882,071,004
Accumulated Depreciation											
1st July 2016	-	11,592,976	90,205,040	716,858,892	16,786,095	3,912,664	2,855,335	7,803,359	8,327,159	-	858,341,521
Transfer											
Charge for 2016/2017	-	3,481,470	31,592,520	71,685,889	2,547,002	1,163,389	-	1,176,333	4,422,508	-	116,069,111
Disposal											
Subtotal	-	15,074,446	121,797,560	788,544,781	19,333,097	5,076,053	2,855,335	8,979,692	12,749,667	-	974,410,632
Net Book Value											
1st July 2016	152,395,827	127,665,824	36,165,040	2,150,576,678	2,547,001	5,394,450	(403,738)	1,176,333	13,785,381	7,079,210,138	9,568,512,933
30th June 2017	157,007,227	124,184,354	4,572,520	2,078,890,790	-	4,231,060	-	-	9,362,873	8,529,815,287	10,908,064,110

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**

19. Additional Assets	2017	2016
Computer soft wate	Kshs	Kshs
HP LASERJET P3015	-	310,000
Scanner jet Hp5590	-	75,000
	-	<u>385,000</u>
Office Equipment		
Refrigerator 1 door	-	<u>18,195</u>
Furniture		
Desk pedestrial 1.6 mts	-	87,000
Executive High Back Letter Chair	-	51,040
Wooden coat hanger	-	4,640
Desk pedestrial 1.6 mts	-	43,500
L-Shaped Executive desk	-	17,299
Filling stell Cabinet 4 Drawer	-	18,495
3 Executive High back chair	-	53,685
High back Chair	-	22,620
Visitors chair 3 in one	-	<u>17,899</u>
	-	<u>316,178</u>
Land		
Land Siaya Bondo	<u>4,611,400</u>	-
Water Supply infrastructure- wip		
Works- Lvwatsan II	261,357,004	510,365,837
Pending Bill-Lvwatsan II	41,964,955	58,106,310
Services- Lvwatsan II	9,324,472	36,752,481
Goods -LVWATSAN II	5,229,557	0
Goods-Water Sector Development Program	22,093,744	76,989,999
Works- Water Sector Development Program	119,554,646	
Services- Water Sector Development Program	26,415,725	156,804,744
Works- Water Services Board Support Project Migori	32,500,000	76,109,479
Pending Bill-Small Towns	62,555,693	28,011,240

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**

Services-WSBSP Migori-pending bill	-	149,926,629
Works- Small Towns Siaya Bondo	654,802,085	426,053,742
Services- Small Towns Siaya Bondo	120,025,738	28,636,286
Rangwe project transfer to income	-	19,524,882
West Karachuonyo transfer to income	-	7,256,523
Kisumu LTAP-Pending bill	-	35,884,712
Trilateral	49,778,418	0
Kisumu LTAP- foreign	27,536,683	354,534,608
Bunyonyu Dam Water Project	17,466,429	0
Kisumu LTAP- counterpart		78,208,129
Total WIP	<u>1,450,605,149</u>	<u>2,043,165,601</u>
Total Additions	<u>1,455,216,549</u>	<u>2,043,884,974</u>

	2017 Kshs	2016 Kshs
20. Inventory & Stores		
Computer Consumables	299,571	1,979,035
Water Pumps and Hand Pumps	-	949,128
Electricals	-	51,030
Other Items	-	853,977
Pipes and Fitting	3,667,320	378,059
Stationery	<u>230,239</u>	<u>146,605</u>
TOTAL	<u><u>4,197,130</u></u>	<u><u>4,357,834</u></u>

	2017 Kshs	2016 Kshs
21. Cash and Cash Equivalents		
CO-OP Revenue 01141295755601	4,899,772	1,838,204
CO-OP LVWATSAN2 01141295755600	13,802,911	178,764
K.C.B - SIDA Danida 1104035197	4,463	5,463
K.C.B - KIDDIF Italy 1146676387	208,461	4,326,752
K.C.B - UNICEF Funds 1116821648		

Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017

	168,610	169,720
K.C.B - Pans & Dams1104036320	45,158	50,888
K.C.B. - Recurrent 1104034395	6,107,360	4,324,609
K.C.B - Development A/c 1104035464	44,213,771	1,605,387
K.C.B - Development A/c 1104035464-FDR	182,148,182	35,246,474
Cash In Hand	<u>0</u>	<u>0</u>
TOTAL	<u>251,598,688</u>	<u>47,746,261</u>
	2017	2016
	Kshs	Kshs
22. Receivables from Exchange Transactions		
KISUMU WATER AND SEWERAGE Co. Ltd	39,746,437	39,025,235
KERICHO WATER AND SANITATION Co. Ltd	49,572,069	45,637,236
GUSII WATER AND SANITATION CO. LTD	19,553,189	18,278,256
SIBO WATER AND SANITATION CO. LTD	28,967,617	26,664,605
TILILBEI WATER AND SANITATION CO. LTD	23,244,259	22,673,717
MIKUTRA WATER AND SANITATION CO.	5,871,762	4,869,050
HOMA BAY WATER AND SANITATION CO.	17,188,623	13,392,692
BOMET WATER COMPANY	3,216,483	2,281,812
NYANAS WATER AND SANITATION CO.	4,632,698	4,632,698
GULF WATER SERVICES CO. LTD	3,186,748	3,186,748
STAFF DEBTORS & ADVANCES	<u>186,400</u>	<u>1,099,602</u>
	<u>195,366,286</u>	<u>181,741,651</u>

Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017

23. Payables from Exchange Transactions	2017 Kshs.	2016 Kshs.
Creditors	5,848,865	5,037,106
Accrued staff gratuity	4,811,649	1,673,109
KRA	32,256,829	0
Pans and Dams	64,981,113	69,477,520
Total	107,898,456	76,187,735
Counterpart funding		
KISUMU LTAP PROJECT	55,733,942	35,884,712
LVWATSAN II	41,964,955	58,106,310
SMALL TOWNS	62,555,693	28,011,240
WSBSP	117,429,629	149,926,629
TOTAL	277,684,219	271,928,891
Total Payables	385,582,674	348,116,626
24 Non-Current Liabilities		
Bal. b/f STRWSP	3,920,719,635	2,948,864,923
Jiangxi Water and Hydro	193,610,645	162,791,047
China Jiangxi International	413,125,449	192,098,028
Wapcos	42,250,238	28,636,286
CAS	54,955,500	0
Bhundia & Associates WSD	22,820,000	0
Ces& MIBP	26,415,725	156,804,744
Nupex Services Ltd	6,476,729	48,407,546
Ranju Enterprises	1,243,866	6,063,636

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**

Generation Enterprises Ltd	6,496,750	9,636,700
Jos Hansen and Soehne Ltd	7,876,400	9,778,800
Lonnex Chemicals Ltd	-	3,103,317
Oriental Construction Co.	119,554,646	0
AFD Loan- KISUMU LTAP	27,536,683	354,534,608
Total	922,362,631	971,854,712
Bal. C/f	<u>4,843,082,266</u>	<u>3,920,719,635</u>
	2017	2016
	kshs	kshs
25. Government Grants transfer		
Government grant as at 1st July	3,238,495,606	2,935,097,102
Rangwe project	9,856,534	19,524,882
Small Towns project	53,479,396	71,164,668
KFW	3,992,729	0
Trilateral	3,086,000	0
Kisumu Ltap	41,187,327	78,208,129
Bunyonyu Dam	14,310,829	0
Lvwatsan II project	34,379,693	58,391,346
WSBSP Project- SCC	32,500,000	76,109,479
Total for the period	<u>192,792,508</u>	<u>303,398,504</u>
Bal. C/f	<u>3,431,288,114</u>	<u>3,238,495,606</u>
26 Donor Grants		
Bal. b/f	1,475,437,518	954,734,844
LVWATSAN II	223,533,111	513,446,151
KIDDP	24,424,192	7,256,523
Trilateral	46,692,418	0
Orio -Netherlands Government		0

Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017

	3,155,600	
Total for the period	<u>297,805,322</u>	<u>520,702,674</u>
Bal. C/f	<u>1,773,242,840</u>	<u>1,475,437,518</u>
27. Deferred Income Transfer		
As at 1 July 2016	930,640,524	973,414,331
KIDPP	12,349,221	7,766,153
Ministerial Grant	152,000,000	
Total	<u>164,349,221</u>	<u>7,766,153</u>
Less : Transfer to Capital grants, Donor grants		
-Rangwe Water Project	9,856,534	19,524,882
-West Karachuonyo	8,096,143	7,256,523
Less : Transfer to income		
Constituency & Priority Projects	49,046,408	
Water Projects Pans & Dams	25,301,344	23,758,555
	<u>92,300,431</u>	<u>50,539,960</u>
As at 30 June 2017	<u>1,002,689,314</u>	<u>930,640,524</u>
28. Revenue Reserve		
	2017	2016
	Kshs	Kshs
Balance as at 30 JUNE 2015	(97,170,077)	-24,930,631
Surplus/(deficit) for the period	(13,881,147)	-72,239,446
Balance as at 30 JUNE 2016	(111,051,224)	-97,170,077
Surplus/(deficit) for the period	<u>(163,823,767)</u>	<u>-13,881,147</u>
Balance as at 30 JUNE 2017	<u>(274,874,991)</u>	<u>-111,051,224</u>

Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017

29. Contingent liability

1. Legal Costs.

As a matter of disclosure The Board has some pending court cases whose outcome or cash outflow is not certain at the time of the preparation of the report. However the approximate award costs have been listed in annex 1

Legal Expenses	Amount (kshs)	Paid (Kshs)	Balance (Kshs)
Approximate Award	437,444,711		437,444,711
Total	437,444,711	0	437,444,711

30. Counterpart funding pending bills.

The Board implements Water infrasture funded through external resources which is partly funded contribution of counterpart funding by the government. Due to insufficient funds the counterpart payments accrue over sometime due to insufficient governmnet grants to fund the projects. The Board have accumulated pending bills over the last year amounting to Kshs.262,623,725.00 as shown below.

COUNTERPART FUNDING	2017	2016
	Kshs	Kshs
KISUMU LTAP PROJECT	55,733,942	35,884,712
LVWATSAN II	41,964,955	58,106,310
SMALL TOWNS	62,555,693	28,011,240
WSBSP	117,929,629	149,926,629
TOTAL	277,684,219	271,928,891

Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017

Borrowings (Continued)

The analyses of both external and domestic borrowings are as follows:

	2016-2017	2015-2016
	Kshs	Kshs
External Borrowings		
Dollar denominated loan from AFD	370,998,000	354,534,608
Dollar denominated loan from AfDB	743,750,388	617,320,104
Total balance at end of the year	1,114,748,388	971,854,712

Description	2016-2017	2015-2016
	Kshs	Kshs
Long term borrowings	1,114,748,388	971,854,712
Total	1,114,748,388	971,854,712

31. Cash generated from operations

	2017	2016
	KShs	KShs
Surplus for the year before tax	34,392,230	-13,881,147
Receipts		
Exchequer grants	391,011,827	308,601,496
Deferred income transfer	74,347,753	23,758,555
Other Incomes	3,194,580	4,914,436
WSPs Revenue	42,838,682	45,314,814
Payments		
Compensation of employees	(105,481,434)	(94,495,538)
Goods and services	(169,112,230)	(130,229,906)
Finance cost	(129,294)	(179,190)
Other payments	(86,451,574)	(298,521,294)
Net cash flow from operating activities	150,218,310	(140,836,627)

Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. Financial Risk Management

The board's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The board's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The board does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The board has no exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board's directors, who have built an appropriate liquidity risk management framework for the management of the Board's short, medium and long-term funding and liquidity management requirements. The Board manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2017				
Trade payables	0	0	51,874,526	333,708,148
Provisions	0	0	0	-
Deferred income	0	0	0	-
Employee benefit obligation	0	0	0	4,811,649
Total	0	0	51,874,526	338,519,797
At 30 June 2016				
Trade payables	0	0	69,477,520	348,116,625
Current portion of borrowings	0	0	0	0
Provisions	0	0	0	0
Deferred income	0	0	0	0
Employee benefit obligation	0	0	0	1,673,109
Total	0	0	69,477,520	349,789,734

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**

NOTES TO THE FINANCIAL STATEMENTS (continued)
Financial Risk Management (Continued)

(iii) Market risk

The Board has put in place an internal audit function to assist it in assessing the risk faced by the Board on an on-going basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Board's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Board's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the board's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk

The board has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

	Kshs	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2017			
Financial assets(investments, cash, debtors)	166,000,000	-	166,000,000
Liabilities			-
Trade and other payables	363,460,286	-	363,460,286
Borrowings	1,042,265,913	-	1,042,265,913
Net foreign currency asset/(liability)	1,571,726,199	-	1,571,726,199

The board manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**

Financial Risk Management (Continued)

(iii) Market risk (continued)

b) Interest rate risk

Interest rate risk is the risk that the board's financial condition may be adversely affected as a result of changes in interest rate levels. The board's interest rate risk arises from bank deposits. This exposes the board to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The Board analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

33. Capital Risk Management

The objective of the Board's capital risk management is to safeguard the Board's ability to continue as a going concern. The Board capital structure comprises of the following funds:

	2017	2016
	Kshs	Kshs
Government Grants	3,431,288,114	3,238,495,606
Donor Grants	1,773,242,840	1,475,437,518
Deferred Income	1,002,689,314	930,640,524
Revenue Reserve	-76,658,994	-111,051,224
Total funds	6,130,561,273	5,533,522,424
Total borrowings	4,843,082,266	3,920,719,635
Less: cash and bank balances	251,598,688	47,746,261
Net debt/(excess cash and cash equivalents)	4,591,483,578	3,872,973,374
Gearing	75%	70%

34. Related Party Balances

a) Nature of related party relationships

Entities and other parties related to the board include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

The entity is related to

- i) The National Government;
- ii) The Ministry of Water & Irrigation
- iii) Water Companies
- iv) Key management Staff;
- v) Board of directors;

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**

	2016 Kshs.	2017 Kshs.
b) Related party transactions		
Loans received from Donors	971,854,710	1,114,748,388
Grants received from Donors	520,702,674	984,628,178
Government grants	612,000,000	467,454,640
	<u>2,104,557,384</u>	<u>2,566,831,206</u>
c) Key management remuneration		
Directors	23,775,482	23,250,227
Key management compensation	7,387,475	7,387,475
	<u>31,162,957</u>	<u>30,637,702</u>
d) Due from related parties water Companies	<u>180,642,050</u>	<u>194,623,937</u>

35. Related Party Balances (continued)

c) Key management remuneration

	2017 Kshs	2016 Kshs
Directors'	23,250,227	23,775,482
Key management compensation	7,387,475	7,387,475
	<u>30,637,702</u>	<u>31,162,957</u>

	2017 Kshs	2016 Kshs
d) Due from related parties		
Due from Parent Ministry		
Due from Water Companies	197,897,064	180,642,049
	<u>197,897,064</u>	<u>180,642,049</u>

e) Due to related parties

	2017 Kshs	2016 Kshs
Due to the Ministry of Water & Irrigation	0	0
Due to Water Service Providers	0	0
	<u>0</u>	<u>0</u>

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**

36. Contingent assets and contingent liabilities

Contingent liabilities	2016-2017	2015-2016
	Kshs	Kshs
Court cases against the Board	437,444,711	437,444,711
Bank guarantees in favour of subsidiary	0	0
Total	437,444,711	437,444,711

(Details in Annex 1)

37. Events after the reporting period

There were no material adjusting and non- adjusting events after the reporting period.

38. Ultimate and Holding Entity

The Board is a State Corporation under the Ministry of Water and Irrigation Its ultimate parent is the Government of Kenya.

39. Currency

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

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**

40. 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

Ref No.	Issue / Observations from Auditor	Management comments	person to resolve the issue	(Resolved /Not Resolved)	Timeframe:
1	<p>Travelling and Accommodation Included in the administrative and establishment expenses of Ksh. 58,283,490 is travelling and accommodation and subsistence of Ksh. 13,467,166 out of which the schedule availed and subsequent posting to the payment vouchers revealed that vouchers totalling Ksh. 4,337,354 were not supported with the relevant documentation. Consequently the propriety validity of travelling, accommodation and subsistence figure of Ksh 4,337,335 for the year ended June 2016 could not be confirmed.</p>	<p>The relevant documentation is available therefore the figure for travelling and accommodation can now be confirmed</p>	CFM	Resolved	
2	<p>Water Pans and Dams water supplies projects The water supplies and development balance of Ksh. 51,872,862 includes Ksh. 23,758,555 in respect of water pans and dams project .However the following anomalies were noted: i. The Board did not have a budget as per the memorandum of understanding between the Board and the ministry of</p>	<p>The Board in its subsequent budgets requested funds to settle claims on the pans and dams. The Board conducted inspection and acceptance on the pans and the reports are available. The Board informed to the concerned contractors on the defects noted on the projects and these contractors went back to site and rectified the defects. Therefore the propriety and value for</p>	CTM	Resolved	

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**


	<p>devolution and planning dated 27 January 2014 under paragraph V and article 3A and B procurement plan as per the procurement and Disposal Regulations 2006.</p> <p>ii. No inspection and acceptance committee reports were availed for audit review.</p> <p>iii. Projects works such as piping, fencing, cattle troughs pit latrine and sign post were partially done and some works completely omitted according to the Bills of quantity or projects specification in various constituencies all totalling to Ksh. 10,861,632 out of a total expenditure of Ksh. 23,758,555. Consequently the Board breached the procurement law and propriety and value for money accruing from the water pans and projects figure of Ksh. 23,758,555 for the year ended 30th June 2016 could not be confirmed.</p>				
<p>3</p>	<p>Receivables from Exchange transactions</p> <p>The receivables from exchange transactions balance of Ksh. 181,741,651 was noted to have the following anomalies</p> <p>i. Three out of ten WSP's had an outstanding balance of Ksh. 181,741,651 as reflected under note 18 to financial statements did not give independent confirmation of their account balances following Board circularization resulting</p>	<p>The Board is in receipt of all the confirmation of the WSP's except Nyanas Water and Sanitation Company Ltd and Gulf Water and Sanitation Company Ltd because the two companies are now operating under KIWASCO.</p> <p>The Bad debt policy was in draft stages at the time of the Audit but has now been approved by the Board of Directors.</p>	<p>CFM</p>	<p>Resolved</p>	

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**

	<p>in un-reconciled balance of Ksh. 34,484,051.</p> <p>ii. The management has not made provision for bad and doubtful debts while the entire debt recovery cannot be confirmed, in addition, it was observed that the Board did not have an approved debtor's policy.</p> <p>iii. Note 18 reflects Ksh. 4,632,698 and Ksh. 3,186,748 due from Nyanas water and Sanitation Company Ltd and Gulf Water and Services Company Ltd respectively. However the financial statement of the 2 companies for years 2012-2016 were not submitted to the OAG and as such the correctness could not be confirmed.</p>				
4	<p>Stalled Projects Work in Progress</p> <p>Included in the PPE balance of 9,568,513,933 s work in progress balance of Ksh. 7,079,210,138 which includes stalled projects totalling Kshs.49, 970, 528. However, the status of the projects were not clear as the contractors were not on site by the time of the audit and some of the projects had been vandalised and others were deteriorating.</p> <p>Consequently, it was not possible to confirm when the stalled projects would be completed and whether the beneficiaries got value for their money.</p>	<p>At the time of Audit the Board was in the process of engaging another contractor to complete the works which a previous contract had been terminated due to Non-performance by the contractor. The work is currently ongoing on the project. Thus the beneficiaries will get value for money.</p>	CEO	Resolved	
5	<p>Counterpart Funding Pending Bills</p> <p>The counterpart funding pending bills amounting to Kshs.271, 928, 891 as reflected</p>	<p>The understatement in the project account for LVW/ATSAN II was noted and the figure amended appropriately in the subsequent report. Therefore the</p>	CFM	Resolved	

**Lake Victoria South Water Services Board. Annual Reports and Financial Statements
For the financial year ended 30th June 2017**

<p>under note 26(a) to the financial statements is in respect to pending bills accrued due from the Government of Kenya for various water projects. Further, the pending bills supporting documents namely, bill of quantities, contract agreements, payment certificates Water Services Board Support Programme (WSBSP) of Kshs. 149, 926, 626 and Kisumu Long Term Action Plan (LTAP) project of Kshs 35, 884, 712 were not provided for audit review. In addition, Lake Victoria Water and Sanitation II project pending bills reflected as Kshs. 58, 106, 310 is in variance with LVWATSAN II 2016 certified projects accounts Kshs. 47, 506, 778 resulting in an unexplained difference of Kshs. 10, 599,532</p> <p>Consequently the accuracy and validity of counterpart funding pending bills of Kshs. 271,938,891 could not be confirmed.</p>	<p>validity of the counterpart funding pending Bills of Ksh. 271,938,891 can be confirmed.</p>
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 Hon. Amb. John Arap Koech, EGH
 Date 29/09/2017


 Eng. Petronilla A. Ogut, OGW
 Date 29/09/2017

Lake victoria south water services board
Annual Reports and Financial Statements For the year ended June 30, 2017

For the year ended June 30, 2017

I. Appendix 1: PROJECTS IMPLEMENTED BY THE ENTITY

Projects implemented by Lake Victoria South Water Services Board Funded by development partners

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolida ted in these financial statements (Yes/No)
1. Lake Victoria Water and Sanitation project phase II (LVWATSAN II)	2100150019967	AfDB	2011-2017	1,320,592,897	YES	YES
2. Small Towns and Rural Water Supply Project (STRWSP)	2100150021543	AfDB	2010-2017	2,154,862,082	YES	YES
3. KISUMU-Long Term Action Plan(LTAP)	CKE 1049 CKE 1014	AFD	2010-2016	3,582,059,148	NO	YES
Water and Sanitation Development(WSD)	11/KE/21	KFW	2014-2022	4,724,000,000	NO	YES

Status of Projects completion

(Summarise the status of project completion at the end of the financial year, ie total costs incurred, stage which the project is etc)

	Project	Total project Cost	Total expended to date	Comple tion % to date	Budget	Actual	Sourc es of funds
1	Lake Victoria Water and Sanitation project phase II (LVWATSAN II)	1,506,725,531	1,235,514,935	82	820,000,000	223,533,111	AfDB /GoK
2	Small Towns and Rural Water Supply Project (STRWSP)	2,409,389,132	2,679,538,380	100	1,500,000,000	598,057,962	AfDB /GoK
3	KISUMU-Long Term Action Plan(LTAP)	3,582,059,148	3,546,238,556	100	500,000,000	370,998,000	AFD/ GoK
4	Water and Sanitation Development(WSD)	8,284,000,000	757,818,551	10	1,000,000,000	757,818,551	KFW/ GoK

Lake victoria south water services board
Annual Reports and Financial Statements For the year ended June 30, 2017

For the year ended June 30, 2017

II. Appendix 2: INTER-ENTITY TRANSFERS

ENTITY NAME:		LAKE VICTORIA SOUTH WATER SERVICES BOARD		
Break down of Transfers from the State Department for Water and irrigation				
FY 2016/2017				
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 and Irrigation	30.08.2016	6,666,666	2016/2017
	Ministry of Water and Irrigation	09.11.2016	3,333,333	2016/2017
	Ministry of Water and Irrigation	12.10.2016	3,333,333	2016/2017
	Ministry of Water and Irrigation	04.01.2017	3,333,333	2016/2017
	Ministry of Water and Irrigation	02.02.2017	3,333,333	2016/2017
	Ministry of Water and Irrigation	03.03.2017	3,333,333	2016/2017
	Ministry of Water and Irrigation	07.04.2017	3,333,333	2016/2017
	Ministry of Water and Irrigation	28.04.2017	3,333,333	2016/2017
	Ministry of Water and Irrigation	08.05.2017	3,333,333	2016/2017
	Ministry of Water and Irrigation	09.06.2017	3,333,333	2016/2017
	Ministry of Water and Irrigation	30.06.2017	3,333,333	2016/2017
		Total	39,999,996	
b.	Development Grants			
		<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	<u>Indicate the FY to which the amounts relate</u>
	Ministry of Water and Irrigation	11.10.2016	78,750,000	2016/2017
	Ministry of Water and Irrigation	16.11.2016	15,588,342	2016/2017
	Ministry of Water and Irrigation	16.11.2016	78,750,000	2016/2017
	Ministry of Water and Irrigation	23.01.2017	15,000,000	2016/2017
	Ministry of Water and Irrigation	10.02.2017	5,000,000	2016/2017
	Ministry of Water and Irrigation	25.03.2017	66,250,000	2016/2017
	Ministry of Water and Irrigation	25.03.2017	12,500,000	2016/2017
	Ministry of Water and Irrigation	29.03.2017	147,000,000	2016/2017
	Ministry of Water and Irrigation	09.06.2017	78,750,000	2016/2017
	Ministry of Water and Irrigation	29.06.2017	15,000,000	2016/2017
	Ministry of Water and Irrigation	29.06.2017	3,717,000	2016/2017
	Ministry of Water and Irrigation	30.06.2017	7,500,000	2016/2017
	Ministry of Water and Irrigation	30.06.2017	20,000,000	2016/2017
		Total	543,805,342	
c.	Direct Payments			
		<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	<u>Indicate the FY to which the amounts relate</u>
	LVWATSAN project			
	African Development Bank(AfDB)	20.09.2016	65,999,520	2016/2017
	African Development Bank(AfDB)	21.09.2016	9,626,263	2016/2017
	African Development Bank(AfDB)	10.11.2016	2,124,800	2016/2017
	African Development Bank(AfDB)	15.11.2016	7,199,672	2016/2017

Lake victoria south water services board
Annual Reports and Financial Statements For the year ended June 30, 2017

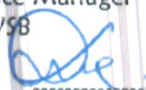
For the year ended June 30, 2017

	African Development Bank(AfDB)	15.11.2016	6,736,669	2016/2017
	African Development Bank(AfDB)	15.11.2016	46,407,345	2016/2017
	African Development Bank(AfDB)	22.02.2017	27,661,586	2016/2017
	African Development Bank(AfDB)	08.03.2017	32,308,406	2016/2017
	African Development Bank(AfDB)	08.05.2017	4,650,970	2016/2017
	African Development Bank(AfDB)	12.05.2017	5,229,557	2016/2017
		Total	207,944,788	
	SMALL TOWNS and RURAL WATER SUPPLY (STRWSP) project			
	African Development Bank(AfDB)	07.10.2016	89,154,536	2016/2017
	African Development Bank(AfDB)	07.04.2017	110,471,465	2016/2017
	African Development Bank(AfDB)	07.04.2017	123,649,600	2016/2017
	African Development Bank(AfDB)	07.04.2017	116,801,969	2016/2017
	African Development Bank(AfDB)	07.04.2017	85,631,938	2016/2017
	African Development Bank(AfDB)	07.04.2017	85,631,938	2016/2017
	African Development Bank(AfDB)	01.02.2017	53,125,670	2016/2017
	African Development Bank(AfDB)	07.04.2017	77,787,358	2016/2017
	African Development Bank(AfDB)	13.04.2017	31,348,809	2016/2017
	African Development Bank(AfDB)	13.04.2017	31,348,809	2016/2017
	African Development Bank(AfDB)	08.07.2016	17,268,244	2016/2017
	African Development Bank(AfDB)	08.07.2016	8,175,266	2016/2017
	African Development Bank(AfDB)	28.03.2017	11,420,139	2016/2017
	African Development Bank(AfDB)	28.03.2017	5,386,589	2016/2017
	African Development Bank(AfDB)	11.07.2016	9,751,000	2016/2017
	African Development Bank(AfDB)	11.01.2017	20,474,525	2016/2017
	African Development Bank(AfDB)	02.03.2017	8,243,325	2016/2017
	African Development Bank(AfDB)	10.04.2017	16,486,650	2016/2017
	African Development Bank(AfDB)	11.07.2016	4,564,000	2016/2017
	African Development Bank(AfDB)	02.02.2017	6,846,000	2016/2017
	African Development Bank(AfDB)	02.04.2017	6,846,000	2016/2017
	African Development Bank(AfDB)	10.04.2017	4,564,000	2016/2017
		Total	924,977,830	
d.	Donor Receipts			
		<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	<u>Indicate the FY to which the amounts relate</u>
	African Development Bank(AfDB)	08.08.2016	15,588,324	2016/2017
		Total	15,588,324	

The above amounts have been communicated to and are yet to be reconciled by the Ministry of Water and Irrigation.

Finance Manager
LVSWSB

Sign



Head of Accounting Unit
Ministry of Water & Irrigation

Sign-----

Lake victoria south water services board
Annual Reports and Financial Statements For the year ended June 30, 2017

For the year ended June 30, 2017

III. Appendix 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Statement of Financial Performance	Where Recorded/recognized				Total Transfers during the Year
					Capital Fund	Deferred Income	Receivables	Others - must be specific	
Ministry of Water and Irrigation	Various as indicated in appendix 2	Recurrent	39,999,996	39,999,996	0	0	0	0	39,999,996
Ministry Water and Irrigation	Various as indicated in appendix 2	Development	543,805,342	543,805,342		0	0	0	543,805,342
African Development Bank(AfDB)	Various as indicated in appendix 2	Donor Fund	924,977,830	0	924,977,830	0	0	0	924,977,830
KFW	30.03.2017	Direct Payment	757,818,551		757,818,551	0	0	0	757,818,551
French Development Agencies (AFD)	30.12.2016	Direct Payment	370,998,000	0	370,998,000	0	0	0	370,998,000
KIDP	29.09.2016	Direct payment	3,276,516	0	3,276,516	3,276,516			6,553,032
Total			2,864,409,346	583,805,338	2,280,604,008	3,276,516	0	0	2,867,862

Victoria south water services board
Annual Reports and Financial Statements For the year ended June 30, 2017

For the year ended June 30, 2017

XXII. ANNEX 1

List of Court cases

	PARTIES	MATTER IN BRIEF	APROX LEGAL FEES in Kshs.	APPROX AWARD in shs.
1	Kundan Singh & LVSW/BS	Dispute arising out of contract variation. Claim Kshs. 358,863,133.44 excluding interest.	10,000,000	400,000,000
2	CHEMOSIT V LVSW/BS & KCB 81 of 2011	Chemosit seeks to restrain LVSW/BS from any further interference including an intention to terminate existing SPA with her as well as compel the Bank to allow her access her accounts, which LVSW/BS had advised the Bank to freeze	450,000	Non-monetary award
3	Kisumu CMCC 491 of 2013 PENINA INVESTMENTS V LVSW/BS	This matter arose out of an alleged contract breach under GOK/UNICEF/WASH program in 2010 involving digging up of shallow wells in Kayoko Community, Wagai Division, Gem District under the supervision of the then District Officer.	200,000	950,000
4	Kisii Cmcc No.139 & 140 Of 2014. Judith Moraa Ongori/ Isaac Ongori Aminga -Vs.- LVSW/BS & General Motors East Africa	This is a claim emerging from an accident which occurred on 31/5/2011 involving Motor Vehicle Reg. No. KBN 704E. The Plaintiff is claiming special and general damages. Worth noting is that at the time of accident, General Motors (Supplier) had not delivered the said vehicle to LVSW/BS.	600,000	3,000,000
5	Ksm Misc. Application No. 8 of 2015 Republic Vs. BOD LVSW/BS, CS MWI and AG	This is a matter lodged by Eng. Moses Agumba aggrieved by Board resolution of meeting held on 27 th August 2015 requiring him to step aside to facilitate investigations pertaining payroll variations, unremitted taxes to KRA and damning reports from a major donor. He obtained exparte orders on 2 nd September 2015 for stay of decision and leave to institute judicial review orders. The said orders were lifted on 29 th October 2015 although Eng. Agumba had already been suspended on 17 th September 2015 arising out of his actions and demeanor on 3 rd September 2015 when he was serving his order.	3,000,000	Reinstatement
6	ELRC Court No.30 of 2016 Eng. M.O. Agumba V Chairman LVSW/BS and CS MWI	Following his dismissal on 19 th October 2015. The claimant Eng. Moses Orot Agumba moved to the Employment and Labor Relations Court in Kisumu seeking orders on LVSW/BS to stop recruitment of a new CEO and reinstatement for which he received orders on 8 th March 2016.	3,000,000	Reinstatement or Payment of 8500000
7	KISII ELC Court No. 538	This is a matter emanating out of the Migori Water Project. The plaintiff is owner of	1,000,000	13,000,000

Lake victoria south water services board
Annual Reports and Financial Statements For the year ended June 30, 2017

For the year ended June 30, 2017				
	of 2015 PATRICK J OTIENO VS LVSWSB		parcel of land Kanyamkago/Kawere 11/1424 bordering Oyani river to the north. He claims that our construction of the weir upstream in 2013 damaged his sugar plantation, mature kales and two fish ponds each stocked with 2500 fingerlings. His prayers are that LVSWSB makes good and pay reparations for damaged occasioned amounting to Kshs. 11,043,525 and damages for violating his rights to be determined by the court and any interests thereon including the cost of the suit.	
8	ELRC. 12 OF 2016, ELRC 16 OF 2016 KUCFAW V NYANAS , KIWASCO & LVSWSB		The two matters were lodged at the Employment and Labor relations Court at Kericho by a section of Nyanas employees through Kenya Union of Commercial Food & Allied workers claiming for unpaid salaries, unremitted Sacco deductions, pension deductions and union dues. Worth noting is that Nyanas exists in In previous engagements over the dispute the board has always cited inability to settle the liabilities afore mentioned due to budgetary constraints. limbo, while its operations have been subsumed by KIWASCO through Kisumu County Government.	8,994,711
9	ELRC 184 OF 2016 JOSHUA OMENDA ODENY V LVSWSB		This matter was lodged by Eng. Joshua Omenda Odeny who was the board's electromechanical engineer but dismissed on 4 th June 2015 on account of gross misconduct amongst other breaches.	500,000
10	PM COURT AT KEROKA 119 OF 2016 Charles Mogaka Oyugi V LVSWSB & Nyamira County Government		This claim emanates from ongoing project known as Nyangori-Keroka Water Project in Nyamira County. The county government settled the cost of land for the project with the understanding that LVSWSB will settle crops and trees on the land. However when LVSWSB requested for valuation report it emerged that the County Government had settled in full the cost of land and the trees to land owners. The claimant in this suit had leased a parcel from the land owners to plant trees and was not compensated.	400,000
11	EACC. No. 6 of 2015. Republic V Jared Okello and 2 others		This case emanates from payroll variation amounting to approximately 14 Million which former finance manager of LVSWSB is accused of stealing by servant and obtaining money by fraud. This is an EACC matter in which LVSWSB is an interested party.	250,000
	TOTAL			19,400,000
				437,444,711