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THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA WATER INSTITUTE

FOR THE YEAR ENDED
30 JUNE 2018



KENYA WATER INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018



KENYA WATER INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018

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

KENYA WATER INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

I. Table of Contents	Pages
I. KEY ENTITY INFORMATION AND MANAGEMENT	ii
II. THE GOVERNING COUNCIL	vi
III. MANAGEMENT TEAM.....	x
IV. CHAIRPERSON'S STATEMENT	xii
V. REPORT OF THE DIRECTOR, KENYA WATER INSTITUTE	xiii
VI. CORPORATE GOVERNANCE STATEMENT	xv
VII. MANAGEMENT DISCUSSION AND ANALYSIS.....	xvii
VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT	xviii
IX. REPORT OF THE DIRECTORS	xix
X. STATEMENT OF GOVERNING COUNCIL RESPONSIBILITIES	xx
XI. REPORT OF THE AUDITOR GENERAL	xxii
XII. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018...23	
XIII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018.....2	
XIV. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2018	3
XV. STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 JUNE 2018	4
XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR 2017/2018.....5	
XVII. NOTES TO THE FINANCIAL STATEMENTS	6
XVIII. APPENDIX 1: PROGRESS REPORTS ON AUDITORS RECOMMENDATIONS	25
XIX. APPENDIX II: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES..31	

I. KEY ENTITY INFORMATION AND MANAGEMENT**a) Background information**

Kenya Water Institute (KEWI) is a Semi-Autonomous Government Agency (SAGA) established through the Kenya Water Institute Act 2001 Revised Edition 2012. The Institute is currently under the Ministry of Water and Irrigation. The Institute is a body corporate with perpetual succession and a common seal. Its governance, control and administration are vested in the Governing Council. The Institute has four campuses, Namely, Nairobi, Kitui, Kisumu and Chiakariga in Nairobi, Kitui, Kisumu and Tharaka Nithi Counties respectively

b) Principal Activities

The mandate of KEWI is as follows:

- i. To provide directly or in collaboration with other institutions of higher learning, services in human resource development, consultancy, research and development in the water sector on a commercial basis to the public sector, state corporations, local authorities, the private sector and all other persons (local or foreign) who may request for such services from the institute;
- ii. To provide training programmes, seminars and workshops and produce publications aimed at maintaining standards in the water sector;
- iii. To provide a forum for effective collaboration between the public and private sectors and other interested parties for the development of the water sector; and
- iv. To conduct examinations and award diplomas, certificates and other awards to successful candidates.

Vision

A world class centre of excellence in training, research and consultancy in water, sanitation, irrigation and related sectors

Mission

To offer competency-based training, research, consultancy and outreach services in water, sanitation, irrigation and related sectors for sustainable development

c) Key Management

Kenya Water Institute's day to day management is under the following key organs:

1. The Governing Council
2. Director/ CEO
3. Senior Management
4. The Academic Board

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Director	Dr. Leunita A. Sumba
2.	Deputy Director Academic Affairs	Mr. David K. Ngetich
3.	Deputy Director Management Services	Mr. Kennedy O. Riaga
4.	Deputy Director Research	Mr. Paul N. Muthama

e) Fiduciary Oversight Arrangements

KEWI's oversight responsibility is vested in the;

- 1) Governing Council had 9 members
- 2) Programmes and Development committee had 5 members
- 3) Finance and Administration Committee had 5 members
- 4) Independent internal audit function
- 5) Audit and Risk Committee of the Governing Council

Execution of the mandate during 2017/2018FY, inter alia

- a. The committee supervised the Internal Audit function
- b. Communicated with the internal and external auditors
- c. Evaluated the adequacy of the control environment and provided assurance on the systems of internal control
- d. Performed other roles and mandate as stipulated in Audit Committee regulations of April 2015

Meetings

Three Audit and Risk Committee meetings were held in 2017/2018 FY, before the expiry of the term of the Governing Council on 19th February, 2018

- a. 25th Meeting held on 29/09/2017.
- b. 26th meeting held on 6/12/2017.
- c. SM, Special Meeting held on 8/02/2018.

Membership of the Audit and Risk Committee

- a. Chairman-From Professional bodies
- b. Representative -From Non-Governmental Organization-Association of Water Users
- c. Alternate to PS. the National Treasury
- d. Alternate to PS. Ministry of Devolution
- e. Director of Water Services
- f. Secretary-Head of Internal Audit

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

Meetings attendance

	Meeting/Members	25 th	26 th	SM	Total
1	Chairman	X	X	X	3/3
2	Rep. NGOs	X	X	X	3/3
3	Alternate to PS National Treasury	O	X	X	2/3
4	Rep. Director of Water Services	X	X	X	3/3
5	Alternate to PS. Min. of Devolution	X	X	O	2/3
	Total members present	4	5	4	

- 6) During the reporting period there were 7 full Governing Council meetings, 3 Audit and Risk Committee meetings, 4 Finance and Administration committee meetings, 3 Programmes and Development committee meetings and 11 Ad-hoc meetings.

f) Entity Headquarters

Kenya Water Institute
Nairobi South C
Ole Shapara Avenue
P.O. Box 60013 – 00200
Nairobi, KENYA.

g) Entity Contacts

Tel: 254-20-6003893/6003905/6007433/25
CELL No: 0722-207757
Fax No: 254-20-6006718
Email: inquiries@kewi.or.ke
info@kewi.or.ke
Website: www.kewi.or.ke

h) Entity Bankers

Kenya Commercial Bank of Kenya
Moi Avenue
P.O. Box 30081
GPO 00100
Nairobi, Kenya

i) Independent Auditors

Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GPO 00100

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018




Nairobi, Kenya

j) Principal Legal Adviser

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

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

II. THE GOVERNING COUNCIL

GOVERNING COUNCILMEMBER	PROFILE
 <p>Col. Benjamin Muema <i>Chair KEWI Governing Council</i></p>	<p>Col. Benjamin Muema is a retired Colonel of the Kenya Army. Col. Muema served in the Military for 17 years before his retirement in 1993. During his time in the army, Col. Muema undertook military training in various countries, including United Kingdom (Royal Military Academy) the United States of America among others. Col. Muema is a qualified pilot, flight instructor and examiner.</p> <p>He has held senior positions in the corporate world and served in various leadership capacities, both locally and internationally. He was the Secretary General of New Ford Kenya.</p> <p>Col. Muema has wide experience in training. He was in charge of administrative, logistics, training, operational, planning and coordination at Armed Forces Training College and its satellite colleges as well as in the Cadets Training School, where he was second in command.</p>
 <p>Dr KamauThugge <i>Principal Secretary, The National Treasury</i></p>	<p>Dr. KamauThugge is a distinguished economist with a PhD in Economics from Johns Hopkins University. He has previously worked in the Ministry of Finance as Head of Fiscal and Monetary Affairs Department, Economic Secretary and as Senior Economic Advisor.</p> <p>Before joining the Ministry of Finance he worked with the International Monetary Fund (IMF) as an Economist/Senior Economist and Deputy Division Chief.</p> <p>Dr. Thugge holds a Bachelor of Arts (Economics) from Colorado College, USA; Masters in Economics from Johns Hopkins University, USA; and a Doctor of Philosophy (PhD) in Economics, also from Johns Hopkins.</p>
 <p>Eng. Lawrence. N. Simitu <i>Ag. Water Secretary</i></p>	<p>Eng. SamwelAluochOtienoAlima is the Ag. Water Secretary. He holds a Master of Science Degree in Civil Engineering and currently undertaking PHD, (Project Planning and Management) University of Nairobi, Course Work.</p> <p>He is a registered Engineer with Engineers Registration Board and a Corporate member of Institute of Engineers of Kenya. Eng. Alima is Corporate Member of Institution of Engineers of Kenya, (IEK), Membership No. M2573</p>

KENYA WATER INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

	<p>Acting Water Secretary coordinating four technical departments in the Ministry, Chairman of the National Steering Committee for the formulation of the National Water Policy, Chairman of National Task Force on Dams in Country, Project Coordinator for Oloitokitok Water Project, Project Engineer Thwake Multipurpose Water Project, Focal Person for SDG 6 in Kenya coordinating SDG 6 activities globally, Project Manager Non Revenue Water in Kenya, Rapid Results Initiative Technical Advisor in the Ministry, Coordinating funding from Development Partners to Various programs in the Water Sector, Mobilized USD 45million from the Africa Development Bank to implement Water and Sanitation projects in twenty-eight towns in Kenya</p> <p>Has been a board member or attended board meetings at different times in the following Water Services Boards: Lake Victoria South Water Services Board, Rift Valley Water Services, Athi Water Services, Uaso Nyiro South Development Authority, Coast Water Services Board, Water Services Regulatory Board, Lake Victoria North Water Services, Northern Water Services Board, National Water Conservation and Pipeline Corporation and Kenya Water Institute. Has attended corporate governance courses, induction courses, strategic planning meetings, staff recruitments and other program. He has served as Provincial Water Officer, Nyanza Province and Rift Valley Province</p>
 <p>Ms Mwanamaka Amani Mabruki <i>Principal Secretary, Ministry of Devolution and ASAL</i></p>	<p>Ms. Mwanamaka Amani Mabruki is the Principal Secretary for the State Department of Devolution. Prior to this, she was the Principal Secretary, East African Affairs, a position she held since she was appointed Principal Secretary in the Jubilee Government in July, 2013.</p> <p>Ms. Mabruki has worked as the Managing Director of the Kenya National Shipping Line. During her tenure at the Shipping Line, she developed the first strategic and business plans which aimed at positioning the company as a world class shipping line.</p> <p>Prior to joining the National Shipping Line, Ms. Mabruki was the Head of Corporate Development at the Kenya Ports Authority with the main responsibility for strategic planning and policy development at the Authority. She played a key role in the development of the second container terminal and in the implementation of the National Single Window Community Based System Project. In addition, she was a key member of the team that managed the feasibility study on the Lamu Port, Southern Sudan, and Ethiopia Transport Corridor (LAPSSET)</p>

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

	<p>Project.</p> <p>Ms. Mwanamaka holds Master's and Bachelor's degrees in Economics, both from the University of Nairobi. She has also attended several professional and senior management workshops, seminars and courses locally and internationally.</p>
 <p>Prof. Wilson N. Ngecu <i>Member</i></p>	<p>Prof. Wilson N. Ngecu holds a PhD Degree from the University of Nairobi. He teaches Geology in the same Institution. Previously Prof. Ngecu has been Chairman of Geology Department, University of Nairobi. He was also the previous manager of the Students' Welfare Authority in charge of Chiromo campus and at one stage he was the secretary to the Geology Society of Kenya.</p> <p>Prof. Ngecu is a consulting hydrologist, a lead NEMA Environmental Expert and a lead member of the Kenya Environmental Institute.</p> <p>Prof. Ngecu is a registered geologist and a member of Geological Society of Kenya. He has published widely in the water environment issues.</p> <p>On the KEWI Governing Council, he represents professional bodies, the activities of which relates to the water sector.</p> <p>The chair of the Audit and risk committee and also a member of the Programmes and Development Committee</p>
 <p>Dr. Christopher M. Nyamai <i>Member</i></p>	<p>Prof. Christopher M. Nyamai holds a PhD Degree from the University of Nairobi. He is the Ag. Dean, School of Physical Sciences, University of Nairobi. Prof. Nyamai has researched widely and published in the field of geology and geochemistry.</p> <p>On the KEWI Governing Council, he is a representative of the public universities.</p> <p>The chair of Programmes and Development Committee and a member of Finance and Administration Committee</p> <p>Prof. Nyamai is an independent member</p>
 <p>David Kamene M'alaine <i>Member</i></p>	<p>Mr. David K. M'alaine is the Chairman Bwathonaro Water Users Association, an association he has managed successfully for the last seven years.</p> <p>On the KEWI Governing Council, Mr. Kamene represents Private Sector managers of community based water and sanitation programmes.</p> <p>Member of the Finance and Administration Committee</p>

KENYA WATER INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018



Ms. Catherine AkinyiMwango
Member

Ms. Catherine A. Mwango holds a Masters Degree in Management studies for Developing Countries from University of Leeds (UK).

She was the Executive Director of Kenya Water for Health Organization (KWAHO). Mrs. Mwango has served on a number of boards including Lake Victoria Water Services Board. She is a member of Sector Wide Approach under the auspices of the Ministry of Water and Irrigation. She is the National Convener of the Technical working group on household water treatment and safe storage. She is also a member of the Programme Management Committee on Global Sanitation Fund.

On the KEWI Governing Council, Mrs. Mwango represents Non-Governmental Organizations involved in activities related to the water sector.

The Chair of Finance and Administration committee



Dr. Leunita A. Sumba
Director/CEO
Kenya Water Institute




Dr. Sumba holds a PhD in Biology and a postgraduate Diploma in Integrated Water Resources Management. She has published in a number of refereed journals. Dr. Sumba is currently working on Ceramic filters as household water treatment solutions.

Dr. Leunita Asande Sumba is the Director/CEO of the Kenya Water Institute. She has served in Kenya Water Institute for 20 years in various capacities. Previously she was a Lecturer, Principal Water Research Officer and the Head of the Water Resources Management Department.

Her academic and research interests include: Drinking Water Quality; Environmental Water Quality, Integrated Water Resources Management; Gender and Water governance; Rainwater harvesting; interactions between Water, Environment, Health, and Sanitation including the epidemiology of waterborne and water-related diseases.

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

III. MANAGEMENT TEAM

	DESIGNATION
 Dr. Leunita A. Sumba <i>(Ph.D –Biology; Pg.Dip. Integrated Water Resources Management)</i>	Director, Kenya Water Institute
 David K. Ngetich <i>(MPhil. in Geography)</i>	Deputy Director Academic Affairs
 Paul N. Muthama <i>(MSc. Statistics)</i>	Deputy Director Research
 Kennedy O. Riaga <i>(BA. Economics, CPA(K), CISA))</i>	Deputy Director Management Services

KENYA WATER INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018



Isaac Agevi (*BA. Economics, M BA*)

Corporate Affairs Manager



James Kande (*B.Com. Accounting, CPA(K)*)

Audit and Risk Manager

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018****IV. CHAIRPERSON'S STATEMENT**

It gives me great pleasure to present to you the Kenya Water Institute Report and Financial Statements for the financial year, 2017-2018. KEWI strives to be a world class leader in Training, Research, Consultancy and Outreach Services. This will be achieved through a deliberately well planned, carefully and transparently executed investment in Human Resource, teaching and learning systems and well developed physical facilities for both learners and trainers. KEWI has developed Human Resources instruments that it is envisaged that will provide framework of Human Resources management.

Financial Results:

During the reporting period, KEWI experienced challenges majorly due to delayed disbursement of funds. The Institute received Ksh. 140,880,000 as Recurrent grants and Ksh. 25,737,750 in Development grants. Additionally, the Institute received Ksh. 3,654,700 and Ksh.6,593,980 to support the review of the Kenya Water Institute Act 2001 and training in Non Revenue Water which is a project supported by JICA respectively. The Institute generated Ksh. 149,528,369 as Appropriation in Aid (AiA) compared to the previous year where Ksh. 164,049,235 was generated. This translates into 9% decrease in AiA generation.

Future Outlook:

The challenges being experienced in the Water and Sanitation sector in the country, places KEWI at an advantaged position as far as playing a critical role in capacity development for the sector. The Government has focused on food security as one of the key development areas in its Big Four Agenda. Water being an enabler, irrigated agriculture is a key strategy for addressing persistent food shortages and enhancing disposable income for those involved in agricultural activities. This provides the Institute with a massive opportunity to be a critical player in Kenya's economic development. It is in this regard that KEWI is in the process of constructing a Water Resource Centre to act as hub of water knowledge in the region. In the same line the Institute sourced for funds to develop a school for Irrigation and Drainage Engineering in FY 2016/2017 which is ongoing to date. It is envisaged that the school will enhance training for irrigation practitioners for the country and the region. It is envisaged that completion of those two major infrastructural activities will enhance training and research activities in the sector and also create a platform for water knowledge sharing especially on modern techniques of irrigation.

Acknowledgement:

As we soldier on in our quest to fulfil the Institute's mandate of providing Training, Research, Consultancy and Outreach services to the Kenyan populace, my sincere gratitude goes to the Ministry of Water and Sanitation and to the Government of Kenya for the support that KEWI has received. I appeal to our development partners and other well-wishers to support KEWI in its endeavour to be a world class centre of excellence in training, research and consultancy in water, sanitation, irrigation and related sectors.



Col. Benjamin Muema
Chairman, Governing Council
Date: 28th September, 2018

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

V. REPORT OF THE DIRECTOR, KENYA WATER INSTITUTE

I present the Kenya Water Institute Annual Report and Financial Statements for the financial year ended 2017/2018. I am pleased to report that KEWI Management through planning and prudent utilisation of the available resources made a number of achievements. The institute also experienced a number of challenges occasioned by inadequate resources.

Financial Results:

The Institute during the year under review experienced a number of challenges majorly due to insufficient direct GoK budgetary allocations.

The Institute received Kshs.140,880,000 for recurrent budget, Kshs.25,737,750 for Development budget. Additionally, the Institute received Ksh. 3,654,700 and Ksh.6,593,980 to support the review of the Kenya Water Institute Act 2001 and training in Non Revenue Water in collaboration.

The Institute generated Ksh.149,528,369 as Appropriation in Aid (AiA) compared to the previous year where Ksh. 164,049,235 was generated. This translates into 9% decrease in AiA generation.

Future Outlook:

Over the years KEWI has been unable to sufficiently enhance its human resources capacity in terms of numbers, programmes and infrastructure in order to effectively fulfil its mandate of capacity building, training, research and consultancy in the water sector. This has been due to inadequate budgetary allocation from the National Treasury.

KEWI plans to initiate a number of projects, programmes and activities with an aim of diversifying her revenue streams so as to reduce the financing gap. As it had been anticipated that by the close of FY 2017/2018, KEWI would have completed the construction of the Water Resource Centre (WRC), this did not happen due to financial challenges, this in turn has affected the capacity of the institute to generate more AiA to support operation and maintenance.

Other programmes aimed at enhancing service delivery include the establishment of e-learning infrastructure, curriculum review and development, development of training and learning facilities in Kisumu, Kitui and Chiakariga campuses, and the initiation of programmes in other counties as stated in the KEWI's Strategic Plan 2016-2020.

It is envisaged that these projects and programmes will strengthen KEWI's revenue centres thus reducing her over reliance on the exchequer.

Acknowledgement:

I would like to thank the Government through the Ministry of Water and Sanitation for the continued financial support to KEWI. My heartfelt gratitude goes to the Cabinet Secretary, Ministry of Water and Sanitation and the Principal Secretary for their tireless support. I would like to thank the Governing Council for their leadership and direction. I appreciate the

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

contribution made by our development partners and other stakeholders in order to improve KEWI. To the management team, employees, students and guardians: I appreciate your cooperation and ideas, which have led to improved performance in service delivery during the year.

It is my sincere hope that you will all continue supporting KEWI in the coming years as she endeavours to deliver training, research, consultancy and outreach service in the water sector.



Leunita A. Sumba, PhD.
Director Kenya Water Institute
28th September, 2018

KENYA WATER INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

VI. CORPORATE GOVERNANCE STATEMENT

The Institute's governance, control and administration are vested in the Governing Council, whose members are nominated by the Cabinet Secretary in charge of water and is composed of Government representatives from key Ministries and independent members drawn from different but relevant professional fields. The Governing Council is responsible for ensuring that Kenya Water Institute embraces and upholds good corporate governance and practices. The Council is accountable to Government through the Ministry of Water and Sanitation and is responsible for ensuring that the Institute complies with the highest standards of corporate governance and business ethics. The activities in the Institute are conducted with integrity and in accordance with generally accepted corporate practice and principles.

The Governing Council was in place during the start of the reporting period. The Governing Council ensured that corporate governance and good business ethics were practised at all times during the reporting period. This enabled the Management to deliver on the Institute's strategic objectives and maintain effective control of the financial, operational and compliance issues.

Kenya Water Institute Act did not have the appointment of the Governing Council Members staggered to allow for proper succession but during the review of the Act that is ongoing that issue will be taken care off.

The Governing Council members who were in place partly during the reporting period did not earn a salary, except the chair who earned honoraria of Ksh. 80,000 per month. The other Council members only benefited from sitting allowances and out of pocket whenever they are on official duty out of station.

The appointment and removal of the Governing Council members is guided by the provision in the Kenya Water Institute Act 2001 Para 5.

The Governing Council has the following roles and functions:

Subject to the Kenya Water Institute Act 2001, the governance, control and administration of the Institute shall vest in the Council.

Without prejudice to the generality of subsection (1), the Council shall have power to-

- a. Formulate, with the approval of the Minister, policies pertaining to the Organization, management and implementation of the objects of the Institute;
- b. Administer the property and funds of the Institute in such manner and for such purposes as shall best promote the interests of the Institute: Provided that the Council shall not charge or dispose of the immovable Property of the Institute without the approval of the Minister;
- c. Receive, on behalf of the Institute, donations, endorsements, gifts, grants or other monies and to make legitimate disbursements there from;
- d. Borrow, generate and raise funds for the purposes of the Institute;
- e. Appoint suitable academic staff for the Institute upon such terms and Conditions as it may determine;

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

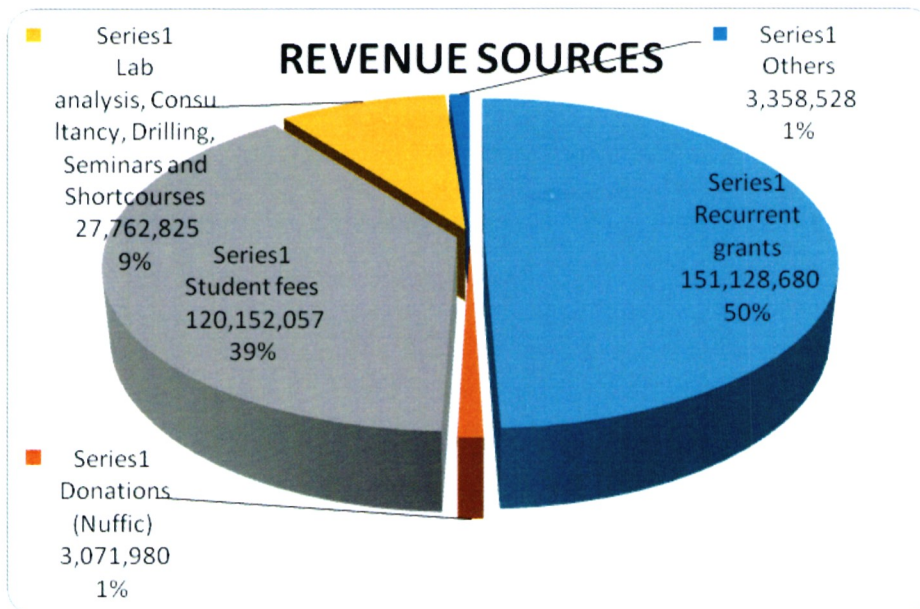
- f. Receive reports from the Director or any officer of the Institute in respect of financial and other circumstances of the Institute and to direct any action to be taken by the Director or any officer of the Institute; and
- g. Do or perform anything or any other act for the better carrying out of the purpose of this Act.

Induction and training - All the governing council members were inducted and members of the Audit and Risk committee of the Governing Council received training in Audit and Risk.

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

VII. MANAGEMENT DISCUSSION AND ANALYSIS

Traditionally, the Institute has relied on grants from the Government to support its activities. Recurrent grants contribute to 50% of the total revenue during the financial year 2017/2018. This is followed by fees from the students at 39%. The Management has taken cognizance of the fact that these two sources cannot sustain the operation of the Institution. The inflow of grants has continued to dwindle while the Institute has continued to expand both in terms of the students' intake and geographical coverage. Most of the students come from economically disadvantaged families hence increasing school fee to support them is not tenable. This has forced the Management to introduce pro-poor interventions to accommodate the students. Analysis of revenue by sources is given below



In order to deliver her mandate within the aforementioned macro-economic environment, the Management has embarked on programmes aimed at raising revenue through commercial engagements. This include up scaling the drilling services, constructing an ultra- modern complex for conference facilities , engaging the industry to tailor our programmes to their training needs and offering short courses. Management has embarked on grant writing to seek for alternative funding from the development partners.

This should reverse the worrying trend where the Institute financial performance has been on deficits.

The institute for the last 6years was undertaking consultancy and other vatable services yet it did not charge VAT since it was not registered as a VAT agent. This attracted a tax penalty of Kes 51 Million. The Management has disputed the amount and is engaging Kenya Revenue Authority (KRA) on how to clear the agreed amount.

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

KEWI defines Corporate Social Responsibility as the business strategy that defines the values underpinning the Institute's mission and the choices made each day by its staff as they engage with society. We believe in maximizing benefit of the resources bestowed to us, being accountable in whatever we do and responsive to stakeholders.

Our corporate social responsibility (CSR) encompasses the economic, environmental and social aspects of our business.

Under our economic view of CRS, we ensure costing of our products like charging college fee, drilling of boreholes and offering consultancy in the water sector is set at a point that does not exclude the under privileged. It will also be noted that KEWI takes sharing of water knowledge as a moral obligation as such creating an environment that allows wide spread of the same is key to its operations. This in essence has become the foundation of KEWI's programming which is rooted in corporate social responsibility principle.

Environment- KEWI being a training and research institution for the water sector, sustainable management of the water resource is the backbone of the institute, our training programmes on water resource management is specifically designed to enable the trainees acquire the knowledge of managing the water resources sustainably.

Our social aspect of CSR in KEWI places emphasis on Responsibility and Accountability. KEWI takes the issue of CSR seriously as evidenced in our daily dealings, for instance when an employee is dealing with customer(s) the Institution expects him/her to behave in an honest and ethical manner. In that regard the issue of corporate social responsibility is quickly moving from a "nice to have" to an "absolutely must have."

As KEWI's mandate is to offer training, research, consultancy and outreach service, most of our specific CRS activities revolve around the water and natural resources, as will be seen from some of the activities undertaken and mentioned below;

Every year the institute has always undertaken servicing of community boreholes in selected ASAL areas like Tharaka Nithi with an aim of working with communities on repairing key sources of their livelihood and at the same time transferring knowledge and or developing vital skills. KEWI also on annual basis participates in the Ndakaini and Sasumua marathon, cleaning of the rivers banks and the general surroundings in areas we operate. Most of these activities are made possible through partnerships and collaborations

KEWI has also a mentorship programme, this programme targets school going girls, with an aim of mentoring them to be responsible students. The key focus of the programme is on encouraging girls to take science subjects, this was informed by the hitherto stereotype believe of science subjects/ courses being a preserve of men.

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

IX. REPORT OF THE DIRECTORS

The Governing Council Members submit their report and the Financial Statements for the year ended 30th June 2018, which show the state of Institute's financial affairs.

1. Principal activities

The principal activities of the Institute are to provide quality Training, Research, Consultancy and Outreach Services.

2. Results

The results of the Institute for the year are set out on pages 1 to 2

3. Reserves

The movements in the Institute's reserves are as shown on page 3

Director/ Governing Council Members who served during the year and to the date of this report were:

S/No	Name	Organization	Appointment Date	Designation
1	Col. Benjamin Muema	Independent	Appointment Date - 22.1.2016	Chairperson
2	Prof. Wilson M. Ngecu	Professional bodies (Geological Society of Kenya)	Appointment Date - 20.2.2015	Member
3	Dr. Christopher Munyao Nyamai	University of Nairobi	Appointment Date - 20.2.2015	Member
4	Ms. Catherine A. Mwangi	Kenya Water for Health Organization (Independent)	Appointment Date - 20.2.2015	Member
5	Mr. David Kamene M'alaine	Bwathonaro Water Users Association (Independent)	Appointment Date - 20.2.2015	Member
7	Ms. Lesley Khayadi	Ministry of Devolution and Planning	Appointment Date - 20.2.2015	Alternate Member
8	Ms. Isabella Kogei	National Treasury	Appointment Date -	Alternate Member
9	Eng. Samuel O. Alima	Ministry of Water & Sanitation	Appointment Date - 20.2.2015	Member
10	Dr. Leunita A. Sumba	KEWI	Appointment Date - 20.2.2015	Secretary to the Governing Council

4. Auditors

The Auditor General, as amended by the new Constitution of Kenya, commenced audit of the Institute's accounting records in accordance with the Public Audit Act of 2003.

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

X. STATEMENT OF GOVERNING COUNCIL RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 13 of the Kenya Water Institute Act, 2001 require the Governing Council to prepare financial statements in respect of that Institute, which give a true and fair view of the state of affairs of the Institute at the end of the financial year and the operating results of the Institute for that year. The Governing Council are also required to ensure that the Institute keeps proper accounting records which disclose with reasonable accuracy the financial position of the Institute. The Governing Council are also responsible for safeguarding the assets of the Institute.

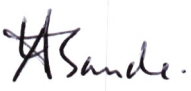
The Governing Council is responsible for the preparation and presentation of the Institute's financial statements, which give a true and fair view of the state of affairs of the Institute for and as at the end of the financial year ended on June 30, 2018. This responsibility includes: maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Institute; 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; safeguarding the assets of the Institute; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Governing Council accept responsibility for the Institute's 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 Kenya Water Institute Act, 2001. The Governing Council is of the opinion that the Institute's financial statements give a true and fair view of the state of Institute's transactions during the financial year ended June 30, 2018, and of the Institute's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Institute, which have been relied upon in the preparation of the Institute's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Institute 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 Institute's financial statements were approved by the Board on 28th September, 2018 and signed on its behalf by:


Col. Benjamin Muema
Chair, Governing Council
28th September, 2018

KENYA WATER INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA WATER INSTITUTE FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Water Institute set out on pages 1 to 31, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Water Institute as at 30 June, 2018, and of its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Water Institute Act, 2001 (revised 2012) and the State Corporations Act, Cap 446 of the laws of Kenya.

Basis for Qualified Opinion

1. Property, Plant and Equipment

The Institute's financial statements reflect property, plant and equipment with a net book value of Kshs.1,532,822,538, as disclosed in note 17A. Included in this figure is land with a book value of Kshs.1,044,642,000. This land further includes two (2) parcels which belong to the Institute, but for which management does not have ownership documents - the land at Nairobi South C has only an allotment letter, while the land on which the Institute's Kitui campus is located, has no documents to proof its ownership.

Further, the Management has not maintained a fixed assets register to indicate the cost/valuation, acquisition period, location and point of use, and safety of the fixed assets. Under the circumstances, it has not been possible to confirm the accuracy, ownership, custody, safety and completeness of property, plant and equipment balance of Kshs.1,532,822,538 as at 30 June 2018.

Report of the Auditor-General on the Financial Statements of Kenya Water Institute for the year ended 30 June 2018

2. Receivables from Exchange Transactions

The receivables from exchange transactions balance reflects Kshs.74,834,770 net of provision for bad and doubtful debt of Kshs.35,839,576, as disclosed in note 15A. This amount includes long outstanding debt of Kshs.41,921,539 which is aged over 90 days. Further, the amount includes student receivables amounting to Kshs.61,361,138 which is doubtful since some of the students left the Institute over four years back. In addition, although management has made a provision for bad and doubtful debts of 35%, the provision is inadequate since there is no evidence of recoveries made from the students who have since left the institution with debts. In the circumstances, it has not been possible to confirm the correctness and recoverability of the total receivables balance of Kshs.74,834,770 as at 30 June 2018.

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

Key Audit Matters

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

Other Matters

1. Development Funds

The Institute in its approved budget estimates for the 2017/18 had budgeted for Grants from the National Government for Development as Kshs.31,000,000, however the National Government only disbursed Kshs.25,000,000 resulting to a deficit of Kshs.6,000,000 which is 19.35% underfunding. Further, a review of the development expenditure showed that the institute utilized only Kshs.8,432,491 of the development budget resulting to an absorption rate of 33.7% of the funds received. The underfunding may have resulted to non-implementation of planned development activities, during the year under review.

2. Delayed Project

The Institute reported Kshs.190,008,974 as work in progress. Included in this amount is construction of classes at KEWI Chiakariga Campus. According to the contract document, the project contract sum was Kshs.19,903,802. The works commenced on 27 September 2017 with a completion period of 42 weeks. An audit inspection of the site in February 2019 revealed that the project had not been completed seven (7) months after the expected completion date. Under the circumstance, project may not achieve the desired outcomes on time and may lead to project cost overrun.

3. Un Economical Drilling Activities

The financial statements reflect drilling revenue of Kshs.3,675,996, as disclosed in note 5. However, the related expenses as disclosed in note 13 was Kshs.6,427,348 resulting to a loss of Kshs.2,751,352, on the drilling activities. Although, according to management the related revenue was not recognized in the financial statements since completion certificate for the work performed had not been granted, there were no supporting documents to ascertain the viability of the drilling activity.

4. Understaffing

A preliminary review of the Institute's human resources records availed for audit revealed existence of possible under staffing in various cadres totaling to approximately 233 vacancies. With such understaffing, the institute may not effectively achieve its objectives, and management has not demonstrated the measures they are taking to address the current situation.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for conclusion

1. Non- Remittance of P.A.Y.E Tax Withheld

The Institute made payment of allowances to members of the Governing Council totaling Kshs.8,047,245. However, by the time of concluding this report the related P.A.Y.E of Kshs.1,146,000 had not been remitted to the income tax Department as required by the law. The non-compliance may result in penalties, hence loss of funds.

2. Direct Procurement of Goods and Services

The Institute issued temporary Imprest to staff for purchase of items on cash basis totaling to Kshs.3,117,291. However, the ceiling of Kshs.30,000 for such direct cash purchases was not observed as required by the Public Procurement and Asset Disposal regulations. In addition, the related surrender documents for the imprest did not include Electronic Tax Receipts (ETR) and inspection and acceptance report. In view of the foregoing it was not possible to determine whether the institute received value for money from the above cash purchases.

3. Outstanding Imprest

The financial statements reflect receivables from non-exchange transaction amounting to Kshs.36,790,019, as disclosed in note 15 B. These receivables, which relate to outstanding imprest for staff include Kshs.29,714,449 which has been outstanding for periods of over 90 days against the requirements of section 92(5) of the Public Finance Management Act, 2015, which requires a holder of a temporary imprest to surrender the imprest within 7 working days after returning to duty station.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

Responsibilities of Management and those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report which includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions which may cast significant doubt on the Institute'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 Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Institute to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and

other matters which may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

13 June 2019

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

II. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

	Note	2017/2018	2016/2017
		Kshs	Kshs
Revenue from non-exchange transactions			
Government grants & Other Donations	7	152,606,680	149,283,162
		152,606,680	149,283,162
Revenue from exchange transactions			
Rendering of services	8	146,169,841	163,079,881
Rental revenue from facilities and equipment	9	2,960,589	776,450
Other income	10	397,939	192,904
		149,528,369	164,049,235
Total revenue		302,135,049	313,332,397
Expenses			
Employee costs	11	172,361,571	164,289,439
Remuneration of Governing Council	12	9,193,245	12,840,153
Depreciation and amortization expense	13	26,533,024	27,641,817
Repairs and maintenance	14	7,884,758	14,072,466
Contracted services	15	4,453,360	4,113,081
General expenses	16	104,742,671	142,816,736
Total expenses		325,168,629	365,773,693
Surplus(Deficit) for the Year		- 23,033,580	- 52,441,295


The notes set out on pages 6 to 20 form an integral part of these Financial Statements

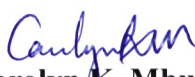
KENYA WATER INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018


III. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	2017-2018	2016-2017
Assets			
Current assets			
Cash and cash equivalents	17	22,242,914	34,031,793
Receivables from exchange transactions	18A	74,834,770	66,980,679
Receivables from Non- exchange transactions	18B	36,790,019	17,685,000
Inventories	19	5,072,663	4,477,995
Total Current Assets		138,940,366	123,314,052
Non-current assets			
Property, plant and equipment	20A	1,532,822,538	1,559,220,216
Work In Progress	21	190,008,974	181,711,828
Total Non- Current Assets		1,722,831,511	1,740,932,044
Total assets		1,861,771,877	1,864,246,095
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	22	49,815,360	66,532,237
Refundable deposits from students	23	2,454,685	5,007,000
Provisions for Audit fees		580,000	580,000
Deferred income	24	21,344,326	7,114,938
Total liabilities		74,194,371	79,234,175
Net assets			
Capital Reserves		144,184,894	144,184,894
Revaluation Reserves		1,393,516,687	1,393,516,687
Revenue Reserves		171,595,561	194,767,726
Capital Fund		78,280,364	52,542,614
Total net assets		1,787,577,506	1,785,011,920
Total net assets and liabilities		1,861,771,877	1,864,246,095

The Financial Statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:


Leunita A. Sumba (PhD).
25th September, 2018
Director


Carolyn K. Mburugu
ICPAK Member Number: 17443
25th September, 2018
Accountant


for Col. Benjamin Muema
25th September, 2018
Chair, Governing Council

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

IV. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2018

	Capital Reserves Kshs '000	Capital Fund Kshs '000	Revaluation Reserves Kshs '000	Revenue Reserves Kshs '000	Total Kshs '000
Balance as at 1st July 2016	144,184,894	-	1,393,516,687	247,554,021	1,785,255,602
Addition for the period	-	52,542,614	-	-	52,542,614
Adjustment for 2015/2016 rent Surplus/(deficit) for the period	-	-	-	(345,000)	(345,000)
Transfers to/from accumulated surplus	-	-	-	(52,579,880)	(52,579,880)
Balance as at 30 June 2017	144,184,894	52,542,614	1,393,516,687	194,629,141	1,784,873,336
Addition for the period	-	25,737,750	-	-	25,737,750
Surplus/(deficit) for the period	-	-	-	(23,033,580)	(23,033,580)
Transfers to/from accumulated surplus	-	-	-	-	-
Balance as at 30 June 2018	144,184,894	78,280,364	1,393,516,687	171,595,561	1,787,577,506

The first Kenya Water Institute audited accounts for the FY 2003/2004 shows that the original valuation of Kenya Water Institute Property, Plant and Equipment to the tune of Kshs. 141,627,439 was carried out by a valuation firm in the year 2000 and Kshs. 125,578,337 valuations by an inter-ministerial technical committee on transition of Kenya Water Institute to a Semi-Autonomous Government Agency. These valuations have been used to come up with the reported capital reserves of Ksh.144, 184,894.

KENYA WATER INSTITUTE
 ANNUAL REPORT AND FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2018

V. STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2017/18 Shs	2016/17 Shs
Cash flow from Operating Activities before changes in working capital			
Net profit/(Loss) for the year		- 23,033,580	- 52,441,295
Adjustment for Depreciation	13	26,533,024	27,641,817
Adjustment for FY 2015/2016 rent		-	- 345,000
		3,499,444	- 25,144,478
Changes in working capital			
Increase in Receivables	18	- 26,959,110	- 25,068,009
Increase in Inventories	19	- 594,668	- 2,873,569
Increase in Payables	22/23/24	- 5,039,804	26,701,489
Net Cash flow generated from operating activities		-29,094,138	-26,384,567
Cash flow from Investing Activities			
Acquisition of Property, Plant and Equipment & WIP	20	- 8,432,491	- 1,706,814
Net Cash flow from Investing Activities		- 8,432,491	- 1,706,814
Cash flow from Financing Activities			
GOK Development Grants	25	25,737,750	52,542,614
Net Cash flow from financing activities		25,737,750	52,542,614
Net Decrease in Cash and Cash equivalents		- 11,788,879	24,451,233
Cash and cash equivalents at the start of year		34,031,793	9,580,561
Cash and cash equivalents at end of year		22,242,914	34,031,794

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

VI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR 2017/2018

	Note	Budget	Actual	Variance	Explanation of material variances
		Shs	30/06/2018	Shs	
Revenue					
Government grants and Other Donations	4	178,397,597	152,606,680	- 25,790,917	a) -17%
Rendering of services	5	293,856,250	146,169,841	- 147,686,409	b) -101%
Rental revenue from facilities and equipment	6	2,500,000	2,960,589	460,589	c) 16%
Other income	7	6,271,553	397,939	- 5,873,614	d) -1476%
Total income		481,025,400	302,135,049	- 178,890,351	-59%
Expenses					
Compensation of employees	8	207,000,000	172,361,571	34,638,429	e) 20%
Remuneration of Governing Council	9	23,255,400	9,193,245	14,062,155	f) 153%
Rent paid	13	3,600,000	2,701,498	898,502	g) 33%
Repairs and maintenance	11	12,700,000	7,884,758	4,815,242	h) 61%
Contracted services	12	4,800,000	4,453,360	346,640	8%
General expenses	13	168,770,000	104,641,022	64,128,978	i) 61%
Non-Cash Expenses					
Bad Debts	13	-	- 2,599,849		
Depreciation & Amortization	10	-	26,533,024		
Total expenditure		420,125,400	325,168,629	94,956,771	23%
Surplus for the period		60,900,000	- 23,033,580		
Explanation of material variance					
a) The variance is as a result of low revenue generation from donors.					
b) The variance is attributed to decline in revenue from accommodation, short courses and drilling. This is as a result of decreased activity in the revenue streams.					
c) The variance is due to increase in demand of the Institute's facilities.					
d) The other income is miscellaneous in nature. During the period, such activities were minimal, hence the negative variance.					
e) The variance is due to reinforcement of austerity measures as a result of cash flow challenges.					
f) The variance in Governing Council remuneration is as a result of expiry of Governing Council members' term of service in February 2018.					
g) The variance is due to reinforcement of austerity measures as a result of cash flow challenges.					
h) The variance is due to reinforcement of austerity measures as a result of cash flow challenges.					
i) The variance is due to reinforcement of austerity measures as a result of cash flow challenges.					

KENYA WATER INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

VII. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Kenya Water Institute (KEWI) was established by and derives its authority and accountability from Kenya Water Institute Act No. 11, 2001. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The Institutes' principal activity is to provide directly or in collaboration with other institutions of higher learning services in human resource development, consultancy, research and development, training programmes, seminars and workshops in the water sector on a commercial basis and to conduct examinations and award diplomas, certificates and other awards to successful candidates.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The KEWI financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity and all values are rounded to the nearest Shilling (Ksh). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost modified to include the revaluation of certain classes of assets and estimation of extra useful life of the fully depreciated assets unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

3. ADOPTION OF NEW AND REVISED STANDARDS

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

Standard	Impact
IPSAS 33: First time adoption of Accrual Basis IPSAS	Kenya Water Institute adopted International Public Sector Accounting Standards in the year ended 30 th June 2014 and therefore provisions of first time adoption of accrual basis does not apply to the Institute.
IPSAS 34: Separate Financial Statements	Kenya Water Institute does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.
IPSAS 35: Consolidated Financial Statements	Kenya Water Institute does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

Standard	Impact
IPSAS Investments Associates Joint Ventures	36: Kenya Water Institute does not have investments in associates or joint ventures. and
IPSAS 37: Joint Arrangements	Kenya Water Institute does not have an interest in a joint arrangement and therefore the standard does not apply.
IPSAS Disclosure Interests in Other Entities	38: Kenya Water Institute does not have any interests in other entities and therefore the standard does not apply.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue from exchange transactions

Rendering of services - fees represent invoiced value of services rendered during the year in relation to training, consultancy and miscellaneous revenue taking care of the deferred income. However, this revenue is recognized on accrual bases.

Other Income – This constitutes miscellaneous, sale of tender and surcharges. These are revenues that do not recur and are not earned from the Institute’s core activities. They are recognized when earned.

Rental revenue from facilities and equipment –This is revenue earned from hiring out conference halls, grounds and rental income from staff houses. This revenue is recognized when earned.

KENYA WATER INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

Inter-Entity Transfers

Entity	Disbursement	Development	Recurrent	Date
Ministry of Water & Sanitation	11,740,000	-	11,740,000	8/9/2017
Ministry of Water & Sanitation	11,740,000	-	11,740,000	9/7/2017
Ministry of Water & Sanitation	11,740,000	-	11,740,000	10/11/2017
Ministry of Water & Sanitation	7,750,000	7,750,000	-	10/19/2017
Ministry of Water & Sanitation	2,000,000	-	2,000,000	10/19/2017
Ministry of Water & Sanitation	11,740,000	-	11,740,000	11/6/2017
Ministry of Water & Sanitation	11,740,000	-	11,740,000	12/7/2017
Ministry of Water & Sanitation	11,740,000	-	11,740,000	12/29/2017
Ministry of Water & Sanitation	11,740,000	-	11,740,000	2/2/2018
Ministry of Water & Sanitation	11,740,000	-	11,740,000	3/9/2018
Ministry of Water & Sanitation	7,750,000	7,750,000	-	4/4/2018
Ministry of Water & Sanitation	11,740,000	-	11,740,000	4/4/2018
Ministry of Water & Sanitation	11,740,000	-	11,740,000	4/5/2018
Ministry of Water & Sanitation	7,750,000	7,750,000	-	4/9/2018
Ministry of Water & Sanitation	5,000,000	-	5,000,000	4/9/2018
Ministry of Water & Sanitation	1,654,700	-	1,654,700	4/11/2018
Ministry of Water & Sanitation	11,740,000	-	11,740,000	6/22/2018
Ministry of Water & Sanitation	11,740,000	-	11,740,000	6/22/2018
Ministry of Water & Sanitation	2,487,750	2,487,750	-	6/30/2018
Total	175,272,450	25,737,750	149,534,700	

Recurrent grants have been recognized as income while development grants recognized as a capital fund.

b) Budget information

The original budget for FY 2017-2018 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. Accordingly, the Institute recorded additional appropriations of Ksh. 90 Million to the FY 2017-2018 budget following the governing body's approval. Additionally, the Institute received Ksh. 10 Million from the Parent Ministry to support the review of the KEWI Act and training on Non-Revenue Water in collaboration with JICA.

The Institute'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

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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 on page 5 of these financial statements.

c) Revenue from exchange transactions

These are revenues received from non- arms- length transactions. They include recurrent grants from the Government, as well as, donations from development partners. These are recognized when received.

d) Employee Benefit

The Institute has sponsored a defined contribution pension scheme for permanent staff whereby it contributes 15% while the employees contribute 7.5% of the basic salary. For employees on contract, the Institute pays gratuity at the expiry of the contract, which is calculated at the rate of 31% of the basic salary. The Institute has a medical cover for all permanent employees.

e) Property, Plant and Equipment

Kenya Water Institute property, plant and equipment are stated at cost less accumulated depreciation and amortization losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statement of financial performance as and when 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.

.Depreciation and amortization is calculated on a straight-line basis at annual rates estimated to write off carrying values of the assets over their expected useful lives at the rates below:

Buildings	2.00%
Plant and Equipment	12.50%
Furniture	10.00%
Motor Vehicles	20.00%
Computers	30.00%
Software	20.00%

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, The Institutes Bank account balances include amounts held at the Kenya Commercial Bank at the end of the financial year 2017/2018

e) Research and development costs

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

- Its intention to complete and its ability to use the asset
- How the asset will generate future economic benefits or service potential

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 statement of financial performance.

f) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost comprises expenditure incurred in the normal course of business, including direct material costs on a weighted average basis. Net realizable value is the price at which the stock can be realized in the normal course of business after allowing for the costs of the realization and, where appropriate, the cost of conversion from its existing state to a realizable condition. Provision is made for obsolete, slow moving and defective stocks as and when determined.

g) Receivables

These are comprised of; receivables from exchange transactions, that is, trade receivables, student receivables and prepayments; and receivables from non exchange transactions - staff receivables. The receivables are aged into; 1-30, 31-60, 61-90 and > 90 days. They are recognized when earned and accounted for, net of provision for bad and doubtful debts.

h) Bad and doubtful debts

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success. The institute's policy on provision for bad debts is 15%, 20%, 25% and 35% for debts aged, 1-30, 31-60, 61-90 and > 90 days respectively.

i) Deferred Income

The Institute defers incomes that have been received but not yet earned; this applies to tuition fees and accommodation charges to long term course students.

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

j) Refundable Deposits from Students

This constitutes the amounts held by the Institute on behalf of students in the form of medical funds and caution money. The students are allowed to access the medical funds, to a limit of the amount contributed per semester, only if they fall sick. These deposits are refundable on completion of the course.

k) Subsequent events

The Institute is committed to making disclosures for any significant changes that occur after the closure of the financial period, that are likely to influence decision making.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

- a) The Government will continue support the Institute's budgetary requirement that will be demanded by the entire water sector.
- b) The macroeconomic environment will be conducive for the Institute to continue discharging her mandate.
- c) The Kenya Water Institute legislation that is proposed will be enacted and will include training levy fee in the water sector.
- d) There shall be a continued demand for Kenya Water Courses and programs in the water sector.

6. RELATED PARTIES

The institute is wholly owned and controlled by the government. Hence, no subsidiaries and directors do not have shares.

Details of other related parties are as follows;

a) National Government

The institute is under the Ministry of Water and sanitation and grants of Ksh. 175,272,450 were received; recurrent grant of Ksh. 149,534,700 and development grant of Ksh. 25,737,750. Besides, the Ministry sponsor their technical staff to be trained in the Institute.

b) County Governments

The institute actively trains the technical staff of water companies from the County Governments. In addition, the counties sponsor students on long term courses.

KENYA WATER INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

Kenya Water Institute offers consultancy and outreach programmes to the same institutions mentioned above, the main client being the Nairobi City Water and Sewerage Company, Taita Taveta and Turkana County Governments.

c) Governing Council

This is the body entrusted with the overall management of the institute. The members do not earn a salary except the chair who earns honoraria of Ksh. 80,000 per month. The other council members only benefit from sitting and other applicable allowances.

	2017/2018 Ksh	2016/2017 Ksh
Remuneration of Governing Council	9,193,245	12,840,153

d) Senior Management

Out of the employees cost of Ksh. 172,424,280 the 6 senior management members get a share of 11.42%.

	2017-2018 Shs	2016-2017 Shs
7. Revenue from non exchange transactions		
Recurrent Grants (Ministry of Water & Irrigation)	149,534,700	143,880,000
Other Donations (Kitui CDF in Kitui County & NUFFIC)	3,071,980	5,403,162
Total	152,606,680	149,283,162
8. Rendering of services		
Tuition fees - Students	75,127,880	73,452,275
Registration fees-500004	586,300	462,600
ID Card	588,800	462,900
Examination Fee-500007	8,488,810	7,491,330
Accomodation-500001	28,768,286	31,529,430
Kitchen Cash Sales	509,590	673,850
Graduation fees	824,000	802,000
Student Refers	981,700	839,750
Students lunch fee	85,450	198,250
Lab analysis	1,688,193	1,096,950
Consultancy fee	11,710,640	2,075,070
Application fee	824,000	969,350
Seminars and Workshops	2,102,254	2,857,774
Short Courses	8,585,742	11,281,896
Drilling Revenue	3,675,996	28,882,456
Activity fee	1,616,200	4,000
KUCCPS Processing Fee	6,000	-
Total	146,169,841	163,079,881

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

9. Rental revenue from facilities and equipment

Hire of Conference Facilities	2,960,589	776,450
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10. Other Revenues

Miscellaneous Income	296,576	159,234
Sale of Tender Documents	10,000	8,000
Library fines and Staff Surcharges	90,720	25,670
Cheque Clearance fee	644	-
Total	397,939	192,904

11. Employee costs

Salaries & Wages	160,594,980	150,828,055
Pension & Gratuity	11,766,591	13,461,384
Total	172,361,571	164,289,439

12. Remuneration of Governing Council

Chairman's Honoraria	960,000	960,000
Other allowances	8,233,245	11,880,153
Total Governing Council Emoluments	9,193,245	12,840,153

13. Depreciation and amortization expense

Property, plant and equipment	26,533,024	27,641,817
Intangible assets	-	-
Total depreciation and amortization	26,533,024	27,641,817

14. Repairs and maintenance

Maintenance of Motor vehicles	2,270,849	3,107,181
Maintenance of computers	1,110,950	1,137,186
Maintenance of buildings & stations	2,517,171	8,788,112
Maintenance of office furniture	377,950	30,000
Maintenance of Plant & machinery	1,607,838	1,009,987
Refurbishment of buildings	-	-
Total	7,884,758	14,072,466

15. Contracted services

Contracted Guards	4,403,860	4,113,081
Contracted Technical Services	49,500	-
Total	4,453,360	4,113,081

16. General expenses

Electricity	6,039,548	6,319,176
Water & Connections	1,632,997	2,258,187
Gas Expenses	2,489,550	1,877,395
Telephone Expenses	1,375,896	1,121,819
Internet Connections	4,014,698	4,216,041
Postal & Courier	58,220	64,835
Travel Costs-Domestic	28,000	464,423

KENYA WATER INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

Accommodation-Domestic	123,802	422,872
Daily Subsistence-Domestic	13,732,624	11,015,064
Travel Costs(Airlines)-Foreign	276,098	364,893
Accommodation-Foreign	426,742	-
Daily Subsistence Allowance- Foreign	2,087,740	1,019,624
Publishing & Printing	1,879,916	800,630
Subscription to Newspapers	386,400	90,740
Advertising	514,297	1,815,166
Trade Shows	12,800	646,928
Payment of Rent & Rates	2,701,498	2,400,000
Training Expenses	746,934	137,810
Graduation Expenses	1,324,600	1,010,319
Catering Expense	5,148,225	2,959,512
Group Personal Insurance	822,007	666,803
Plant, Equipment & Machinery Insurance	720,602	1,576,367
Motor Vehicle Insurance	993,221	1,715,280
Medical Insurance	4,919,620	11,770,660
Fungicides	664,534	385,136
Purchase of Workshop Tools	181,450	528,765
Lab Materials & Supplies	2,223,381	688,275
Education & Library Supplies	222,500	128,100
Food & Rations	23,495,548	24,326,742
Purchase of Staff Uniforms	393,938	182,253
Purchase of Beddings	-	40,000
General Office Supplies	4,042,731	4,264,825
Supplies & Accessories	145,855	317,829
Sanitary & Cleaning Materials	2,290,286	1,791,547
Refined Fuels - transport	3,465,693	2,440,685
Other fuels	133,500	42,700
Bank Charges	635,442	482,316
Membership Fees, Dues	393,400	629,745
KETISA	2,478,949	1,352,855
NUFFIC Expenses	474,479	4,415,429
Legal Fees	2,965,502	3,870,000
Audit Fees	580,000	650,000
Bad Debts	- 2,599,849	14,762,225
Research Expenses	1,584,158	454,704
Pre-Feasibility	1,989,808	8,867,345
Capacity Building	-	63,450
Drilling Expense	6,427,348	17,397,267
Agricultural expenses	85,400	-
Foreign exchange loss	12,584	-
Total	104,742,671	142,816,736
17. Cash and cash equivalents		
Account with Kenya Commercial Bank-current	10,529,505	13,712,028
Account with Kenya Commercial Bank-savings	118	118

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

Account with Kenya Commercial Bank -guarantee	-	551,242
Account with Kenya Commercial Bank -Project Account	11,710,016	19,578,231
Cash in Hand	3,275	190,174
Total	22,242,914	34,031,793
18A. Receivables from exchange transactions		
Trade Receivables	109,702,616	97,981,040
Less: Prov. For bad debts	- 35,839,576	- 31,254,126
Net Receivables	73,863,041	66,726,914
Prepayments	971,729	392,350
Total	74,834,770	67,119,264
18B. Receivables from Non- exchange transactions		
Staff Receivables	36,790,019	24,870,299
Less: Prov. For bad debts	-	- 7,185,299
Net Receivables	36,790,019	17,685,000
19. Inventories		
Main Campus	3,007,452	2,674,642
Chiakariga Campus	1,805,085	1,708,490
Kitui Campus	260,126	94,863
Total	5,072,663	4,477,995

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

20A. Property, plant and equipment Cost	Land	Buildings	Motor vehicles	Furniture and fittings	Plant and Equipment	Computers	Total
	Shs	Shs	Shs	Shs	Shs	Shs	Shs
At 1st July 2016	1,044,642,000	485,738,475	23,700,000	9,575,397	82,854,946	12,155,879	1,658,666,697
Additions	-	1,562,614	-	-	144,200	-	1,706,814
Disposals	-	-	-	-	-	-	-
At 30th June 2017	1,044,642,000	487,301,089	23,700,000	9,575,397	82,999,146	12,155,879	1,660,373,511
Additions	-	-	-	-	135,345	-	135,345
Disposals	-	-	-	-	-	-	-
At 30th June 2018	1,044,642,000	487,301,089	23,700,000	9,575,397	83,134,491	12,155,879	1,660,508,856
Depreciation							
At 1st July 2016	-	29,144,309	11,820,000	2,776,679	20,332,505	9,437,985	73,511,478
Depreciation	-	9,746,022	4,740,000	957,540	10,374,893	1,823,362	27,641,816
On Disposals	-	-	-	-	-	-	-
At 30th June 2017	-	38,890,331	16,560,000	3,734,219	30,707,398	11,261,346	101,153,295
Depreciation-Charge for the year	-	9,746,022	4,740,000	957,540	10,391,811	697,651	26,533,024
At 30th June 2018	-	48,636,353	21,300,000	4,691,759	41,099,210	11,958,997	127,686,318
Net book values							
At 30 June 2018	1,044,642,000	438,664,736	2,400,000	4,883,638	42,035,281	196,882	1,532,822,538
At 30 June 2017	1,044,642,000	448,410,758	7,140,000	5,841,178	52,291,748	894,533	1,559,220,217
Rates	Nil	2%	20%	10%	12.50%	30.00%	

NB: The computation of the depreciation charge for the computers for the financial year 2017/2018 is as per the following schedule since some of the computers had fully depreciated.

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

	13/14	14/15	15/16	16/17	17/18
Computer Cost					
Revalued Amount/Cost	4,623,510	9,117,010	10,187,060	12,155,879	12,155,879
Additions during the year	4,493,500	1,070,050	1,968,819	-	-
Total cost	9,117,010	10,187,060	12,155,879	12,155,879	12,155,879

Computation of the Depreciation charge for Computers at 30%

Year of Depreciation	13/14	14/15	15/16	16/17	17/18	Total
Year of Acquisition						
13/14	2,735,103	-	-	-	-	2,735,103
14/15	2,735,103	321,015	-	-	-	3,056,118
15/16	2,735,103	321,015	590,646	-	-	3,646,764
16/17	911,701	321,015	590,646	-	-	1,823,362
17/18	-	107,005	590,646	-	-	697,651
Total	9,117,010	1,070,050	1,771,937	-	-	11,958,997

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

20B. INTANGIBLE ASSETS

Kshs

Cost

At beginning July 2016	9,276,740
Additions	-
At end of June 2017	9,276,740
At beginning July 2017	9,276,740
Additions	-
At end of June 2018	9,276,740
Amortization	
At beginning of July 2016	9,276,740
Amortization	-
At end of June 2017	9,276,740
At beginning of July 2017	9,276,740
Amortization	-
At end of June 2018	9,276,740
Net Book Value	-
Rate	20%

21. WIP

Relates to Water Resource Centre, Mechanical Production Unit
& Kitui Fencing

WIP b/f	181,711,828	181,711,828
Additional WIP for the year	8,297,146	-
	190,008,974	181,711,828

22. Trade and other payables from exchange transactions

Staff Payables	-	6,592,487
Student Payables	2,893,314	7,390,784
Trade Payables	34,300,557	39,927,477
Retention Fee	12,621,490	12,621,490
Total	49,815,360	66,532,239

23. Refundable Deposits from Students

Caution Money	926,840	1,734,000
Medical funds	1,527,845	3,273,000
Welfare funds	-	-
Total	2,454,685	5,007,000

24. Deferred Income

Tuition fee	14,940,860	4,917,590
Accommodation fee	6,403,466	2,197,348
Total	21,344,326	7,114,938

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

25. Capital Fund

GOK Development Grants	25,737,750.00	51,000,000
Kitui CDF Donation-Building	-	1,542,614
	25,737,750.00	52,542,614

26. Prepayments

VENDOR NAME	CONTRACT PERIOD	VALUE	REMARKS	PREPAYMENT AS AT 30/6/18	Expense for the year
Pioneer General Insurance Limited	12.02.18 to 13.2.2019	993,221	Motor Vehicle Insurance	579,379	413,842
Skillman Construction Ltd.	N/A	392,350	Retention fee	392,350	-
TOTAL				971,729	413,842

27. The Construction Work in Progress of Ksh. 190,008,974 is in respect of Water Resource Centre, Mechanical Production Unit, Kitui Campus Fencing and Construction of an Irrigation and Drainage Engineering block and a Gate at KEWI Chiakariga Campus.

28. Board Expenses

Board expenses comprise of sitting allowance, Board Travel Expenses and Chairman's Honoraria

29. Refundable Deposits from students

This constitutes the amounts held by the Institute in form of students' medical funds and caution money.

30. Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year

31. Capital commitments

Capital commitments this financial year are in respect of the following approved projects:

Commitments**Kshs**

a) Construction of Water Resource Centre	27,000,000
b) Geo-Information Centre	4,000,000

Total **31,000,000**

32. Currency

The Institute financial statements have been presented in Kenya shillings (Kshs)

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

33. Taxation:

The Institute's major source of income comprises of government grants. In addition, the Institute is a non-commercial entity, thus, exempt from paying corporation taxes. However, the Institute is a withholding agent for VAT, Withholding income tax and PAYE.

34. Government Grants:

The government grants are recognized when realized and spread throughout the financial year. Recurrent grants constitute 50% of the Institute's revenue.

35. Leave Pay:

The leave allowances are recognized when the employees take the leave. There exist no material outstanding leave allowances to warrant alternative treatment.

36. Contingent liabilities:

The former Director Eng. Mwalimu Musau has taken the Institute to court claiming damages of approximately Ksh. 39 Million for alleged wrongful termination of employment. The case is pending determination in High court of Kenya.

The following former Kenya Water Institute employees for over 5 years, who were employed on casual basis have sued the Institute for not being employed on permanent and pensionable basis; Mr. Paul Ngei Mulevu – Ksh. 380,398.40, Mr. Nobert Marete Nguku – Ksh. 550,722.00, Mr. Nicholas Nguli Mulatya – Ksh. 781,893.00 and Mr. Joseph Kithisya Mbithi – Ksh. 1,345,768.00. Ms. Rose Ngii Mwanza has also sued the Institute for wrongful dismissal – Ksh. 818,735.00.

Kenya Revenue Authority audited the Institute for the period July 2011 to June 2016 and assessed an amount of Ksh. 51M – claimed to be outstanding tax. However, the Institute raised an objection which is yet to be settled.

37. Composition, Nature, and Purpose of Reserves:

The reserves comprise of accumulated revenue and capital reserves as set out in the Statement of changes in the Owners' Funds.

38. RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial Risk Management

The Institute is exposed to various risks in course of executing its mandate which include liquidity risk, credit risk and market risk. The Institute's risk policy focuses on mitigating the adverse effects in the event that the said risks crystallises. The Governing Council through the Audit and Risk Committee gives policy direction on the overall risk management and sets the risk appetite levels. The

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

Management is responsible for assessing and profiling the various risks, their treatment and overall risk Management.

1. MARKET RISKS

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates, prices and interest rates. The objective of market risk management policy is to protect and enhance the Statements of Financial Position and performance by managing and controlling market risk exposures within acceptable parameters.

The Institute is exposed to the following market risks: -

(a) Foreign exchange risk

Most of the carrying amounts of the Institute currency is denominated in local currency, Kenya Shillings. Thus changes in the Kenya Shilling, any appreciation or depreciation against the other currencies will have no direct impact on the Institute's reporting. During the financial year 2017/2018, the foreign exchange loss was insignificant

	2017/2018	2016/2017
Foreign exchange loss	12,584	-

(b) Interest rate risk

The Institute's financial condition may be adversely affected as a result of changes in interest rate levels. The interest rate risk is minimal as the Institute does not have any borrowings. Equally, the Institute does not hold investment that would be subject to interest rate risk; hence this risk does not apply.

(c) Liquidity risk

Liquidity risk is current or prospective risk that the Institute is unable to meet its short term obligation and long-term maturing obligations when they fall due. The Institute's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed operations, without incurring unacceptable losses. The Institute has a list of all liabilities and assets in maturity date order.

The analysis below shows the financial liabilities that will be settled on the remaining maturity date as of the financial statements date to the contractual maturity date.

KENYA WATER INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

As at 30/06/2018	Less than 1 year
Liabilities	
Trade and other payables	<u>Ksh.52, 850,045</u>
Total financial liabilities	<u>Ksh.49, 815,360</u>
As at 30/06/2017	
Liabilities	
Trade and other payables	<u>Ksh.72, 119,237</u>
Total financial liabilities	<u>Ksh.72, 119,237</u>

To mitigate liquidity risks

- i. The Institute has ensured that all government grants are timely disbursed
- ii. There is a good working capital management where all payables are known and planned for save for the real emergency once which is rare. This is managed through innovative entering into contracts that are negotiated to be paid 30 days after delivery or completion of the assignment
- iii. For all trainings and consultancies, the customer pays deposits of 50% before the commencement of the assignment, while students pay their two thirds of their fees before admission
- iv. There is a follow of revenue from trade debtors to ensure they honor their obligations
- v. There fidelity guarantee of officers handling cash and insurance of cash in the office and in transit, and reduction of payment in cash

The table below shows cash flows on the Institute's current assets and liabilities

	Notes	2017/2018	2016/2017
Total current Assets	14, 15, 16	138,940,366	123,314,052
Total current liabilities	19, 20, 21	68,794,371	79,234,175
Net current assets		70,145,995	44,079,877
Liquidity ratio (current ratio)		1.87	1.56

(d) Credit Risk

Credit risk is the risk of financial loss to the Institute when customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the operations and that a counterparty will be unable to pay amounts in full when due. There is an implied credit rating when dealing with various customers based on the amount and previous experience.

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

The Institute manages, limits and controls concentration of credit risks periodically against internal and regulatory requirements with respect to individual parties

- i. Salary advance and salary in advance to staff have been serviced and are kept low
- ii. All amount due from the government grants was received
- iii. Donors and development partners disbursed their donations
- iv. No collateral is held for any of the Institute's assets

The Institute establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables by providing for bad and doubtful debts.

The figure of trade receivables which is not aged or impaired;

	2017/2018	2016/2017
Trade receivables	109,702,616	97,981,040

To mitigate credit risk

The Management is responsible for oversight of the Institute's credit risk through

- i. For exchange transactions, customers make a deposit before drilling work is commenced
- ii. Establishing approval to granting credit to customers

2. OPERATIONAL RISKS

Operational risk is the risk of direct or indirect losses arising from a wide variety of causes associated with the Institute's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risk arising from legal and statutory requirement. The Institute seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks. The Management has the overall responsibility of ensuring compliance to operational risk policies and procedures.

a. Compliance and regulatory risk

Compliance and regulatory risk include the risk of non-compliance with regulatory requirements.

The Institute has complied with all externally imposed requirements throughout the year.

b. Legal risks

The likelihood of the potential loss arising from the uncertainty of legal proceedings, including reputational loss, arising from defective transactions or contracts, claims being made or some other event resulting in a liability or the loss for the Institute. A court case of the former Director on alleged unfair termination is ongoing, where the claimant is pleading for compensation of Ksh.39 million as disclosed in note 33, under contingent liabilities.

KENYA WATER INSTITUTE
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

VIII. APPENDIX 1: PROGRESS REPORTS ON AUDITORS RECOMMENDATIONS

Audit basis	Management response to Audit opinion	Current status
<p>1. Property, Plant & Equipment</p> <ul style="list-style-type: none"> - The Institute has included in its statement of financial position land valued at Kes 1,044,642,000, however the Institute has not secured the land by obtaining valid title deeds. - The Institute acquired a piece of land in Kisumu in FY 2013/14. However, the Management did not have in their custody documents to support the purchase: - Official search document, transfer form dully executed, survey plan of this land, letter of consent from the commissioner of lands or Land Control Board, valuation report for stamp duty purposes and the sale agreement dully executed. 	<p>The Management has developed terms of reference for legal services to help acquire title deeds for the parcels of land in Nairobi, Kitui and Chiakariga campuses; and also to convert the certificate of title for the parcel of land in Kisumu. The procurement process is ongoing.</p>	<p>Pending</p>
<p>2. Receivables</p> <p>2.1 Receivables from exchange transactions</p> <ul style="list-style-type: none"> - The Institutes' statement of financial position reflects receivables from exchange transactions of Kes 67,119,264. Out of this amount, Kes 40,826,061 relates to student receivable which is 	<p>The Institute trains students amongst which are students sponsored by the Parent Ministry for long term courses. Some of the students whose fee is in arrears were sponsored by the Ministry of Water and Sanitation; the Ministry has not paid the Institute the amounts owing.</p> <ul style="list-style-type: none"> - The Institute has started the process of identifying the long outstanding doubtful debts which are not likely to be recovered with a view to seeking authority from the national Treasury to write them off. 	<p>Pending</p>

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

Audit basis	Management response to Audit opinion	Current status
<p>doubtful since some of the students had left the Institute three years back.</p> <p>2.2 Receivables from Non-exchange transactions</p> <ul style="list-style-type: none"> - The statement of financial position reflects receivables of Kes 17,685,000 from non-exchange transaction. Out of this amount, Kes 10,359,079 represents net staff receivables aged over 90 days. 	<p>-The Institute has put in place measures in place to recover outstanding staff receivables, including recovery from the payroll. In addition, controls have been put in place to minimize the amount of staff receivables.</p>	<p>Pending</p>
<p>3. Cash and cash equivalents.</p> <p>The bank reconciliation report for current bank account balance was not produced to support an amount of Kes 13,712,028</p>	<p>-This has since been rectified and bank reconciliation report as at 30th June 2018 has been availed.</p>	<p>Concluded</p>
<p>4. Irregular and illegal paid salaries</p> <p>-The Institute incurred Kes 164,289,439 as employee cost in the period ended 30th June 2017. Kes 2,595,920 was in respect of a senior lecturer who had been seconded to a position of a Ag. Chief Executive Officer, for UNESCO category II. However, the Institute continued paying the employee despite the fact that he was not serving the Institute.</p>	<p>-Mr. Lekoo met was appointed as the acting Director for Regional Centre on Groundwater Resources Education, Training and Research in Eastern Africa on deployment with effect from 4th February, 2016 vide Cabinet Secretary Ministry of Water and Irrigation letter no. MWI/UN/11/9 VOL.IV (96) dated 30th March, 2016. Kenya Water Institute deployed the officer to the organization and continued paying him salary as the regulation on deployment is not clear on who is to pay an officer on deployment. In addition to this, the organization whose creation and operationalisation was contracted by the Institute in their performance contract for the period 2010/2011 to 2013/2014 did not have the budgetary allocation to recruit her own staff. Hence the deployment of the officer by the Institute.</p>	<p>Concluded</p>

Audit basis	Management response to Audit opinion	Current status
<p>5. Un-vouched Expenditure -The Institute incurred Kes 142,816,736 under the general expenses. However, payment vouchers totalling to Kes 15,942,138 were not made available for audit review.</p>	<p>The payment vouchers are now available</p>	<p>Concluded</p>
<p>6. Trade and other payables. -Trade payable balance of Kes 66,532,237 was outstanding as of 30th June 2017. However, the schedule for the creditors provided for audit lacked crucial information such as: - goods supplied or services rendered, invoice numbers, delivery notes among others to authenticate the payables. -The payables had not been aged thus making it difficult to establish how long the amounts have been outstanding.</p>	<p>-Immediately the contract issue is sorted with the service provider by the Management, the vendor will be requested to configure the system to produce reports with the details required. However, payment vouchers showing all the details were availed for audit verification. This arose because the system was not configured to produce an aged report. To date, this has been resolved and the system is able to age payables.</p>	<p>Concluded</p>
<p>OTHER MATTERS 1. Financial performance – The statement of financial performance shows a deficit of Kes 52,441,295 for FY 2015/16 and Kes 70,225,712 as of 30th June 2017. No</p>	<p>-The trend shall reverse as the Institutes recurrent budget has been adjusted up wards by the Ministry from Kes 140,880,000 to Kes 215,753,560 in the year 2018/2019. The management has put in place mechanisms to raise more internally generated funds so as to expand the revenue base.</p>	<p>Concluded</p>

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

Audit basis	Management response to Audit opinion	Current status
<p>explanation has been provided for the huge accumulating deficit that impacts</p>		
<p>2. Comparative budget and actual amounts – The Institutes development budget for the year was Kes 51M. However, the Institute showed an expenditure of Kes 1,706,814 translating to 3.3% of the budget. The reason given for the variance was failure to pay the contractor of Water Resource Centre due to the dispute of the works. -Proper scrutiny established that part of the development money had been used in other programmes yet no explanation had been provided on when and how the development budget was to be implemented.</p>	<p>The dispute has since then been resolved and an agreement reached and the contractor resumed works in February 2019. -In the financial year 2018/2019, the institute committed part of the internally generated revenue to cover development expenditure to complete the Water Resource Centre.</p>	<p>Concluded</p>
<p>3. Financial statements (Entity Information and Management) i) Details of the roles played by the fiduciary oversight body, membership, attendance of meetings and how their mandate was executed in the year under review. The corporate governance statement had no details of:- a) The board meetings held and</p>	<p>Fiduciary oversight body. a. Independent internal audit function b. Audit and Risk Committee of the Governing Council 2. Execution of the mandate during 2016/2017FY, inter alia a. The committee supervised the Internal Audit function b. Communicated with the internal and external auditors c. Evaluated the adequacy of the control environment and provided assurance on the systems of internal control d. Performed other roles and mandate as stipulated in Audit Committee regulations of April 2015</p>	<p>Concluded</p>

Audit basis	Management response to Audit opinion	Current status																																																								
<p>attendance</p> <p>b) The succession plan</p> <p>c) The Institute Charter</p> <p>iii) The Management discussion and analysis section has not captured the extent of performance in the year under review in relation to the Institute's mission</p>	<p>3. Meetings Six Audit and Risk Committee meetings were held during the time of the GC which expired on 19th February, 2018</p> <p>a. 20th Meeting was held on 21/09/2016</p> <p>b. 21st meeting held on 18/11/2016</p> <p>c. 22nd meeting held on 6/01/2017</p> <p>d. 23rd Meeting held on 31/03/2017 on</p> <p>e. 24th meeting held on 20th June 2017</p> <p>f. SM, Special Meeting was held on 8/05/2017</p> <p>4. Membership of the Audit and Risk Committee</p> <p>a. Chairman-From Professional bodies</p> <p>b. Representative from Non-Governmental Organization-Association of Water Users</p> <p>c. Representative from the National Treasury</p> <p>d. Representative from the Ministry of Devolution</p> <p>e. Director of Water Services</p> <p>f. Secretary-Head of Internal Audit-Independent function</p> <p>5. Meetings attendance</p> <table border="1" data-bbox="906 412 1214 1352"> <thead> <tr> <th>Meeting/Members</th> <th>20th</th> <th>21st</th> <th>22nd</th> <th>23rd</th> <th>24th</th> <th>SM</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>1 Chairman</td> <td>X</td> <td>X</td> <td>X</td> <td>X</td> <td>X</td> <td>X</td> <td>6/6</td> </tr> <tr> <td>2 Rep. NGOs</td> <td>X</td> <td>X</td> <td>X</td> <td>X</td> <td>X</td> <td>X</td> <td>6/6</td> </tr> <tr> <td>3 Rep. N. Treasury</td> <td>X</td> <td>X</td> <td>X</td> <td>X</td> <td>X</td> <td>X</td> <td>6/6</td> </tr> <tr> <td>4 Rep. Dir. Water Services</td> <td>O</td> <td>X</td> <td>O</td> <td>X</td> <td>O</td> <td>X</td> <td>3/6</td> </tr> <tr> <td>5 Rep. Min. of Devolution</td> <td>O</td> <td>X</td> <td>O</td> <td>O</td> <td>O</td> <td>X</td> <td>2/6</td> </tr> <tr> <td>Total members present</td> <td>3</td> <td>5</td> <td>3</td> <td>4</td> <td>3</td> <td>5</td> <td></td> </tr> </tbody> </table> <p>-17 Full board meeting (including special meetings) -5 Programme and development committee meetings</p>	Meeting/Members	20 th	21 st	22 nd	23 rd	24 th	SM	Total	1 Chairman	X	X	X	X	X	X	6/6	2 Rep. NGOs	X	X	X	X	X	X	6/6	3 Rep. N. Treasury	X	X	X	X	X	X	6/6	4 Rep. Dir. Water Services	O	X	O	X	O	X	3/6	5 Rep. Min. of Devolution	O	X	O	O	O	X	2/6	Total members present	3	5	3	4	3	5		
Meeting/Members	20 th	21 st	22 nd	23 rd	24 th	SM	Total																																																			
1 Chairman	X	X	X	X	X	X	6/6																																																			
2 Rep. NGOs	X	X	X	X	X	X	6/6																																																			
3 Rep. N. Treasury	X	X	X	X	X	X	6/6																																																			
4 Rep. Dir. Water Services	O	X	O	X	O	X	3/6																																																			
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**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

Audit basis	Management response to Audit opinion	Current status
	<p>-12 Audit and risk committee meetings -5 Finance and administration committee meetings.</p> <p>-The KEWI governing council composition is guided by the Institute's Act, which states that the responsibility of appointing is vested in the hands to the CS in charge of Water, the said Act is silent on when and how to appoint. This has lead to GC members being appointed at the same time and leave at the same time.</p> <p>Management has initiated the process of reviewing the Act and one of the recommendations is have the board appointments staggered. This will address the succession challenges being experienced.</p> <p>-With the incoming of the Mwongozo, the Institute did not develop the Institutes charter. The Institute adopted Mwongozo.</p> <p>-The Institute entered in to performance contract with the parent Ministry which was in line with the Institutes mandate, the Ministry continued monitoring the Institutes performance and finally evaluated the same. Thereafter, the final evaluation was done by the performance Contracting Unit and rated KEWI's performance as Good.</p>	

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

IX. APPENDIX II: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

KENYA WATER INSTITUTE				
SCHEDULE OF GOK GRANTS FOR THE FY 2017/2018				
Entity	Disbursement	Development	Recurrent	Date
Ministry of Water & Sanitation	11,740,000	-	11,740,000	8/9/2017
Ministry of Water & Sanitation	11,740,000	-	11,740,000	9/7/2017
Ministry of Water & Sanitation	11,740,000	-	11,740,000	10/11/2017
Ministry of Water & Sanitation	7,750,000	7,750,000	-	10/19/2017
Ministry of Water & Sanitation	2,000,000	-	2,000,000	10/19/2017
Ministry of Water & Sanitation	11,740,000	-	11,740,000	11/6/2017
Ministry of Water & Sanitation	11,740,000	-	11,740,000	12/7/2017
Ministry of Water & Sanitation	11,740,000	-	11,740,000	12/29/2017
Ministry of Water & Sanitation	11,740,000	-	11,740,000	2/2/2018
Ministry of Water & Sanitation	11,740,000	-	11,740,000	3/9/2018
Ministry of Water & Sanitation	7,750,000	7,750,000	-	4/4/2018
Ministry of Water & Sanitation	11,740,000	-	11,740,000	4/4/2018
Ministry of Water & Sanitation	11,740,000	-	11,740,000	4/5/2018
Ministry of Water & Sanitation	7,750,000	7,750,000	-	4/9/2018
Ministry of Water & Sanitation	5,000,000	-	5,000,000	4/9/2018
Ministry of Water & Sanitation	1,654,700	-	1,654,700	4/11/2018
Ministry of Water & Sanitation	11,740,000	-	11,740,000	6/22/2018
Ministry of Water & Sanitation	11,740,000	-	11,740,000	6/22/2018
Ministry of Water & Sanitation	2,487,750	2,487,750	-	6/30/2018
Total	175,272,450	25,737,750	149,128,680	

