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THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE, 2020**

**LAKE VICTORIA SOUTH WATER WORKS
DEVELOPMENT AGENCY**





OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

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**Project Name WATER SECTOR DEVELOPMENT PROGRAMME
KERICHO, KISII, NYAMIRA AND LITEIN**

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

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

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2020**

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

*Water Sector Development Programme
Reports and Financial Statements for the financial year ended June 30, 2020*

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

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

Objective: The key objective of the project is,

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

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

The address of its registered office is:

Lake Victoria south water services board
P. O Box 3325-40100 kisumu

The project also has consultant offices as follows:

- Kisii
- Nyamira

Contacts: The following are the project contacts

Telephone: (254) 57 2025127

E-mail: info@lvswaterboard.go.ke

Website: www.lvswaterboard.go.ke

1.2 Project Information

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

1.3 Project Overview

Line Ministry/State Department of the project	The Program is under the supervision of the Ministry of Water and Sanitation.
Program number	BMZ No.2010 65 861 & BMZ-No. 2010 70 457
Strategic goals of the Program	<ol style="list-style-type: none"> (i) Increase water coverage to 85%-90% in Kericho and 80-85% for Kisii, Nyamira and Litein towns. (ii) Increase sewerage coverage to 45% for Kericho and 40% in Kisii and improved sanitation in Nyamira town. (iii) Reduce Non-Revenue Water (NRW) from 50-65% to 30% in all

Water Sector Development Programme
Reports and Financial Statements for the financial year ended June 30, 2020

	<p style="text-align: center;">towns</p> <p>(iv) Increase collection efficiency of GWASCO and KEWASCO to over 90%</p> <p>(v) Attain 100% Operation and Maintenance Cost recovery within 1 year of completion</p> <p>(vi) Drinking water quality to meet the WHO standards.</p>
Achievement of strategic goals	<p>The Program management aims to achieve the goals through the following means:</p> <p>(i) Construction of Drinking Water Treatment Units</p> <p>(ii) Construction of Water Transmission and Distribution Mains</p> <p>(iii) Construction of Water Storage Reservoirs</p> <p>(iv) Purchase of Non-Revenue Water Management Equipment/Vehicles</p> <p>(v) Construction and Equipping of Laboratory</p> <p>(vi) Improved Operation and Maintenance of the Water Treatment System</p>
Other important background information of the Program	<p>The project aims at providing sufficient, hygiene, economically viable and affordable water to 485,000 people and improved sanitation to 70,000 people within the towns of Kericho, Kisii, Nyamira and Litein-Sotik towns.</p>
Current situation that the project was formed to intervene	<p>The Program was formed to intervene in the following areas:</p> <p>(i) To ensure the provision of sufficient, hygienic, economically viable and affordable Water and Sanitation Services for the population of the selected towns, thus contributing to the overall development goal of improving the health of the urban population by reducing waterborne diseases and favouring economic development.</p> <p>(ii) The Program also supports enhancement of water supply and sanitation service delivery and sustainability through improved commercialization, pro-poor orientation and clustering of schemes</p>
Program duration	<p>The project started on 3rd March 2014 and is expected to run until 31st December 2022.</p>

1.4 Bankers

The KfW/ financier is the bankers for the current year.

1.5 Auditors

Auditor General
Office of the Auditor General
P.O Box 30084-00100
Nairobi

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1.6 Roles and Responsibilities

The following are the project implementing team and includes their titles, key qualifications and responsibilities I be working on the project.

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

1.7 Funding summary

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

Source of funds	Donor Commitment-		Amount received to date (30.06.20)		Undrawn balance to date (30.06.20)	
	Donor currency	Kshs	Donor currency	Kshs	Donor currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
KFW	33,000,000	3,842,000,000	19,985,924	2,380,377,934	13,014,076	1,461,622,066
(ii) Grant						
KFW	1,000,000	116,420,000	116,475	13,560,000	883,525	102,860,000
(ii) Counterpart						
Government of Kenya	3,300,000	372,900,000	1,722,543	203,682,190	1,577,457	169,217,810
Total	37,300,000	4,331,320,000	21,824,941	2,597,620,124	15,475,059	1,733,699,876

1.8 Summary of Overall Project Performance:

- Budget performance for the project for the current year under review was at 85% Absorption and the overall programme budget is at 60% drawn cumulative to-date.
- The physical progress of the project as at end of the year under review is at 70% based on awards.
- The project will receive value for money since the already completed components are operational.
- The absorption rate for each year since the commencement of the project has been steady.
- The implementation challenges are basically on land issues and budget constraints which the Government have intervene and more support for the budget especially counterpart funding is still needed for the completion of the project.

1.9 Summary of Project Compliance:

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

2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETRMINED OBJECTIVES

Introduction

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

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

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

Progress on attainment of Strategic development objectives

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

Project	Objective	Outcome	Indicator	Performance
Water Sector Development Program	Increase water coverage to 85%-90% in Kericho and 80-85% for Kisii, Nyamira and Litein towns.	Construction of Kimugu water treatment Plant	-Additional supply 13,000m ³ /day of treated water in Kericho	Construction of the treatment plant is in progress Additional 2,500m ³ /day is completed and operational.
		Construction of Kegati Water treatment Plant	-Additional supply of 21,500m ³ /day of treated water in the urban and peri-urban areas of Kisii town	
	Increase sewerage coverage to 45% for Kericho and 40% in Kisii and improved sanitation in Nyamira town.	Expansion of Suneka Waste Water Treatment Plant	4,300m ³ /day treatment capacity of waste water for Kisii town	The plant is completed and operational.
	Attain 100% Operation and Maintenance Cost recovery within 1 year of completion	Improved Operation and Maintenance of the Water Treatment System	100% operation and maintenance cost recovery	Increased revenue for the Water Companies that has improved cost recovery
	Drinking water quality to meet the WHO standards.	Construction and Equipping of Laboratory	100% compliance with WHO water quality standards/WASREB water quality regulations	Currently Kericho and Kisii complies.

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

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

1. Sustainability strategy and profile-

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

2. Environmental performance

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

3. Employee welfare

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

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

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

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

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

4. Market place practices-

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

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

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

5. Community Engagements-

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

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Chief Executive officer for the Lake Victoria South Water Works Development Agency and the Program Coordinator for Water Sector Development Programme are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2020. This responsibility includes:

- (i) Maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the Project;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

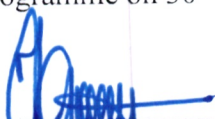
The Chief Executive officer for the Lake Victoria South Water Works Development Agency and the Program Engineer for Water Sector Development Programme accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate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

The Chief Executive officer for the Lake Victoria South Water Works Development Agency and the Program Coordinator for Water Sector Development Programme are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2020 and of the Project's financial position as at that date. The Chief Executive officer for the Lake Victoria South Water Works Development Agency and the Program Coordinator for Water Sector Development Programme further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

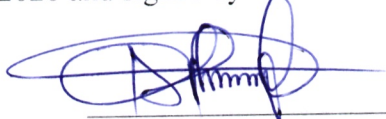
The Chief Executive officer for the Lake Victoria South Water Works Development Agency and the Program Coordinator for Water Sector Development Programme confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project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

Approval of the Project financial statements

The Project financial statements were approved by Chief Executive officer for the Lake Victoria South Water Works Development Agency and the Program Engineer for Water Sector Development Programme on 30th September 2020 and signed by them.



Ag. Chief Executive Officer
Eng. George Odedeh



Program Coordinator
Eng. Michael Opany

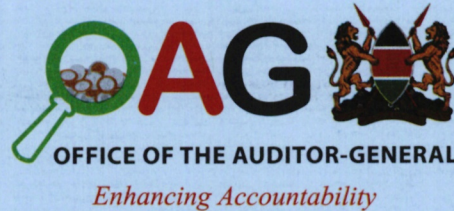


Project Accountant:
Rosemary Chelangat
ICPAK MNO.:6361

**5. REPORT OF THE OFFICE OF THE AUDITOR GENERAL ON THE WATER
SECTOR DEVELOPMENT PROJECT**

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
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Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON WATER SECTOR DEVELOPMENT PROGRAMME LAKE VICTORIA SOUTH (KERICHO, KISII, NYAMIRA AND LITEIN) LOAN NO. BMZ 2010 65 861 AND GRANT NO. BMZ 2010 70 457 FOR THE YEAR ENDED 30 JUNE, 2020 – LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Water Sector Development Programme - Lake Victoria South (Kericho, Kisii, Nyamira and Litein) set out on pages 1 to 14 which comprise the statement of financial assets as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and statement of comparative 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 effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Water Sector Development Programme – Lake Victoria South (Kericho, Kisii, Nyamira and Litein) as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Financing Loan Agreement No. BMZ 2010 65 861 dated 30 December, 2011 between Kfw, Frankfurt am Main and Republic of Kenya, and Subsidiary Grant Agreement No. BMZ 2010 70 457 dated 10 April, 2013 between the Government of Kenya and Lake Victoria South Water Works Development Agency and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Discrepancies in Reported Cumulative Receipts

Section 1.7 on the funding summary under project information, reflects amounts received to date amounting to Kshs.2,597,620,124 while the statement of receipts and payments reflects cumulative receipts to date totalling Kshs.2,601,710,706. The difference of Kshs.4,090,582 has not been reconciled or explained by the Management.

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

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

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

3. Discrepancies Between the Figures in the Statement of Receipts and Payments and the Figures in the Notes

Discrepancies were noted between the figures in the statement of receipts and payments and the figures in the Notes to the financial statements as shown below:

Component	Note	Figures in the Statement of Receipts and Payments (Kshs.)	Figures in the Notes (Kshs.)	Variance (Kshs.)
Transfer from government entities	8.3	206,992,628	203,682,190	3,310,438
Purchase of services	8.8	267,849,431	267,069,287	780,144
Other Payments	8.9	5,919,538	4,972,584	946,954

In the circumstances, the accuracy of the financial statements could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Water Sector Development Programme - Lake Victoria South (Kericho, Kisii, Nyamira and Litein) Project Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

1. Budgetary Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.665,000,000 and Kshs.561,888,925 respectively resulting to an under-funding of Kshs.103,111,075 or 15% of the budget. The Project expenditure was limited to the amount realized. The underfunding and under expenditure affected the planned activities and impacted negatively on service delivery to the public.

2. Pending Bills

Note 9.1 to the financial statements reflects pending bills of Kshs.34,001,529 as at 30 June, 2020. Although Management has attributed the pending bills to the outstanding GoK counterpart funds, the Project is at risk of incurring significant interest costs and penalties with the continued delay in payment. Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Stalled Old Kegati Water Treatment Works in Kisii County

Physical verification of Kegati Water Treatment Works in Kisii County revealed that construction of the 12,000m³ per day water treatment facility in Kegati stalled at 70% completion. In addition, a report by the Implementing Agency on water and sanitation development interventions in Kisii and Nyamira Sub-region dated 28 September, 2020, indicated that construction commenced in September, 2010 aimed at benefiting 18,000 people and was to be completed by June, 2011 at a cost of Kshs.68 million but stalled in November, 2013.

Consequently, it has not been possible to ascertain if the citizens of Kisii County received value for money from the Project.

2. Ownership and Custody of Project Vehicles

The summary of fixed asset register under Annex 3 reflects assets with a historical cost of Kshs.170,529,603. However, motor vehicles registration numbers KCP 975 M, KCP 064 N, KCR 854 R, KCR 855 R and KCR 859 R were registered in the name of the contractor – a Chinese firm. In addition, vehicle registration number KCP 064N - Toyota Landcruiser Prado was not in use by the Project but had been taken over by the parent Ministry under unclear circumstances.

Consequently, the ownership, movement, custody and safety of the vehicles could not be confirmed.

3. Ownership Documents for Kimungu Water Project

The ownership documents for the land on which Kimungu Water Project with a contract price of Kshs.1,189,905,385 is built were not provided for audit verification. Further, the cost of the land was not included in the balance of Kshs.170,529,603 being the historical cost of the assets of the Project as reflected under Annex 3 - summary of fixed assets register.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my Knowledge and belief, were necessary for the purpose of the audit,
- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and,
- iii. The Project's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a

basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project's to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project's to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

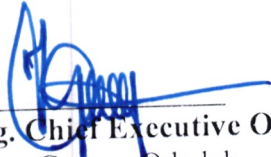
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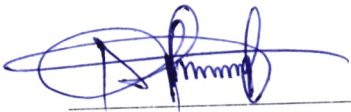
Water Sector Development Programme
Reports and Financial Statements for the financial year ended June 30, 2020

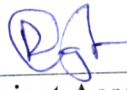
6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE 2020

	Note	2019/20		2018/19		Cumulative to-date
		Receipts and payments controlled by the entity	Payments made by third parties	Receipts and payments controlled by the entity	Payments made by third parties	
				KShs	KShs	KShs
RECEIPTS						
Transfer from Government entities	8.3	90,155,107		74,570,253		206,992,628
Grants from external development partners	8.4		-		13,560,000	13,560,000
Loan from external development partners	8.5		471,733,817		612,433,772	2,381,158,078
TOTAL RECEIPTS		90,155,107	471,733,817	74,570,253	625,993,772	2,601,710,706
PAYMENTS						
Purchase of services	8.8		44,861,913		26,822,444	267,849,431
Acquisition of non-financial assets (goods)	8.7					99,083,743
Acquisition of non-financial assets (Works)	8.7	89,111,377	426,871,904	73,004,883	599,171,328	2,228,857,994
Other payments	8.9	1,043,730		1,565,370		5,919,538
TOTAL PAYMENTS		90,155,107	471,733,817	74,570,253	625,993,772	2,601,710,707
SURPLUS/(DEFICIT)		-	-	-	-	-

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


Ag. Chief Executive Officer
Eng. George Odedeh


Program Coordinator
Eng. Michael Opany

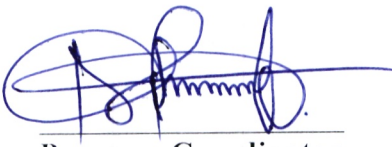

Project Accountant:
Rosemary Chelangat
ICPAK MNO.:6361

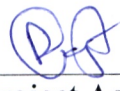
7. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2020

	Note	2019/20	2018/19
		KShs	KShs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances		-	-
Cash Balances		-	-
Cash Equivalents (short-term deposits)		-	-
Total Cash and Cash Equivalents		-	-
Accounts receivables – Imprest and Advances		-	-
TOTAL FINANCIAL ASSETS		-	-
REPRESENTED BY			
Fund balance b/fwd		-	-
Prior year adjustments		-	-
Surplus/(Deficit) for the year		-	-
NET FINANCIAL POSITION		-	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 28/07 2020 and signed by:


Ag. Chief Executive Officer
 Eng. George Odedeh


Program Coordinator
 Eng. Michael Opany

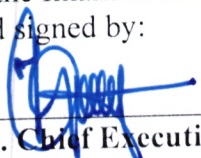

Project Accountant:
 Rosemary Chelangat
 ICPAK MNO.:6361

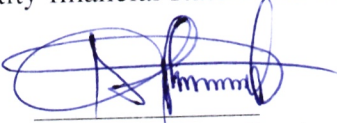
*Water Sector Development Programme
Reports and Financial Statements for the financial year ended June 30, 2020*

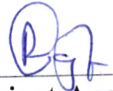
8. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2020

	Note	2019/20 KShs	2018/19 KShs
Receipts for operating activities			
Transfer from Government entities	8.3	90,155,107	74,570,253
		90,155,107	74,570,253
Payments for operating activities			
Purchase of goods and services	8.8	44,861,913	26,822,444
Program Management Expenses	8.9	1043730	1,565,370
Net cash flow from operating activities		44,249,464	46,182,439
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	8.7	(515,983,281)	(672,176,210)
Net cash flows from Investing Activities		(515,983,281)	(672,176,210)
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings	8.4/8.5	471,733,817	625,993,772
Net cash flow from financing activities		471,733,817	625,993,772
NET INCREASE IN CASH AND CASH EQUIVALENT			
Cash and cash equivalent at BEGINNING of the year		-	-
Cash and cash equivalent at END of the year	-	-	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 28/09/20 2020 and signed by:


Ag. Chief Executive Officer
Eng. George Odedeh

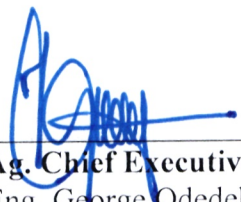

Program Coordinator
Eng. Michael Opany

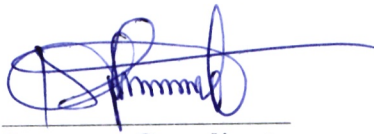

Project Accountant:
Rosemary Chelangat
ICPAK MNO.:6361

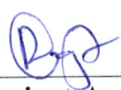
9. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfer from Government	65,000,000	-	65,000,000	90,155,107	(25,155,107)	139%
Proceeds from foreign borrowing	800,000,000	(200,000,000)	600,000,000	471,733,817	128,266,183	79%
Total Receipts	865,000,000	(200,000,000)	665,000,000	561,888,925	103,111,075	
Payments						
<i>Purchase of services & Works:</i>						
i. Consultancy Services for works supervision	50,000,000		50,000,000	44,861,913	5,138,087	90%
ii. Construction of water works	815,000,000	(200,000,000)	615,000,000	517,027,011	97,972,989	84%
Total Payments	865,000,000	(200,000,000)	665,000,000	561,888,925	103,111,075	

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


Ag. Chief Executive Officer
 Eng. George Odedeh


Program Coordinator
 Eng. Michael Opany


Project Accountant:
 Rosemary Chelangat
 ICPAK MNO.:6361

10. NOTES TO THE FINANCIAL STATEMENTS

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

8.1 Basis of Preparation

8.1.1. Statement of compliance and basis of preparation

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

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

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

8.1.2. Reporting entity

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

8.1.3. Reporting currency

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

8.2. Significant Accounting Policies

a) Recognition of receipts

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

- **Transfers from the Exchequer**

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

- **External Assistance**

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donations and grants

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

Proceeds from borrowing

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

Undrawn external assistance

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

- **Other receipts**

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

b) Recognition of payments

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

- **Compensation of employees**

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid. There was no compensation to employees in the year under review.

- **Use of goods and services**

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

- **Interest on borrowing**

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- **Acquisition of fixed assets**

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

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

c) In-kind donations

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

d) Cash and cash equivalents

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

Restriction on cash

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Accounts receivable

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

f) Pending bills

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

g) Budget

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

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

h) Third party payments

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

During the year Kshs 471,733,817 being loan disbursements and there was no grants received in form of direct payments from third parties.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Exchange rate differences

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

j) Comparative figures

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

k) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2020.

l) Errors

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

8.3. RECEIPTS FROM GOVERNMENT OF KENYA

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

	2019/20	2018/19	Cumulative
	KShs	KShs	to-date
<i>Counterpart funding through Ministry Water & Sanitation</i>			
Counterpart funds for the year received	90,155,107	74,570,253	203,682,190
Total	<u>90,155,107</u>	<u>74,570,253</u>	<u>203,682,190</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.4. PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

During the 12 months to 30 June 2020 the Agency received grants from donors.

Name of Donor	Date received	Amount in Donor currency	Grants received in cash	Grants received as direct payment*	Total amount in KShs	
					FY 2019/20	FY 2018/19
Grants Received from Bilateral Donors (Foreign Governments)			KShs	KShs	KShs	KShs
KFW						13,560,000
Total			-			13,560,000

8.5. LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the 12 months to 30 June 2020 we received funding from development partners in form of loans negotiated by the National Treasury donors as detailed in the table below:

Name of Donor	Date received	Amount in loan currency	Loans received in cash	Loans received as direct payment*	Total amount in KShs	
					FY 2019/20	FY 2018/19
Loans Received from Bilateral Donors (Foreign Governments)			KShs	KShs	KShs	
KFW	05.03.2020	345,851		41,432,998	41,432,998	612,433,772
KFW	05.06.2020	28,622		3,428,916	3,428,916	
KFW	03.09.2019	1,052,044		120,145,232	120,145,232	
KFW	15.04.2020	7,383		843,131	843,131	
KFW	27.04.2020	624,003		71,262,227	71,262,227	
KFW	20.05.2019	1,589,403		186,489,872	186,489,872	
KFW	14.01.2020	139,708		16,392,437	16,392,437	
KFW	13.05.2020	124,416		14,598,154	14,598,154	
KFW	29.06.2019	150,996		17,140,850	17,140,850	
Total		4,062,427	-	471,733,817	471,733,817	

*Water Sector Development Programme
Reports and Financial Statements for the financial year ended June 30, 2020*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.6. MISCELLANEOUS RECEIPTS

There were no miscellaneous receipts to the project during the year under review.

8.7. ACQUISITION OF NON-FINANCIAL ASSETS

	FY 2019/20			FY 2018/2019	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments	
	KShs	KShs	KShs	KShs	KShs
Purchase of vehicles			0	-	24,111,536
Purchase of Goods:					
Water Meters, Meter Testing Kit, Valves & Fittings			0	-	54,884,275
Pipes and EFB HDPE Machine			0	-	7,307,501
NRW Management Equipment			0	-	16,133,450
Pump and Associated Items			0	-	17,655,200
Laboratory Equipment			0	-	3,103,317
Rehabilitation of civil works	89,111,377	426,871,904	515,983,281	672,176,210	2,204,746,458
Total	89,111,377	426,871,904	515,983,281	672,176,210	2,327,941,737

Purchase of Goods and Vehicles were in the first and second year of project. Motor Vehicles were purchased under quick intervention items and is part of payment of certificates.

8.8. Payment of Services

During the 12 months to 30 June 2020, the payment of services were as follows.

	FY 2018/19			FY 2018/19	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
Services	KShs	KShs	KShs		KShs
Technical assistance, Design and Supervision		44,861,913	44,861,913	13,262,444	253,509,287
Accompanying Measure				13,560,000	13,560,000
Total	0	44,861,913	44,861,913	26,822,444	267,069,287

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.9. OTHER GRANTS AND TRANSFERS AND PAYMENTS

	FY 2019/20			FY 2018/19	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Miscellaneous payments –Nema	-	-	-	-	1,319,754
Program Management Exp.	1,043,730		1,043,730	1,565,370	3,652,830
Total	<u>1,043,730</u>	<u>-</u>	<u>1,043,730</u>	<u>1,565,370</u>	<u>4,972,584.00</u>

The payment above was concerning Environmental Impact Assessment report for NEMA licence on project implementation and project management expenses.

8.10. CASH AND CASH EQUIVALENTS CARRIED FORWARD

The project has no special project bank accounts spread within the project.

9.0 OTHER IMPORTANT DISCLOSURES

9.1 PENDING ACCOUNTS PAYABLE (See Annex 2A)

	2019/2020	2018/2019
Contractor/Works	KShs.	KShs
Expansion of Water Supply for Kisii & Nyamira	34,001,529	84,488,139
Expansion of Water Supply for Kericho	0	18,648,987
	34,001,529	103,137,126

The Gok Counterpart funds have some outstanding pending bills

Water Sector Development Programme
Reports and Financial Statements for the financial year ended June 30, 2020


9. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe: (Put a date when you expect the issue to be resolved)
1	Note 9.1 to the financial statement reflects pending bills amounting to Kshs. 103,137,126 as at 30th June, 2019. The pending bills mainly relate to the Government of Kenya (GoK) component as shown under Annex 2 to the financial statement. Failure to pay bills in the year they relate to distorts the subsequent year's budget programs and activities.	The Pending Bills has been paid with a balance of 34M which has been factored in in the current financial year 2020-2021 budget.	CEO	Resolved	30 th June 2021
2	Section 47 of the Public Audit Act, 2015 requires that financial statement should be submitted to the Auditor-General for audit within three months after end of the fiscal year to which the accounts relate. Contrary to this requirement, the project's financial statement were submitted for Audit on 7th October, 2019 seven (7) days after the lapse of the three months period	The requirement has been complied with.	CEO	Resolved	30 th September 2020.
3	As disclosed under the project information section of the financial statements, the Project was to end on 28 th February, 2019. However, a physical verification of the implementation of the project	The Extension of the project Completion date and disbursement window was given on 2019.	CEO	Resolved	N/A


*Water Sector Development Programme
Reports and Financial Statements for the financial year ended June 30, 2020*

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe (Put a date when you expect the issue to be resolved)
4	<p>activities during the month of October, 2019 the project Management requested for an extension of the Loan disbursement windows to 30th December, 2022 and the due date for the loan to be extended to June 2032. However, response to the request was not availed for audit review.</p> <p>The project management did not maintain a cashbook neither operate a separate bank account for the project during the year. Instead, receipts and payment in respect of the project were recorded and accounted in the main cashbook and bank account of the Agency contrary to section 68(2) of the Public Finance Management Act, 2012 which requires Accounting Officers to ensure that proper financial and accounting records are kept.</p>	<p>The Project do not have special account and uses the Main Agency's Bank and cash book for the disbursement of Counterpart funds. Therefore, the Agency maintain a main cash book for the whole GOK Projects as Development grants are disbursed by government using one account.</p>			



 Ag. Chief Executive Officer
 Eng. George Odedeh
 28/09/2020

 Date



 Program Coordinator
 Eng. Michael Opany
 28/09/2020

 Date

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10. ANNEXES

ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance
Receipts	a	b	c=a+b	d	e=c-d	f=d/c %	
Transfer from Government	65,000,000	-	65,000,000	90,155,107	(25,155,107)	139%	Pending bills were paid
Proceeds from foreign borrowing	800,000,000	-	600,000,000	471,733,817	128,266,183	79%	Due to budget cut under supplementary
Total Receipts	865,000,000	-	665,000,000	561,888,925	103,111,075		
Payments							
<i>Purchase of services:</i>							
i. Consultancy Services for works supervision	50,000,000		50,000,000	44,861,913	5,138,087	90%	The certificate raised delayed at the end of the year
ii. Purchase of Works	815,000,000		615,000,000	517,027,011	97,972,989	84%	The works under Kericho expansion were delayed by approval of VAT master list by the Treasury hence delay in execution of works.
Total Payments	865,000,000	-	665,000,000	561,888,925	103,111,075		

Explain all variance below 90% and above 100%

- (i) Charge of pending bills increased project counterpart allocation
- (ii) Budget Supplementary cuts that affected the Donor receipts
- (iii) The works under Kericho expansion were delayed by approval of VAT master list by the Treasury hence delay in execution of works.

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ANNEX 2 - ANALYSIS OF PENDING BILLS CONTRACTS

Supplier of Goods or Services	Original Amount (Tax incl.)	Date Contracted	Amount Paid To-Date	Outstanding Balance 2020		Outstanding Balance 2019	Comments
				Contract(Both GOK & Donor)	Gok Pending Bill	Contract(Bot h GOK & Donor)	
	a	b	C	d=a-c			
Supply of services							
i. Consultancy Services for works supervision	304,913,595	3 rd March 2014	253,509,287	51,404,308	-	96,266,222	The outstanding Gok component is the pending bills yet to be paid.
ii. Consultancy Accompanying Measures	124,664,748		13,560,000	111,104,748		111104748	
ii. Purchase of goods	100,433,743	1 st Jan 2016	99,083,743	1,350,000	-	1,350,000	
iii. Quick Interventions	343,221,348	24 th June 2016	327,472,321	15,749,027	-	33,458,179	
iv. Expansion of Water Supply for Kisii & Nyamira	2,289,840,260	31 st March 2017	1,662,157,504	627,682,756	34,001,529	886,728,716	
v. Expansion of Water Supply for Kericho	1,189,805,385	23 rd April 2019	239,228,169	950,577,216	-	1189805385	
Grand Total	4,352,879,079	0	2,595,011,024	1,757,868,055	34,001,529	2,318,713,250	

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ANNEX 3 – SUMMARY OF FIXED ASSET REGISTER

Asset class	Opening Cost	*Purchases/Additions in the Year	**Disposals in the Year	Closing Cost
	(KShs)	(KShs)	(KShs)	(KShs)
	2018/2019	2019/2020	2019/2020	2019/2020
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Motor Vehicles:				
KCK 053C Fortuner	7,418,000	0	0	7,418,000
KCK 888U Fortuner	7,418,000	0	0	7,418,000
KCK 050C Hilux D/C	5,564,520	0	0	5,564,520
KCK 052C Hilux D/C	5,564,520	0	0	5,564,520
KCK 054C Hilux D/C	5,564,520	0	0	5,564,520
KCP 064N Land Cruiser Prado	9,355,500	0	0	9,355,500
KCP 975M Fortuner	7,245,000	0	0	7,245,000
KCR 854R	6,438,600	0	0	6,438,600
KCR 855R	6,438,600	0	0	6,438,600
KCR859R	6,438,600	0	0	6,438,600
Motor Cycles (40 No.)	4,000,000	0	0	4,000,000
Water Meters, Meter Testing Kit, Valves & Fittings	54,884,275	0	0	54,884,275
Pipes and EFB HDPE Machine	7,307,501	0	0	7,307,501
NRW Management Equipment	16,133,450	0	0	16,133,450
Pump and Associated Items	17,655,200	0	0	17,655,200
Laboratory Equipment	3,103,317	0	0	3,103,317
Total	170,529,603	0	-	170,529,603

Notes

** The Motor Vehicles was purchased as part of the works contract B lot 1 and C lot 1. Hence included in the cost of civil works during the financial year 2018/2019. They were surrendered to the Agency after the substantial completion of the work This is for disclosure only*

