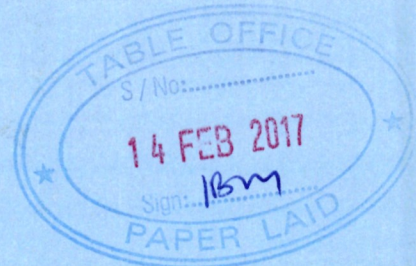


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REPORT

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OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
WATER SERVICES TRUST FUND**

**FOR THE YEAR ENDED
30 JUNE 2016**

**WATER SERVICES TRUST FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**



ISO 9001:2008 CERTIFIED

Financial Support for Improved Access to Water and Sanitation



**Water Services Trust Fund
Annual report and financial statements
For the year ended 30 June 2016**

CONTENTS	PAGES
Corporate information	1 - 3
Board of trustees	4 - 10
Management	11 - 12
Chairman's report	13 - 14
Chief executive officer's statement	15 - 18
Statement of corporate governance	19 - 22
Corporate Social Responsibility Statement	23
Report of the trustees	24
Statement of trustees' responsibilities	25
Independent auditor's report	26 - 27
Financial statements	
Statement of financial performance	28
Statement of financial position	29
Statement of changes in net assets	30
Statement of cash flows	31
Statement of comparison of budget and actual amounts	32
Notes to the financial statements	33 - 53

GLOSSARY OF TERMS

Acronym	Description
AOD	Aid on Delivery
ASAL	Arid and Semi-Arid Lands
BMGF	Bill and Melinda Gates Foundation
BoT	Board of Trustees
CBOs	Community Based Organizations
CFA	Community Forest Associations
CPC	Community Project Cycle
EU	European Union
GIZ	German Technical Cooperation
GoF	Government of Finland
GoK	Government of Kenya
IFAD	International Fund for Agricultural Development
KfW	Kreditanstalt fuer Wiederaufbau (German Government Bank)
KWSP	Kenya Water and Sanitation Programme
MDGs	Millennium Development Goals
MDNKOAL	Ministry of Development of Northern Kenya and Other Arid Land
MTAP	Medium Term Arid Programme
MOU	Memorandum of Understanding
OBA	Output Based Aid
SCAC	State Corporations Advisory Committee (SCAC)
SIDA	Swedish International Development Agency
SNV	Stichting Nederlandse Vrijwilligers (Netherlands Development Organization)
UPSUB	Upscaling Urban Sanitation for the Rural Poor
UDDTs	Urine Diversion Dehydrating Toilets
UNFCCC	United Nations Framework Convention on Climate Change
UN HABITAT	United Nations Human Settlements Programme
UNICEF	United Nations International Children Emergency Fund
UPC	Urban Project Cycle
UTaNRMP	Upper Tana Natural Resources Management Programme
WASH	Water and Sanitation for Hygiene
WDC	WRUA Development Cycle
WRI	Water Resources Investments
WRUA	Water Resources Users Association
WSB	Water Service Boards
WSPs	Water Services Providers
WSTF	Water Services Trust Fund

CORPORATE INFORMATION

INCORPORATION

Water Services Trust Fund (WSTF) is a corporate body established under section 83 (1) of the Water Act, 2002 of the laws of Kenya and it is domiciled in Kenya.

PRINCIPAL ACTIVITIES

The object of the Fund is to provide conditional and unconditional grants to counties and to assist in financing the development and management of water services in marginalized areas or any area which is considered by the Board of Trustees to be underserved including-

- a) Community level initiatives for the sustainable management of water resources;
- b) Development of water services in rural areas considered not to be commercially viable for provision of water services by licensees;
- c) Development of water services in the under-served poor urban areas; and
- d) Research activities in the area of water resources management and water services, sewerage and sanitation.

Vision:

“To be the institution of choice in financing the improvement of access to water and sanitation for the underserved in Kenya”

Mission:

“To finance the development of sustainable water and sanitation services and water resources management”

Core Values

1. **Sustainability** - The Fund strives to ensure that the funded projects are financially, socially and environmentally sound and sustainable through innovative mechanisms.
2. **Integrity** - The Fund ascribes to high standards of personal and professional ethics and integrity in the conduct of its affairs.
3. **Good Governance** - The process is as good as the product. The Fund promotes the virtues of equity and fair play for equitable sustainable development through consultations as well as effective communication, coordination and public participation in all undertakings.
4. **Human Dignity** - The Fund is committed to uphold reasonable standards of access to water and sanitation for the citizens of Kenya to meet its constitutional mandate
5. **Teamwork** - The Fund relentlessly pursues timely attainment of targeted results at all levels through high level coordination, networking and collaboration within WSTF and its partners.

CORPORATE INFORMATION (Continued)

BOARD OF TRUSTEES

Hon. Musikari N. Kombo, EGH	- Board Chairman
Mr. Ismail Fahmy M. Shaiye	- Chief Executive Officer
Prof. Fred Harun Kiptoon Segor, EGH	- PS, State Department of Water Services
Dr. Kamau Thuge, EBS	- PS, the National Treasury (NT)
Mr. Daniel Mutua	- Alternate Trustee to PS, NT (Served up to 29 th November, 2015)
Ms. Margaret Wamuyu Kibui	- Alternate Trustee to PS: National Treasury
Mr. Calvin Shavanga	- Alternate Trustee to PS: Ministry of Water and Irrigation
Mr. Geoffrey Kiringa Ruku	- Member
Mr. Parmain Ole Narikae	- Member (Served up to 29 th November, 2015)
Mr. John Khaoya Musebe	- Member (Served up to 29 th November, 2015)
Ms. Rose Kavula Mwanga	- Member (Served up to 29 th November, 2015)
Mr. Gershon A. Dulo	- Member (Served up to 29 th November, 2015)
Ms. Catherine Muimi	- Member (Served up to 29 th November, 2015)
Mr. Stephen N. Gwandaru	- Member (w.e.f 2 nd October, 2015)
Mr. Adan Omar Enow	- Member (w.e.f 26 th November 2015)
Mr. Joel Onsare Gasuka	- Member (w.e.f 26 th November 2015)
Mr. Joseph Kotoine Nkaiwuatei	- Member (w.e.f 26 th November 2015)
Eng. Onesmus kipkirui Maritim	- Member (w.e.f 26 th November 2015)
Ms. Rose N. Kinuthia	- Member (w.e.f 26 th November 2015)
Ms. Sheila Murugi Mugo	- Member (w.e.f 26 th November 2015)

MANAGEMENT TEAM

Mr. Ismail Fahmy M. Shaiye, BA (Global Studies), Masters in International Environmental Law and MSc (Natural Resource Management)	- Chief Executive Officer
Mr. Bonface Wanyonyi, BCom (Accounting), MBA, CPA (K)	- Chief Manager, Finance
Mr. Edwin Korir, B.Ed. (Arts), MBA, CPA (K)	- Chief Manager, Internal Audit & Risk Management
Mr. Willis Okello Ombai, BSc (Forestry), MA (Project Planning & Management)	- Chief Manager, Investments & Programmes
Ms. Rosaita Ngina Mbukua, BSc (Natural Resources Management) MBA, Dip Project Management	- Chief Manager, Resource Mobilization & Corporate Affairs
Mr. Samwel Gitau Mbugua, B. Com (Accounting), MBA, CPA (K)	- Manager, Finance
Mr. Bernard Njenga, B. Com (Business Information Systems), MBA	- ICT Manager
Mr. Ronald Kimaiyo, B.Ed. (Arts), MBA, Higher Dip. HR	- Manager, Human Resources and Administration
Mr. Isaac Kega, BA (Econ), MEcon, PMP, MESK	- Manager, Monitoring & Evaluation
Mr. Simon Onyango Okoth, BEng (Environment & Bio-systems)	- Manager, Urban Investments
Mr. Fidelis Tamangani, BSc Natural Resources Management, MBA	- Manager, Result-Based Financing
Ms. Pricilla Kagure Kinyari, BSc Eng.(Agricultural), MSc(Environmental)	- Manager, Rural Investments
Eng. Rose Nyikuri, BEng (Civil), MSc (WREM), R. Eng., MIEK	- Manager, Water Resources Investments
Mrs. Ruth Nganga, BA (Theology), PGC, Ed	- Manager, Resource Mobilization & Corporate Communications
Ms. Virginia Nzioka, LL. B; PGDip – Law; ACI Arb	- Manager, Legal & Corporation Secretary

CORPORATE INFORMATION (Continued)

REGISTERED OFFICES

CIC Plaza First Floor,
Mara Road, Upper Hill,
P O Box 49699 - 00100
Nairobi, Kenya.
Tel: +254 - 20-2720696/9017/9018/9019
Fax: +254 - 20-2724357
E-mail: info@waterfund.go.ke
Website: www.waterfund.go.ke

BANKERS

National Bank of Kenya Limited
Hill Plaza Branch,
P O Box 45219 - 00100
Nairobi, Kenya.

Kenya Commercial Bank Limited
Capitol Hill Branch
P O Box 69695 - 00100
Nairobi, Kenya.

NIC Bank Limited
NIC House, Masaba Road
P O Box 44599 - 00100
Nairobi, Kenya.

Co- operative Bank of Kenya Limited
Upper Hill Branch
P O Box 48231 - 00100
Nairobi, Kenya.

AUDITOR

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

LEGAL ADVISORS

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

BOARD OF TRUSTEES

The Board of Trustees' who served the Fund during the financial year are:

Hon. Musikari N. Kombo, EGH - Chairman of the Board of Trustees



Hon. Musikari Kombo joined the Fund as Chairman of the Board of Trustees in April, 2015 for a period of 3 years. He pioneered and made a significant contribution to the agenda of anti-corruption in Kenya.

During the 8th Parliament he played a significant role in institutionalizing the fight against corruption as well as in rejecting legislation that undermined the fight against corruption. In December 1997, the Kenya Anti-Corruption Authority (KACA) was established following an amendment to The Prevention of Corruption Act Cap 65, Laws of Kenya. In 1998, Hon. Musikari Kombo chaired a Parliamentary Committee that produced a report known as the "Kombo Report" the appendix to which was the even more famously known "List of Shame". He spearheaded a Bill in Parliament which was later on taken over by the Government and enacted as The Political Parties Act, 2011 (No11 of 2011). This Act of Parliament provided for registration, regulation and funding of political parties and for connected purposes. Hon. Kombo has also contributed, and has been recognized and acclaimed, for his contribution to the fight against corruption in Africa and globally. In this respect he contributed to the setting up of anti-corruption bodies of parliamentarians and served on them both as a resource person and board member. Hon. Kombo holds a BA Degree (Economics) from the University of East Africa. He has been a successful international businessman with companies in East Africa. He owned and managed groups of companies where he successively held the roles of Managing Director/CEO and Board Chairman.

Hon. Kombo is an ardent reader and enjoys sports. He is currently a regular player of golf.

Mr. Ismail Fahmy M. Shaiye – Chief Executive Officer

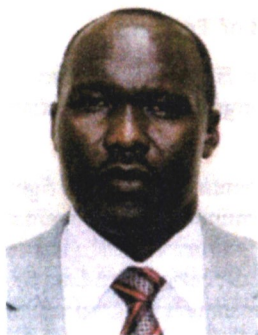
Mr. Ismail Fahmy M. Shaiye joined the Fund as Chief Executive Officer on 10th November 2014. He is a Natural Resource Expert with over 10 years' experience in various countries in Eastern Africa and the United States of America (USA). He served as a Program Manager and Environmental Officer at the United States Agency for International Development (USAID) in Nairobi with responsibilities of ensuring that programs comply with both national and international environmental laws. In addition, he advises USAID Missions in the region on broader issues pertaining to water and sanitation, environmental regulations, biodiversity protection, climate change and environmental dispute resolution. Mr. Shaiye holds a Master's Degree in International Environmental Law (Vermont Law School). He also holds a Master of Science Degree in Natural Resource Management and a Bachelor of Arts Degree in Global Studies (Environmental Governance) from the University of Minnesota. Mr. Shaiye has extensive experience in the application and compliance of Multilateral Environmental Agreements (MEAs) and is an experienced development professional with experience in program management, monitoring and evaluation and communications for clients including World Bank, European Union, DfID, and the United Nations.



Mr. Shaiye has worked with several organizations in the field of water, sanitation and environment including USAID, Kenya Red Cross Society, Mercy USA for Aid and Development and Mississippi County Watershed, USA.

BOARD OF TRUSTEES (Continued)

Prof. Fred Harun Kiptoon Segor, EGH – Principal Secretary, State Department of Water Services



Prof Fred Harun Kiptoon Segor was born on 1st December, 1966 in Baringo County, Kenya.

After his early education at Tambach and Kakamega High School, Prof. Segor proceeded to the University of Nairobi (UoN) for his BSC and M.SC and finally got Deutscher Akademischer Austauschdienst (DAAD) scholarship where he obtained Ph.D. degree in the same University. He joined Moi University in 1996 where he taught Chemistry & Biochemistry for both undergraduate and postgraduate programmes.

Prof. Segor is currently the Principal Secretary (PS) in the Ministry of Water and Irrigation, State Department of Water Services; Patron, Chemical Association of Moi University (CAMU) and the University of Eldoret; Deputy Patron, Baringo County University Students Association. Previously, he was the PS for the State Department of Livestock where he facilitated and advocated for formation of Strategic food reserve from the strategic grain reserve where he oversaw initial injection of KShs 300 million out of required KShs 2 billion into the dairy sector to address milk glut thereby stabilizing milk prices hence contributing to significant growth and improved livelihood of farmers. He was also the PS in the Ministry of Health; the Chairman of Chepkoilel University College, the Departmental Building Committee and the DAAD Scholars Association, Moi University Chapter. He has also been a member of Examinations Irregularity Investigating Committee, Implementation prioritization of schools/units Committee, School of Science Bachelor of Sports Science curriculum Committee and University of Eldoret building committee, Conference, Seminars and Workshop Committee, Moi University Academic Affairs Committee of the Senate; the Vice Chairman Kenya Chemical Society and Kenya DAAD Scholars Association, Moi University Chapter; and Trustee, Moi University Academic Staff Union.

Prof. Segor is a member of many national and international scientific societies including the Kenya Chemical Society, Kenya DAAD Scholars Association (KDSA) and Kenya National Academy of Sciences among others.

Prof. Segor is a prolific writer having published 15 scientific publications and 11 papers mainly in the field of Chemistry; took special interest in scientific and industrial policy particularly in Development of industrial dye-waste water treatment methods using electro catalytic TiO₂/FTO electrode and bio sorption; Phytochemical attractants and repellants from selected Kenyan varieties of mango (*Mangifera indica* L) as control tools for mango fruit fly Spp (Diptera: Tephritida)

Dr. Kamau Thugge, EBS

Dr. Kamau Thugge became Trustee after his appointment and swearing in as the Principal Secretary to the National Treasury on 26 June 2013. He holds a doctorate in Economics from the Johns Hopkins University. Before his appointment, he was an economic advisor to the National Treasury since December 2005. He had previously served as Director Economic Affairs, Treasury since 29 July 2004. Prior to joining Treasury, he worked at the IMF from 1985 to 2004.



BOARD OF TRUSTEES (Continued)



Mr. Daniel Mutua – (Served up to 29th November, 2015)

Mr. Daniel Mutua was appointed Alternate Trustee to the Principal Secretary, The National Treasury in December 2006. He is a senior officer in the National Treasury and has a wealth of experience in the management of public affairs. Mr. Mutua holds a Bachelor of Education and a Master's degree in Business Administration.

Ms. Margaret Wamuyu Kibui

Ms. Margaret Wamuyu Kibui was appointed as Water Services Trust Fund's alternate trustee to the Principal Secretary of the National Treasury in November 2015. She is a Certified Public Accountant and a Member of Institute of Certified Public Accountants of Kenya (ICPAK).

Ms. Kibui possesses a Master of Business Administration degree from the University of Nairobi and Bachelor of Commerce degree (First Class Honours) from KCA University. She is a Senior Government officer with a wealth of experience in Public Financial Management and works at the National Treasury.



Mr. Calvin Shavanga

Mr. Calvin Shavanga is the Alternate Trustee to the Principal Secretary, Ministry of Water and Irrigation Services where he is currently the Chief Finance Officer. He first served as a Finance Officer at the Ministry of Energy in 2000 and was later promoted to Deputy Chief Finance Officer while serving at the Public Service Commission in 2004.

Mr. Shavanga has served in several Ministries including Roads and Public Work Provincial Administration, Special Programmes, Home Affairs and the Ministry of Public Service (now Directorate of Public Service Management in Devolution and Planning Ministry) in that order. It was while serving at the Special Programme Ministry that he was promoted to Chief Finance Officer. Between 1998 and 2000, Mr. Shavanga worked as Project Accountant at the then Dutch Government funded Kenya Agricultural Biotechnology Program KABP. Mr. Shavanga holds a Bachelor of Commerce (Accounting) Degree from the University of Nairobi and is a Certified Public Accountant of Kenya.



Mr. Parmain ole Narikae – (Served up to 29th November, 2015)

Mr. Parmain Ole Narikae joined the Fund as a Trustee in November, 2012 for a period of 3 years. He holds a similar position at the Narok University and Living Water International, Kenya. Previous Board memberships include the Nairobi International Trade Fair where he served as Chief Judge from 2005 to 2007 and Marketing Society of Kenya where he was Chairman from 2006 to 2007. He has extensive experience in management having held senior management positions at the Co-operative Bank of Kenya Ltd from 1984. Parmain hold a Master's in Business Administration (high Distinction) and a Bachelor of Science in Administration (Hons) from the United States International University-Africa (USIU-A). He currently works at Chase Bank (Kenya) Ltd as the General Manager.



BOARD OF TRUSTEES (Continued)



Mr. John K. Musebe, (Served up to 29th November, 2015)

Mr. John Musebe joined the Fund in November, 2012 as a Trustee for a period of three years. He holds a Bachelor of Science (Hon) Chemistry, Botany and Zoology from the University of Nairobi. He previously worked as head of Quality Assurance at P&A African Paper Mills. He has intensive skills in water management as well as a Certificate in Environment Auditing (ISO 14001-2004) KEBS, certificate in Water Quality Management among others.

Mrs. Rose Kavula Mwanga, (Served up to 29th November, 2015)

Mrs. Rose Kavula Mwanga joined the Fund as a Trustee in November, 2012 for a period of 3 years. She holds a similar position at Katulani District Education Board where she is the Board Treasurer. Previously, she served as a Board member of Economic Stimulus Programme Kitui Central Constituency in 2009 and 2010. She is an educationist and holds a BA in Education from the University of Nairobi. Other professional studies include Diploma in special need education from Kenyan Institute of Special Education (KISE), Diploma in Guidance and Counselling from Kenya Professional School of Guidance and Counselling and Diploma in Education Management Programme from Kenya Education Management Institute (KEMI). She is currently working at Kifaru Primary School as the Headmistress and is the assistant Treasurer KNUT, Nairobi County



Ms. Catherine M. Muimi, (Served up to 29th November, 2015)

Ms. Catherine Muimi joined the Fund as a Trustee in November, 2012 for a period of 3 years. She holds a similar position at Iiani and Kyamani Secondary Schools in Kitui District. Catherine has a MBA in Strategic Management from Daystar University and BA in Social work from the University of Nairobi. She is a seasoned and accomplished Social Development and Project Management professional with over 16 years' experience. She previously worked at Kenya Network of Grassroots' Women (KenGrow) Trust as a Programme Manager, Japan Embassy as Project Coordinator and the Public Service Commission as Senior District Social Worker. She is a member of General Social Care Council (England Wales) and Kenya National Association of Probation Officers. She currently works at Community Development Trust Fund as a Regional Officer.



Mr. Gershon A. Dulo, (Served up to 29th November, 2015)

Mr. Gershon A. Dulo joined the Fund as a Trustee in November, 2012 for a period of 3 years. He is a professional Management Consultant, founder and Managing Director of Adaptive Management Consultants Ltd, Adaptive Business School and Gadman Advertising

He holds a Master's in Business Administration and a Bachelor's degree in Commerce from the University of Nairobi (UoN). Gershon is a member of Chartered Institute of Marketing, UK, Marketing Society of Kenya, Leadership and Strategy Shapers, Kenyan Institute of Management, Kenya Professional Trainers Association, and Organizing Secretary General of the University of Nairobi (UoN) Alumni –Business School Chapter



BOARD OF TRUSTEES (Continued)

Mr. Geoffrey K. Kiringa Ruku



Mr. Geoffrey K. Kiringa Ruku joined the Fund as a Trustee in April, 2015 for a period of 3 years. He is an Expert Assessor on monitoring, validating and verifying of low carbon projects in Kenya with Carbon Check, a Designated Operating Entity based in South Africa. He is also an independent contractor with Fair Climate Network Southern Africa based in Pretoria, South Africa. He has consulted in designing project protocols and conducting baseline studies and implementing of climate smart agriculture projects. Mr. Ruku is also a UNFCCC consultant on CDM (Clean Development Mechanisms) loan scheme.

He is the Founding Director of Climate Pal Ltd, a joint venture company (Carbon Manna Africa & Eco Act) which implements carbon emissions reduction projects in Kenya for green growth and development. He championed successful running of the company from inception to having fully operational projects as the Managing Director. Mr. Ruku is also the Founder of the Carbon Manna Africa Ltd. From 2006 to 2009, Mr. Ruku worked with the Israel Embassy as a Coordinator for Center for International Development and Cooperation, Mashav.

Currently, Mr. Ruku is pursuing a PhD in Environmental Management and Governance at Wangari Mathaai Institute of Peace and Environmental Studies and working on Low Carbon Economy as a research area. He holds Master of Business Administration (MBA) – Finance, Postgraduate Diploma in Diplomacy and International Relations, both from the University of Nairobi and Bachelor of Commerce Degree from the Catholic University of Eastern Africa.

Mr. Stephen N. Gwandaru

Stephen N. Gwandaru was appointed as a member of the board of trustees of Water Services Trust Fund in November 2015. He is a marketing specialist and holds a Bachelor of Arts degree in Economics and Business from Kenyatta University. For the last 20 years he has worked with British America Tobacco (BAT) as a Country Manager in Ethiopia.

Mr. Gwandaru was once a member of the Constituency Development Fund (CDF) Board, Kiambaa Constituency, and has also served in various local and international schools as a board member.



Mr. Adan Omar Enow



Adan Omar Enow was appointed as a member of the board of trustees of Water Services Trust Fund in November 2015. He is a management professional with over eight years' senior management experience at different boards and the education sector. He holds a Master of Business Administration (Strategic Management) from Kenyatta University and Doctor of Philosophy degree in Leadership and Governance from Kisii University. He thrives in formulating policies, managing daily operations, and planning the use of materials and human resources which are diverse and general in nature to be classified in any one functional area of management or administration, such as personnel, purchasing, and administrative services.

Mr. Enow has previously served as member or chairman of several boards including National Sports Fund and Kenya Rural Roads Authority, Wajir Constituency. Additionally, he possesses excellent leadership / administrative qualities which develop and empower staff to achieve goals coupled with being a logical problem solver who uses tact to evaluate performance and drive high proficiency.

BOARD OF TRUSTEES (Continued)



Mr. Joel Onsare Gesuka

Joel Onsare Gesuka was appointed as a member of the board of trustees of Water Services Trust Fund in November 2015. He is a specialist in marketing and accounts and holds a Bachelor's degree of Commerce from the University of Jabalpur, India. He also possesses a Postgraduate Diploma in Marketing Management from the University of New Delhi.

Mr. Gesuka is a career public servant having served as an accountant in different government institution for the last 21 years and he is a part-time lecturer at the Universal College, Nairobi.

Mr. Joseph Kotoine Nkaiwuatei

Joseph Kotoine Nkaiwuatei was appointed as a member of the board of trustees of Water Services Trust Fund in November 2015. He has over 12 years' experience in the development sector, mainly in the education sector, Water and Sanitation, Livelihoods and Economic development having implemented development projects and Programmes with GTZ, Netherlands Development Organisation (SNV), Concern Worldwide, Catharina Foundation, Action Aid International. He is currently with the Kenya Community Development Foundation, where he is the team leader for the Education Youth and Children Portfolio.

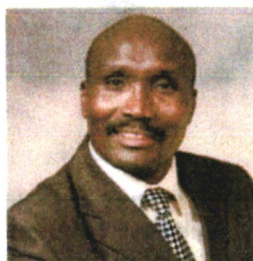
Mr. Nkaiwuatei's experience in education includes processes aimed at improved education access, equity and quality, improved stakeholder coordination in support of education in the arid and semi- arid areas, and the slums of Nairobi. Other areas of expertise include institutional strengthening, organisation development, strategic planning, capacity building facilitation and community mobilisation towards sustainability of community projects. He holds a Bachelor of Arts degree in Political Science and Sociology, and a Master's degree in Project Planning and Management, both awarded by the University of Nairobi.



Eng. Onesmus Kipkirui Maritim

Eng. Onesmus Kipkirui Maritim was appointed as a member of the board of trustees of Water Services Trust Fund in November 2015. He is an Agricultural Engineering specialist having pursued Bachelor of Science in Agricultural Engineering from the University of Nairobi. Eng. Maritim has a Masters of Divinity (Missions Studies-Social Anthropology Emphasis) from the Africa Theological University, formerly Nairobi Evangelical Graduate School of Theology (NEGST). Currently, he is the Executive Director of Oaks Africa Foundation. As an Executive Director, he coordinates, in consultation with the Board of Directors, all activities of the Foundation as a Missionary Engineer.

Eng. Maritim is also serving as an Executive Director of Tim & Tims Engineering Solutions. He brings in a wealth of experience in corporate governance and engineering services to Water Services Trust Fund having worked as an engineer for various companies for the last 35 years. The companies include Kenya Veterinary Production Institute, Agricultural Development Corporation, National Cereals and Produce Board and James Finlay Company Ltd. He has also served as a director for various institutions.



Ms. Rose N. Kinuthia

Rose N. Kinuthia was appointed as a member of the board of trustees of Water Services Trust Fund in November 2015. She is professionally an accountant and is currently pursuing Bachelor's degree in Commerce (Accounts option). She also holds Diploma in Business Administration and Accounting from the Institute of Commercial Management United Kingdom.

Ms. Kinuthia brings in to Water Services Trust Fund a wealth of experience in Accounting and Administration having worked as Executive Secretary with Mediscope Health Care Ltd and currently as a Business Administrator, Mediflon Enterprises Kenya Limited.



BOARD OF TRUSTEES (Continued)



Ms. Sheila Murugi Mugo

Sheila Murugi Mugo was appointed as a member of the board of trustees of Water Services Trust Fund in November 2015. She is a lawyer by profession and an Advocate of the High Court of Kenya with over 15 years' experience. She is currently pursuing Masters in Women's Law at The University of Zimbabwe. She holds a bachelor's degree in law (LLB) from the University of Nairobi and a postgraduate diploma in law from Kenya School of Law. She also has qualifications in humanitarian studies from the University of Dar es Salaam's Centre for the Study of Forced Migration. She has also qualified in mediation from the Peacemakers Ministries International. She has worked in various firms and is currently the proprietor of Sheila Mugo & Company Advocates.

Ms. Mugo thrives in social justice has a passion for the right of the oppressed and marginalised. She has interrogated and written on gender issues relating to access, control and ownership of land, water and natural resources as well as climate change and gender. She is a member of The Law Society of Kenya, Christian Lawyers Fellowship, International Commission of Jurists (ICJ) Kenya Chapter, and serves in Medico-legal committee of the Law Society of Kenya.

Ms. Mugo is also in the board of management of Chief Mbogori Girls High School in Tharaka Nithi County.

Ms. Virginia Nzioka, Manager, Legal Affairs & Corporation Secretary

Ms. Virginia Nzioka (ACI Arb) joined the Fund in January, 2016 as a Manager, Legal/ Corporation Secretary. She is an Advocate of the High Court of Kenya with a post-admission legal practice experience of 10 years. She holds a PGDip in Law and advocacy from the Kenya School of Law and a Bachelor of Laws Degree (Hons.) from the University of Nairobi.

Previously, she worked with the Public Procurement Oversight Authority where she advised on legal and procurement processes. For three (3) years, she was the Committee Secretary for the PPOA Advisory Board's Capacity Building and Communication Committee where she ably provided board secretarial services and support.

Ms. Nzioka has immense managerial expertise having attended management training with ESAMI (Arusha-Tanzania), International Renaissance Centre (IRC - Kenya) and the Kenya School of Government. She is an Associate Member of the Chartered Institute of Arbitrators (K) Branch, a continuing ICPSK, and a Commissioner for Oaths. Her areas of specialization are: oversight and regulatory advisory, Board secretarial services, governance and compliance, contract management, procurement law and practice, and legal research.



MANAGEMENT TEAM



Chief Executive Officer

Mr. Ismail Fahmy M. Shaiye

Mr. Ismail Fahmy M. Shaiye – Chief Executive Officer

BA (Global Studies –Environmental Governance), Masters in International Environmental Law and MSc (Natural Resource Management)

Mr. Ismail Shaiye was appointed the Chief Executive Officer of Water Services Trust Fund in November 2014. He holds a Master’s Degree in International Environmental Law (Vermont Law School), a Master of Science Degree in Natural Resource Management and a Bachelor of Arts Degree in Global Studies (Environmental Governance) from the University of Minnesota. He has extensive experience in the application and compliance of Multilateral Environmental Agreements (MEAs) and development.



Chief Manager, Finance

Mr. Bonface Wanyonyi, B.Com (Accounting), MBA, CPA (K)



Chief Manager, Internal Audit & Risk Management

Mr. Edwin Korir, B.Ed. (Arts), MBA, CPA (K)



Chief Manager, Investments & Programmes

Mr. Willis Okello Ombai, BSc (Forestry), MA (Project Planning & Management)



Chief Manager, Resource Mobilisation & Corporate Affairs

Ms. Rosaita Mbukua, BSc (Natural Resources Management) MBA, Dip Project Management



Manager, Finance

Mr. Samuel Gitau Mbugua, B.Com (Accounting), MBA, CPA (K)



Manager, ICT

Mr. Bernard Njenga, B.Com (Business Information Systems), MBA, Dip (Comp)

MANAGEMENT TEAM (Continued)



Manager, Urban Investments

Mr. Simon Onyango Okoth, BSc.
Eng. (Environment & Bio-
systems), PgMP



**Manager, Water Resources
Investments**

Eng. Rose Nyikuri, BEng (Civil),
MSc (WREM), R. Eng., MIEK



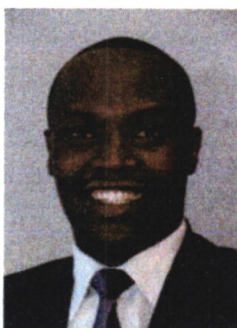
Manager, Rural Investments

Ms. Priscilla Kinyari, BSc Eng.
(Agricultural), MSc
(Environmental and Management)



**Manager, Monitoring &
Evaluation**

Mr. Isaac Kega, BA (Econ),
MEcon, PMP, MESK



**Manager, Human Resources &
Administration**

Mr. Ronald Kimaiyo, B.Ed. (Arts),
MBA, Higher Dip. HR



**Manager, Resource Mobilisation
& Corporate Communications**

Mrs. Ruth Nganga, BA (Theology),
PGC, Ed



**Manager, Results-Based
Financing**

Mr. Fidelis Tamangani, BSc
Natural Resources Management,
MBA



**Manager, Legal Affairs &
Corporation Secretary**

Ms. Virginia Nzioka, LL.B; PGDip
– Law; ACI Arb

CHAIRMAN'S REPORT

I am delighted to present the annual report and financial statements for the Water Services Trust Fund for the twelve months' period ended 30th June 2016.

Water Sector Review

During the year, the Funds operations continued to be guided by the Water Act of 2002. The water bill 2014 which seeks to repeal the Water Act of 2002 and to realign it to the Constitution of Kenya 2010 continued to undergo deliberations at both the National Assembly and The Senate and as at the close of the year the bill was under mediation by both houses. The bill once enacted into law will transform Water Services Trust Fund to a Water Sector Fund with expanded mandate. The bill was eventually approved after the end of year and now awaits for presidential assent.

Water Services Trust Fund (WSTF) was established as part of the water sector reforms under the Water Act of 2002 with a mandate to assist in financing the provision of water services to areas of Kenya which are without adequate services. In the Water Bill 2014, The Mandate / Object of the Fund is to provide conditional and unconditional grants to the Counties and to assist in financing the development of and management of water services in the marginalized and underserved areas including:

- a) Community level initiatives for the sustainable management of water resources
- b) Development of water services in rural areas considered not to be commercially viable for provision of water services by licensees; and
- c) Development of water services in the under-served poor urban areas

Partnerships

Water Services Trust Fund is funded by the Government of Kenya and Development Partners. Over the past 5 years the Development partners funding has averaged over 80%. The Fund therefore places great value on developing and nurturing partnerships as part of its resource mobilization activities and has included it as one of the strategies in the strategic objectives.

During the financial year 2015/2016, WSTF worked with several Financing Partners including the Governments of Sweden, Finland, Denmark and Germany; the European Union and International Fund for Agricultural Development; Bill and Melinda Gates Foundation; Water and Sanitation for the Urban Poor (WSUP) and Technical Partners included the German Technical Cooperation (GIZ), and Orgut Consulting.

Besides the development partners, the Fund being a financing institution implements its projects through implementing partners which include the Water Services Providers, the Water Boards, Community Based Organizations and Community Forest Associations (CFAs). Therefore, good relationship with implementing partners is paramount for the success and sustainability of funded projects. To this end the Fund has invested in capacity building of the implementing partners. Other key stakeholders that the Fund works with include the County Governments, the private sector and non-governmental institutions.

Recognizing that the mandate of water services provision as per the Constitution of Kenya 2010 is the preserve of the County Government, in 2015/2016, the Fund developed Communication and County Engagement Strategy aimed at building the relationship between the Fund and the County governments. The Fund continued to implement the strategy during the year through organized forums and involvement of counties in activities being undertaken within the counties.

Strategic Plan

In the year 2014/2015, the Fund completed the development of its Strategic Plan 2014-2019 to guide it in an ambitious investment programme which will see the Fund mobilize KShs. 16.6 Billion targeting to reach 5 Million underserved Kenyans. The Corporate Strategy focused on business processes re-engineering with improved service delivery and sustainable goals. However, due to the need to realign the plan to the Vision 2030 second Medium Plan 2013-2017 and the Ministry of Water and Irrigation plan, the Fund in 2015/2016 reviewed its plan and reduced the Strategic plan period from 5 years to 3 years (2014/15 to 2016/2017) and the targets were also revised to match the period. The review of the plan was supported by Water and Sanitation for the Urban Poor (WSUP).

CHAIRMAN'S REPORT (Continued)

Board and Management Changes

During the year, the term of 6 trustees who were serving on a 3 years' term from 30th November 2012 came to an end. The outgoing trustees were replaced by 8 new trustees whose appointment took effect from 26th November 2015. The new members came from different professional background which include Finance, Accounting, Engineering, Legal and Monitoring and development fields. The Fund will tap into the mix of skills from the new trustees in order for enhanced development of the Fund.

Further, new organizational structure which was reviewed as part of the strategic plan was implemented. This saw the recruitment of 2 Chief Managers for Investment and Resource Mobilization and re-designation of two serving managers (The Manager Audit and Risk and The Finance and Administration Manager) to the position of Chief Managers. In addition, the Fund recruited 3 Managers to man the various divisions established under the new structure. Among the managers, was the Legal Manager and Corporation Secretary, a new position established in compliance with the Mwongozo code of governance. The restructuring has led to improved efficiency and effectiveness in the achievement of the corporate objectives with improved focus on key business processes and enhanced governance mechanisms.

Review of performance

Income

The Fund earned revenues amounting to KShs 1.24 Billion from the development partners, The Government of Kenya and other revenues from exchange transactions. The Government of Kenya supported with Ksh. 406.75 million while Ksh. 781.34 million was earned through support from development partners. Revenues from exchange transactions contributed Ksh. 53.45 million. Overall revenues increased by 3%.

The Fund disbursed Ksh. 1,062 million to projects across its investments programmes. Projects implementation during the period were carried out as per the plan with the coordinated efforts by all stakeholders including the county governments and development partners among others. The performance was also attributed to a favourable opening cash balance of Ksh. 1.17 billion at the beginning the year.

Expenditures

The total expenditures during the period amounted to Ksh. 1.20 billion out of which the Administration expenses amounted to Ksh. 307.01 million and Project expenses Ksh. 890.85 million representing 26% and 74% of total expenditures respectively.

Future outlook

The future outlook of the Fund for 2016/2017 looks brighter with imminent the passing of the Water Bill 2014. The mandate of the Fund is set to expand to the entire water sector. The main focus now will be taking advantage of the expanded mandate and provisions of new revenue streams to build a robust and sustainable Fund with a motivated workforce and structures that enhances efficiency and effectiveness in the service delivery. With the global shift from grant to trade the Fund will seek to expand the result based financing as an alternative to the traditional grant. The Fund looks forward to continued support from the Government and Development partners to the realization of its mandate.

Appreciation

I take this opportunity to express my sincere gratitude and appreciation to the Government, development partners, stakeholders, management, staff and fellow Trustees for their continued support which made us achieve these results.

I look forward to your continued support in the year 2016/2017.



Hon. Musikari N. Kombo, EGH
Board Chairman

CHIEF EXECUTIVE OFFICER'S STATEMENT

On behalf of the Management of Water Services Trust Fund (WSTF), it gives me great pleasure to present to you our annual report and financial statements for the year ended 30 June 2016.

Water Services Trust Fund is funded by the Government of Kenya and Development Partners. The Fund therefore places great value on developing and nurturing partnerships as part of its resource mobilization activities.

In the financial year 2015/2016, the Fund registered many commendable achievements for WSTF including the launch of the Governments of Finland and Sweden Joint Programme (JP6) which was attended by all the Governors and CECs from target Counties, the Chairman Council of Governors and the Council of Governors Chair for water and Environment, with the two Ambassadors of Sweden and Finland being Chief Guests.

During the period, the WSTF through the Government of Kenya signed four (4) new agreements for funding to rural and urban projects, capacity building and research. These bilateral and multilateral agreements included: Financing Agreement with the Royal Danish Embassy for Green Growth and Employment Creation Programme, Partnership Agreement with PEWAK (Aquanet, Vitens Evides International and other partners), Technical Capacity agreement with Climate Technology Centre and Network (CTCN) for research on green and clean technologies, and Memorandum of Understanding with Saudi Fund for Development for WASH projects in Northern Kenya.

Overall, WSTF continued to work with and received funding from several Development Partners including the Governments of Sweden, Finland, Denmark and Germany; the European Union (EU), World Bank, International Fund for Agricultural Development (IFAD) and Bill and Melinda Gates Foundation (BMGF). Technical Partners included the German Technical Cooperation (GIZ), Water and Sanitation for the Urban Poor (WSUP) for Strategic Plan review, Vitens Evides International and Orgut Consulting.

Great strides were achieved in County Engagement and the County Governments continue to willingly collaborate and co-fund WSTF programmes. This engagement is a continuing process and will lead to improved financing, implementation and service delivery mechanisms and systems for the good of the target communities and the Nation at large.

The Fund continued to pursue new avenues of financing especially leaning increasingly towards innovative and sustainable financing. This was done through design of sustainable programmes through established institutions and implementation of sustainable projects and design and implementation of sustainable financing mechanisms such as Result Based Financing and co-funding options.

BUSINESS PERFORMANCE

Revenue

Water Services Trust Fund earned revenues amounting to KShs 1.24 Billion from the development partners, The Government of Kenya and other revenues from exchange transactions. The Government of Kenya contributed Ksh. 406.75 million, development partners Ksh. 781.34 million while revenues from exchange transactions amounted to Ksh. 53.45 million.

The Government of Kenya support to the Fund experienced a decrease of 5% from previous year while the support from the development partners made significant impact in the performance that made the Fund earn funds amounting to KShs 781.34 million representing an increase of 6%. The Fund remained liquid throughout the year experiencing high liquidity towards the end of the financial year due to increased support from the development partners as a result for new agreements sealed towards the end of the financial year. The Fund is projecting an ambitious plan that is expected to experience growth in undertaking its support as per the mandate as detailed in the current Strategic Plan 2014-2017.

Cash flow

The cash and cash equivalents decreased from KShs 1,165.2 million as at 30 June 2015 to KShs 736.8 million as at 30 June 2016. There was significant cash outlay in funding of projects towards the end of the year.

CHIEF EXECUTIVE OFFICER'S STATEMENT (Continued)

OPERATIONAL PERFORMANCE

The Fund's core operating activity has been the financing support to projects for improved access to water and sanitation and investments in water resources. The Government of Kenya has supported the Fund through which new agreements and MOUs were signed during the year with various development partners namely; Government of Finland, Government of Sweden, European Union (EU), Government of Germany through KfW and the World Bank (to be implemented in the coming financial year). The agreements signed during the year are worth KShs 5.1 Billion.

During the year, the Fund earned Ksh. 1.19 billion from GOK, EU, KfW, IFAD, Finland, Denmark, Bill and Melinda Gates Foundation and The World Bank for water, sanitation and water resources projects. The fund received from the Government of Kenya represented support to operations and development to the rural and urban investments.

During the year GIZ (German Technical Cooperation) provided technical support to WSTF's Urban Investment with several Technical Advisors stationed at the WSTF.

SNV and Orgut Consulting provided technical support to the Rural Investment, Sweden and Finland programmes, with three Technical Advisors stationed at WSTF.

The achievements of each investment programme is summarized as follows;

The Urban Investments

The Urban investments programme is a funding mechanism of the WSTF established in the year 2009 to finance extension of water and sanitation services in urban low income areas of Kenya. The financing of the extension of the water services is done through two major programmes namely; urban project concept (UPC) and up-scaling basic sanitation for the urban poor (UBSUP). UPC is funded by the German Development Bank (KfW) and the Government of Kenya (GoK) while the UBSUP is funded by KfW, the Bill and Melinda Gates Foundation (BMGF) and GoK.

The UPC investments focuses on the extension of water supply and improvement of sanitation situation in public places while UBSUP investments targets household and plot level sanitation based on the principle of complete sanitation value chain. To date, the investments programme has financed 298 projects including 272 UPC projects and 26 UBSUP projects costing a total of Ksh. 2.94 billion and benefiting an estimated population of 1.8 million people.

During the financial year 2015/2016, a total of 38 water supply projects targeting 224,319 people and 10 public sanitation projects targeting approximately 8,000 people. Further to this, WSTF continued to finance the 23 UBSUP projects during the year. The UBSUP projects are expected to serve 150,000 upon completion.

The Results Based Financing (RBF) program is supporting water utilities that are investing in water supply and sanitation improvement subprojects benefiting households in low income areas. The investments are linked to the construction/expansion of water and sewer networks to reach unserved consumers, rehabilitation/improvement of existing networks e.g. non-revenue water (NRW) reduction program, water and/or sewer connections to households and public points and water and sewer treatment facilities.

The RBF program is grants financed by the Swedish International Development Agency (SIDA) through the World Bank, Output Based Aid (OBA) program for US\$11.835 million and the German Development Bank (KfW), Aid on Delivery (AoD) program for Euros 1.36 million.

Since program inception in December, 2014, the RBF program has supported five (5) water and sanitation improvement projects valued at Kshs. 377 million. The five projects were pre-financed with commercial loans from domestic lenders and these includes Water and Sewerage Companies namely; Embu (Kshs. 107 million), Meru (Kshs. 105 million), Nol Turesh (Kshs. 100 million), Murang'a (Kshs. 42 million) and Murang'a South (Kshs. 23 million).

The program has also disbursed subsidies to the five projects for those that are ongoing and those fully completed totalling Kshs. 69.48 million by June 30, 2016. An additional ten (10) water utilities are currently accessing technical assistance funding in excess of Kshs. 40 million for project proposal development, after which they will be eligible to access commercial loans from local lenders. The ten projects are estimated to cost in excess of Kshs. 1.5 billion and will access subsidies of over Kshs. 900 million after fully achieving the pre-agreed targets.

The RBF program has so far reached out to a total of 10,644 households or 51,936 people in low income areas with improved water and sanitation services. The primary beneficiaries reached are categorized as 46,940 people accessing individual water connections, 4,576 people accessing water kiosks and 420 people accessing yard taps. The program is targeting to reach at least 150,000 people with access to clean water and sanitation services by June 30, 2018.

CHIEF EXECUTIVE OFFICER'S STATEMENT (Continued)

Rural Investment

The Rural Investment Programme at the Fund is mandated to finance water and sanitation projects in the underserved rural communities across Kenya. During the reporting period, the Rural Investment Programme received KShs 481 million from Government of Kenya, European Union, Governments of Finland and Sweden.

The funds were utilized on project and programme activities that included: financing projects, monitoring and capacity build water utilities. Projects were funded through two programmes namely: Rural Utilities – J6 Programme and MTAP II.

In the financial year 2015/2016, 32 water and sanitation projects have been funded under MTAP II Programme at a total cost of KShs 303 million targeting 181,998 beneficiaries. Joint 6 Programme has funded 31 water projects at a cost of KShs 376 million with a target of 263,150 people and 25 sanitation projects were funded at a cost of KShs 24 million targeting 5,300 people.

Water Resources Investments

The WRI programme is a collaboration between Government of Kenya- GOK, Government of Finland- GOF, Government of Sweden- GOS, International Fund on Agricultural Development- IFAD and the Danish International Development Agency- DANIDA.

The water resources investment had a target to finance 88 projects (16 CFAs and 72 WRUAs) in total. The number of projects financed were 79 (16 CFAs and 63 WRUAs) at an approximate cost of Kshs. 190 million.

The Water Resources Investment Programme also managed to undertake 6 baseline surveys to identify suitable target locations for sustainable water resource management.

30 workshops were undertaken on WRUAs and CFAs to build their capacity in financial & project management, procurement procedures and proposal development. The trained WRUAs and CFAs were drawn from 17 counties namely; Murang'a, Kirinyaga, Meru, Nyeri, Embu, Tharaka Nithi, Lamu, Tana river, Wajir, Garissa, Marsabit, Isiolo, Laikipia, Narok, Nandi, Migori & Kwale. WRI managed to monitor 118 projects country wide.

Water Resources on cross cutting issues scored high on Environmental compliance and imitating the technical assistance from CTCN to WSTF on "Catalysing low cost green technologies for sustainable water service delivery". WSTF mainstreamed Environmental Management Coordination Act provisions via undertaking a self-audit, formulating and implementing an annual work plan and acquiring a patent for the WSTF drinking water bottles from the Kenya Industrial Property rights institute (KIPI)

Employees

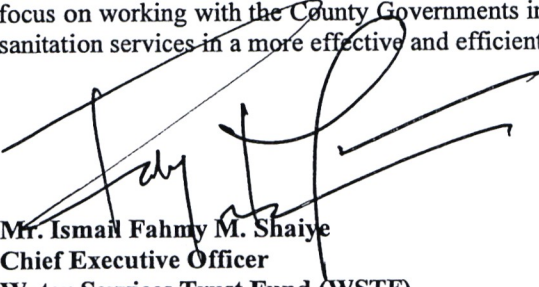
WSTF employees are crucial to the successful achievement of the WSTF's strategic objectives and mandate. To achieve this WSTF has undertaken various activities during the year under review.

They include review of the organizational structure that resulted to growth of staff from forty (40) to fifty three (53), development of all staff job descriptions, reviewed the performance appraisal tool to enhance high performance, reviewed the WSTF Human Resources Policy which was approved by the Board of Trustees in November 2015 to address emerging issues, development of career progression guidelines to guide the management in making career decisions for staffs and recruitment of County Resident Monitors (CRMs) who were posted to 27 counties to monitor WSTF funded projects while working closely the county governments in achieving that objective. WSTF continue build capacity of its staff through training and development for good corporate governance. Further, WSTF has evolved an employee focused system that will deliver a high quality, responsive, accessible and value for money services to its staff.

CHIEF EXECUTIVE OFFICER'S STATEMENT (Continued)

Conclusion

I wish to take this opportunity to express my sincere gratitude to the Board of Trustees for the support, time and the oversight role that they have accorded the Fund. We are thankful to the Ministry of Water and Irrigation, the development partners, the County Governments and other stakeholders that has been key for success and sustainability of projects. The Fund will continue to fast track service delivery to the underserved, adopt innovative methods to serve the poor, focus in capacity development for the implementing partners and nature partnerships through transparency and accountability amongst others. I thank the management and staff for their continued commitment and dedication through hard work in delivering services to the communities. The Fund continues to focus on working with the County Governments in reaching to the communities in Kenya with improved water and sanitation services in a more effective and efficient manner.



Mr. Ismail Fahmy M. Shaiye
Chief Executive Officer
Water Services Trust Fund (WSTF)

STATEMENT OF CORPORATE GOVERNANCE

THE BOARD

Water Services Trust Fund is established under Section 83 of The Water Act, 2002 as a Trust Fund mandated to provide financing access to water and sanitation in underserved areas. The Fund is committed to ensuring compliance with the provisions of Water Act, 2002, among other regulatory and supervisory corporate governance requirements. Essential to the establishment of a corporate governance framework in the Fund is formal governance structure with the Board of Trustees at its apex. The operations of the Fund are governed by a Trust Deed made on 26th April, 2004. The structure is designed to ensure an informed decision making process based on accurate reporting to the Board.

THE BOARD OF TRUSTEES

The Trust Deed provides that the Board of Trustees shall be made up of nine Trustees, including the Chairman, all appointed by the Cabinet Secretary, Ministry of Water and Irrigation. The Board of Trustees is responsible for the long-term strategic direction of the Fund and recruitment of the Chief Executive Officer and senior management. The Board of Trustees exercises leadership, enterprise, integrity and judgment in directing the Fund.

The Trustees are provided with full, appropriate and timely information that enables them to maintain full and effective control over the strategic, financial, operational and compliance issues.

The day-to-day running of the operations of the Fund is delegated to the CEO but the Board of Trustees is responsible for establishing and maintaining the Fund's system of internal controls for the realization of its mandate of providing financial support for improved access to water and sanitation in areas without adequate services.

All members of the Board of Trustees have been taken through a comprehensive induction programme and adequately trained on their roles as Board members, during the induction for Board Members on Mwingo facilitated by the State Corporations Advisory Committee. The Trustees are professional, committed and guided by the mission, vision and core values of the Fund in execution of their duties. At the end of each financial year, the Board, its Committees, individual Trustees and the CEO are evaluated by an independent body against targets agreed to at the beginning of the year.

BOARD MEETINGS

The Board of Trustees meets quarterly or as required in order to monitor the implementation of the Fund's Strategic Plan and achievement of the targets in the Performance Contract signed with the Government. The Board of Trustees also plays an oversight role over all other financial and operational issues. The Trustees held ten full Board and three Special Board meetings during the Financial Year 2015/2016.

In ensuring that corporate governance and integrity is enhanced in between the governance of the Fund, the Board of Trustees has established three Committees namely: -

i) Investment & Monitoring Committee

This Committee was established to guide the Board of Trustees in making prudent investment decisions aimed at financing viable water and sanitation projects and provide organizational guidance on the monitoring and evaluation of funded projects. The Committee held eight meetings during the financial year. The trustees who served on this committee during the year under review were:

S/No.	Name	Position in committee	Period Served
1	Mr. Geoffrey Ruku	Chairman	1 st December 2015 to 30 th June 2016
2	Mr. Gershon Dulo	Chairman	1 st July 2015 to 29 th November 2015
3	Mr. Daniel Mutua	Member	1 st July 2015 to 29 th November 2015
4	Mr. Calvin Shavanga	Member	1 st July 2015 to 30 th June 2016
5	Ms. Margaret Wamuyu	Member	1 st December 2015 to 30 th June 2016
6	Eng. Onesmus Maritim	Member	1 st December 2015 to 30 th June 2016
7	Ms. Rose Nyambura Kinuthia	Member	1 st December 2015 to 30 th June 2016

STATEMENT OF CORPORATE GOVERNANCE (Continued)

ii) Finance & General Purposes Committee

This Committee was established to advise the Board of Trustees in matters relating to Finance, Resource Mobilization, Human Resource Management and Corporate Social Responsibility. The Committee held ten Meetings during the year. The members who served on this Committee during the year under review were:

S/No.	Name	Position in committee	Period Served
1	Ms. Sheila Murugi Mugo	Chairperson	1 st December 2015 to 30 th June 2016
2	Ms. Catherine Muimi	Chairperson	1 st July 2015 to 29 th November 2015
3	Mr. Daniel Mutua	Member	1 st July 2015 to 29 th November 2015
4	Mr. John Musebe	Member	1 st July 2015 to 29 th November 2015
5	Mr. Calvin Shavanga	Member	1 st July 2015 to 30 th June 2016
6	Ms. Margaret Wamuyu	Member	1 st December 2015 to 30 th June 2016
7	Mr. Adan Omar Enow	Member	1 st December 2015 to 30 th June 2016
8	Mr. Joseph Kotoine Nkaiwuatei	Member	1 st December 2015 to 30 th June 2016

iii) Audit and Risk Committee

This Committee was established to advise the Board of Trustees on institutional risk management and compliance. The Committee held five meetings during the year. The Committee also met the Fund's external auditors PricewaterhouseCoopers to deliberate on risk management issues. The members of this Committee during the year under review were:

S/No.	Name	Position in committee	Period Served
1	Mr. Joel Gesuka	Chairperson	1 st December 2015 to 30 th June 2016
2	Mr. Parmain ole Narikae	Chairman	1 st July 2015 to 29 th November 2015
3	Mr. Daniel Mutua	Member	1 st July 2015 to 29 th November 2015
4	Mr. Calvin Shavanga	Member	1 st July 2015 to 30 th June 2016
5	Mrs. Rose K Mwangi	Member	1 st July 2015 to 29 th November 2015
6	Ms. Margaret Wamuyu	Member	1 st December 2015 to 30 th June 2016
7	Mr. Stephen Njoroge Gwandaru	Member	1 st December 2015 to 30 th June 2016
8	Mr. Joseph Kotoine Nkaiwuatei	Member	1 st December 2015 to 30 th June 2016

COMMUNICATION WITH STAKEHOLDERS

The Fund is committed to ensuring that all its stakeholders are provided with full and timely information about its programmes and performance. They are also given an opportunity to give feedback. This is usually done through quarterly Steering Committee meetings and the Annual Stakeholders Conference.

STATEMENT OF COMPLIANCE

The Board of Trustees confirms that Water Services Trust Fund has throughout the FY2015/2016 complied with all statutory and Regulatory requirements and that the Fund has been managed in accordance with the principles of good corporate governance.

With regard to compliance with Mwongozo, the following requirements have not been met fully during the period:

- (i) That Board of Trustees ought to be between seven and nine in number; the Fund has informed the appointing authority on this requirement.
- (ii) The Trust Fund did not conduct annual board evaluation because some of the Trustees were appointed with effect from 29th November, 2015 and had not completed a year of service. Board evaluation is scheduled in the new financial year.
- (iii) The Trust Fund did not conduct a governance audit because the state corporations advisory committee (SCAC) did not issue a database of accredited governance auditors.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

The Trustees are responsible for reviewing the effectiveness of the Trust Fund's system of internal control which is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorized use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

Standing Instructions

The Trust Fund has a Code of Ethics and Service Charter that is applicable to all employees. These have a number of standing instructions to employees of the Trust Fund designed to enhance internal control. The Trust Fund has also designed a set of standing instructions to be followed in the financing of projects in each investment.

Organization Structure

A clear organizational structure exists, detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements. Training plans are prepared and implemented to ensure that staff develop and maintain the required skills to fulfil their responsibilities, and that the Trust Fund can meet its future management requirements.

Strategic Plan

The business of the Trust Fund is determined by the Strategic Plan. The Strategic Plan sets out the objectives of the Trust Fund, and the annual targets to be met to attain those objectives. The Strategic Plan is evaluated annually to assess the achievement of those objectives. The Board on an annual basis approves the work plan supported by the financial plan for the year. Progress against the plan is monitored on a quarterly basis.

Internal Control Framework

The Trust Fund continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. Business processes and controls are reviewed on an ongoing basis. A risk-based audit plan, which provides assurance over key business processes and operational and financial risks facing the Trust Fund, is approved by the Audit and Risk Committee.

The Audit and Risk Committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Board. Where weaknesses are identified, the Committee ensures that management takes appropriate action. No significant failings or weaknesses were identified during 2016.

Risk Management

The Trust Fund has in place a risk management framework which guides the Fund in identifying, assessing and managing the risks. The Fund has developed a risk register which documents and prescribes mitigating measures of all the risks both external and internal facing the Fund. The risk management framework and register are regularly reviewed to incorporate any emerging issues in the operating environment. The last review was conducted during the financial year 2015/2016. The risk management is coordinated by the head of internal audit assisted with a management team drawn from the various department/sections. This team reviews all the risks in the Trust Fund and updates the risk register and ensures that all new and emerging risks are appropriately evaluated and any further actions identified. The identified risks are reported to the Audit and Risk Committee to assist the Board in the management of risks.

Management Team

The management team headed by the Chief Executive Officer implements the Board decisions and policies through action plans. The team meets regularly to review these action plans to ensure that the Board's objectives are achieved effectively and efficiently.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

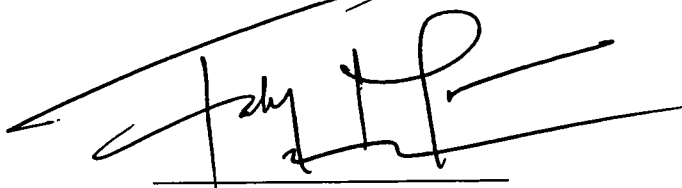
Auditor

The Trust Fund is audited by the Auditor-General. The Auditor-General has however delegated this function to an independent auditor (PricewaterhouseCoopers – PwC) as per Sections 23 of the Public Audit Act, 2015.



Hon. Musikari N. Kombo, EGH
Board Chairman

9 DECEMBER 2016



Mr. Ismail Fahmy M. Shaiye
Chief Executive Officer

9 DECEMBER 2016

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Fund went beyond its core business of financing projects by undertaking several social duties to the society in which it operates. In the financial year 2015/2016 WSTF spent a total of Ksh. 2,050,090 on Corporate Social Responsibility. The following activities were carried out;

The Fund offered attachment to several students from various universities within the country in order to help them acquire capacities and skills that are required once they graduate.

The Fund participated in the Ndakaini and Chemususu half marathons supporting with KShs 550,000 for sponsorship, corporate registration and participation and branding. The half marathons are organized annually for the protection of the sub-catchments around the two dams. WSTF supports the protection, preservation and conservation activities of the dams for Water Resources Management which the Fund finances through the Water Resources Users Associations.

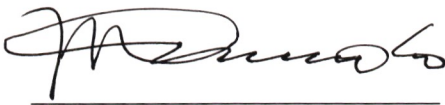
The fund participated in the East African Breweries Ltd (EABL) Marathon (Karura) with a support of KShs 10,000.

The Fund supported Malaa Water Community Project in Makueni County with KShs 1,000,000 for borehole drilling, pipeline extension and storage water tanks to benefit 1300 community members including primary and secondary school. The project was commissioned in April 2016.

The fund helped a disadvantaged girl called Tatu Kenga with school fees and her upkeep in Kaloleni, Kilifi County. WSTF spent Ksh. 50,090 purchase of School uniform and equipment, foodstuff and other necessary supplies. WSTF has purchased a secondary school education policy for Tatu. An annual visitation was done to her home and to the school to check on her academic performance.

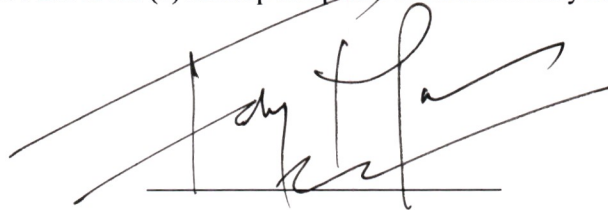
The Fund supported Korao Girls, Kuresoi South which is a community initiative to support girls' education in the Mau area which was affected by Post Election Violence of 2007/2008 for construction of toilets and bathrooms, water tank, piping and fittings and labour valued at Ksh. 400,000.

During the year the Fund donated of KShs 40,000 and seven (7) desktop computers to Tunen Primary Schools, Uasin Gishu County.



Hon. Musikari N. Kombo, EGH
Board Chairman

9 DECEMBER 2016



Mr. Ismail Fahmy M. Shaiye
Chief Executive Officer

9 DECEMBER 2016

REPORT OF THE TRUSTEES

The Trustees submit their report together with the audited financial statements for the year ended 30 June 2016.

REGISTRATION

The Water Services Trust Fund (WSTF) is a state corporation established under the Water Act, 2002, Section 83 (1) with a mandate to assist in financing the provision of water services to areas of Kenya which are without adequate water services. WSTF operates under the Ministry of Water and Irrigation and is guided by the Trust Deed of 26 April 2004.

PRINCIPAL ACTIVITIES

The WSTF is a basket fund through which the Government of Kenya, through appropriations by Parliament, development partners and other funds, channels financial assistance towards the implementation of water, sanitation and water resources projects throughout the country with special emphasis on the poor, marginalized communities and working with the County Governments in delivering this services.

RESULTS

	KShs
Income	1,241,535,850
Expenditure	(1,197,864,173)
	<hr/>
Surplus for the year	43,671,677
	<hr/> <hr/>

TRUSTEES

The Trustees who served during the year are shown on page 2.

The changes in the Board of Trustees during the financial year are shown below.

1. Mr. Stephen N. Gwandaru joined on 2nd October, 2015
2. Mr. Adan Omar Enow joined on 26th November 2015
3. Mr. Joel Onsare Gasuka joined on 26th November 2015
4. Mr. Joseph Kotoine Nkaiwatei joined on 26th November 2015
5. Eng. Onesmus Kipkirui Maritim joined on 26th November 2015
6. Ms. Rose Nyambura Kinuthia joined on 26th November 2015
7. Ms. Sheila Murugi Mugo joined on 26th November 2015
8. Ms. Margaret Wamuyu Kibui joined on 26th November 2015

AUDITOR

The Auditor General is responsible for the statutory audit of the Trust Fund's books of account. In accordance with Sections 23 of the Public Audit Act, 2015 which empowers the Auditor General to outsource other auditors to carry out the audit on his behalf, PricewaterhouseCoopers (PwC) were appointed as the auditors of the Trust Fund to conduct the statutory audit for the year ended 30 June 2016.

FOR AND ON BEHALF OF THE BOARD OF TRUSTEES



9 DECEMBER 2016

Nairobi

STATEMENT OF TRUSTEES' RESPONSIBILITIES

Section 82 of the Public Finance Management (PFM) Act, 2012 and the Water Services Trust Deed, require the Trustees to prepare financial statements in respect of the Trust Fund, which give a true and fair view of the financial position of the of the Trust Fund at the end of the financial year and its financial performance for the year then ended. The Trustees are responsible for ensuring that the Trust Fund keeps proper accounting records that are sufficient to show and explain the transactions of the Trust Fund; disclose with reasonable accuracy at any time the financial position of the Trust Fund; and that enables them to prepare financial statements of the Trust Fund that comply with prescribed financial reporting standards and the requirements of the PFM Act. They are also responsible for safeguarding the assets of the Trust Fund and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustees accept responsibility for the the preparation and presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, the State Corporations Act and the Trust Deed. They also accept responsibility for:

- i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii. Selecting suitable accounting policies and then apply them consistently; and
- iii. Making judgements and accounting estimates that are reasonable in the circumstances

In preparing the financial statements, the trustees have assessed the Trust Fund's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the trustees to indicate that the Trust Fund will not remain a going concern for at least the next twelve months from the date of this statement.

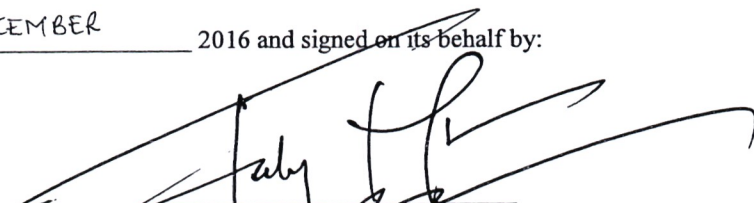
The trustees acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the board of trustees on 9 DECEMBER 2016 and signed on its behalf by:



Hon. Musikari N. Kombo, EGH
Board Chairman

9 DECEMBER 2016



Mr. Ismail Fahmy M. Shaiye
Chief Executive Officer

9 DECEMBER 2016

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON WATER SERVICES TRUST FUND FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Water Services Trust Fund set out on pages 28 to 62, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in reserves, 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 have been audited on my behalf by PricewaterhouseCoopers, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have dully reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit was obtained.

Management's Responsibility for the Financial Statements

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

The 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report 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. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making

Report of the Auditor-General on the Financial Statements of Water Services Trust Fund for the year ended 30 June 2016

those risk assessment, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes the evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1. Receivables from Non-Exchange Transactions

(i) Outstanding Ex-Staff Debtors

Included in the receivables from non-exchange transactions balance of Kshs.572,000,817 as at 30 June 2016 is an amount of Kshs.1,776,342 being staff receivables of which ex-staff owe the Fund un-surrendered imprest of Kshs.329,169. The recoverability of the balance is remote and management has not explained how the ex-staff were cleared before surrendering the said imprest.

(ii) Long Outstanding Advances

Similarly, included in the receivables from non-exchange transaction balance of Kshs.572,000,817 as at 30 June 2016 are long outstanding advances to project implementing agencies amounting to Kshs.13,682,100. The amount comprises of advances to projects which have since come to an end. The recoverability of the outstanding amount is now doubtful.

In the circumstances, the recoverability of the receivables from non-exchange transaction balance of Kshs.572,000,817 as at 30 June 2016 could not be ascertained.

2. Non-Current Assets

The non-current assets balance stood at Kshs.42,537,913 as at 30 June 2016. However, the Fund did not maintain an up to date fixed assets register as at 30 June 2016. Further, the audit revealed cases of assets disposed-off several years ago still being reflected in the assets register, some assets without code numbers in the system and some assets were not tagged.

Additionally, assets worth Kshs.59,891,611 as at 30 June 2016 were fully depreciated and were therefore not depreciated during the year contrary to IPSAS. Management has not put in place a policy to guide on how to deal with such assets in terms of either revaluing them or disposing them. In addition, though notes to the financial statements state that intangible assets are amortized on a straight line

basis, the Fund did not amortize its intangible assets on that basis, since it would have resulted to Kshs.4,062,976 instead of Kshs.2,928,926 currently used.

In view of the foregoing, it has not been possible to ascertain the correctness and completeness of the non-current assets balance of Kshs.42,537,913 as at 30 June 2016.

3. Cash and Cash Equivalents

Included in the cash and cash equivalents balance of Kshs.736,802,229 as at 30 June 2016 is the cash book balance of Kshs.2,213,520 for the dormant National Bank recurrent account. However, Management did not prepare bank reconciliation statements for the bank account during the period. Further, management has not explained why it has retained Kshs.2,213,520 in a dormant bank account for over three (3) years without earning interest.

Consequently, it has not been possible to ascertain the accuracy and completeness of cash and cash equivalents balance of Kshs.736,802,229 as at 30 June 2016.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Water Services Trust Fund as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Water Act, 2002 and Water Services Trust Deed.

Other Matter

1. Delay in the Transfer of GOK Counterpart Funds to Respective Investment Accounts

The project expenditure is funded by both the development partners and GOK counterpart funds as per the funding agreements. However, Management transferred Kshs. 406,750,000 of the budgeted Government funds for the year after the year end contrary to the funding agreement. This impacts negatively on implementation of Urban Project Investments.

2. Questionable Costs

During the year under review, there were questionable costs from current and past audits amounting Kshs.30,515,207 (2014/2015 Kshs.28,635,810) which have been cleared. Though management has disclosed these as contingent liabilities in the financial statements, it is not clear whether, or not these will eventually crystalize.

3. Information, Communication, Technology (ICT) Policy

The Fund ICT operations are based on a 2012 ICT Policy which is considered obsolete in light of dynamic changes in the sector. Further, the IT controls on

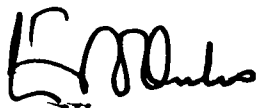
password settings, system audit logs, sharing of system files/updates and monitoring of super users activities are not functional. Lack of control increases risk of data integrity. In addition, use of dormant accounts must be approved as well as system changes and or upgrades.

My opinion is not qualified in respect of these matters.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Water Services Trust Deed, I report based on the 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 proper books of account have been kept by the Fund, so far as appears from examination of those books; and
- iii. The Fund's statement of financial position and statement of financial performance are in agreement with the books of account.



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

Nairobi

31 January 2017

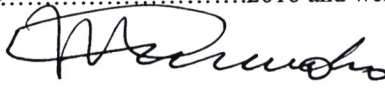
STATEMENT OF FINANCIAL PERFORMANCE

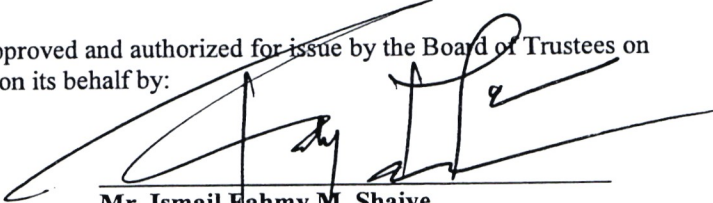
	Notes	2016 KShs	2015 KShs
REVENUE			
Revenue from non-exchange transactions			
Government of Kenya grants	4	406,750,000	427,000,000
Restricted donor funds	5	781,337,604	735,206,336
		<u>1,188,087,604</u>	<u>1,162,206,336</u>
Revenue from exchange transactions			
Miscellaneous income	6	22,699,438	20,508,820
Finance income	7	30,748,808	18,738,291
		<u>53,448,246</u>	<u>39,247,111</u>
Total revenue		<u>1,241,535,850</u>	<u>1,201,453,447</u>
EXPENDITURE			
Administration expenses	8	(307,017,673)	(196,896,862)
Project expenses	10	(890,846,500)	(767,819,344)
Total expenditure		<u>(1,197,864,173)</u>	<u>(964,716,206)</u>
SURPLUS FOR THE YEAR		<u>43,671,677</u>	<u>236,737,241</u>

STATEMENT OF FINANCIAL POSITION

	Notes	2016 KShs	2015 KShs
ASSETS			
Non - current assets			
Property and equipment	11	42,400,173	30,702,477
Intangible assets	12	137,740	3,066,666
		<u>42,537,913</u>	<u>33,769,143</u>
Current assets			
Inventories	13	448,212	469,975
Receivables from non exchange transactions	14	572,000,817	127,316,396
Cash and cash equivalents	15	736,802,229	1,165,249,099
		<u>1,309,251,258</u>	<u>1,293,035,470</u>
TOTAL ASSETS		<u>1,351,789,171</u>	<u>1,326,804,613</u>
NET ASSETS AND LIABILITIES			
Net assets			
Accumulated surplus	16	591,396,641	547,724,964
Unexpended grants	17	663,808,132	727,639,818
Non-current liabilities			
Deferred income from capital grants	18	7,910,352	1,311,500
Staff gratuity	19	16,367,036	12,008,543
		<u>24,277,388</u>	<u>13,320,043</u>
Current liabilities			
Deferred income from capital grants	18	3,441,310	638,234
Staff gratuity	19	8,306,640	3,849,307
Trade and other payables	20	60,559,060	33,632,247
		<u>72,307,010</u>	<u>38,119,788</u>
TOTAL RESERVES AND LIABILITIES		<u>1,351,789,171</u>	<u>1,326,804,613</u>

The financial statements on pages 28 to 53 were approved and authorized for issue by the Board of Trustees on
9 DECEMBER 2016 and were signed on its behalf by:


Hon. Musikari N. Kombo, EGH
Board Chairman


Mr. Ismail Fahmy M. Shaiye
Chief Executive Officer

STATEMENT OF CHANGES IN NET ASSETS

Revenue reserves

KShs

As at 1 July 2014

310,987,723

Surplus for the year

236,737,241

As at 30 June 2015

547,724,964

At 1 July 2015

547,724,964

Surplus for the year

43,671,677

As at 30 June 2016

591,396,641

The notes on page 33 to 53 are an integral part of these financial statements

STATEMENT OF CASH FLOWS

	Notes	2016 KShs	2015 KShs
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash generated from operations	21	(403,203,448)	929,873,317
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	11	(25,457,923)	(30,559,640)
Gain on disposal of property and equipment	6	214,501	1,579,566
		<u>(25,243,422)</u>	<u>(28,980,074)</u>
Net (decrease)/increase in cash and cash equivalents		(428,446,870)	900,893,243
Cash and cash equivalents as at the beginning of the year		1,165,249,099	264,355,856
Cash and cash equivalents as at the end of the year	15	<u><u>736,802,229</u></u>	<u><u>1,165,249,099</u></u>

Water Services Trust Fund
Annual report and financial statements
For the year ended 30 June 2016

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget 2015/2016 KShs	Adjustments 2015/2016 KShs	Final Budget 2015/2016 KShs	Actual 2015/2016 KShs	Performance difference 2015/2016 KShs	Notes
REVENUE FROM NON-EXCHANGE TRANSACTIONS						
Government of Kenya grants	2,899,813,920	(2,472,813,920)	427,000,000	406,750,000	(20,250,000)	
Donor funds	1,928,903,153	477,549,228	2,406,452,381	781,337,604	(1,625,114,777)	(a)
REVENUE FROM NON-EXCHANGE TRANSACTIONS						
Miscellaneous income	45,051,875	(20,004,256)	25,047,619	22,699,438	(2,348,181)	
Finance income - external investments	2,000,000	-	2,000,000	30,748,808	28,748,808	
Total Revenue	4,875,768,948	(2,015,268,948)	2,860,500,000	1,241,535,850	(1,618,964,150)	
EXPENSES						
Administration expenses	(672,500,795)	346,602,230	(325,898,565)	(307,017,673)	18,880,892	(b)
Project expenses	(4,203,268,153)	1,668,666,718	(2,534,601,435)	(890,846,500)	1,643,754,935	(c)
Total expenses	(4,875,768,948)	2,015,268,948	(2,860,500,000)	(1,197,864,173)	1,662,635,827	
Surplus for the period	-	-	-	43,671,677	43,671,677	(d)

- a) WSTF had budgeted to finance projects to the tune of KShs 2,406,452,381 using development partner funds. This target was however not met because not all of the funds anticipated from development partners were received during the year. The actual amounts received from development partners in the year was KShs 712,781,234. In addition some of the funding came late in the year and hence were disbursed to projects at the end of the year. WSTF's policy is to recognize funds from development partners as income when utilized for project expenditure hence funds disbursed at the end of the year were not recognized as expenditure for the year because the projects had not accounted for the use of these funds. They were recognized as receivables. Total project expenditure for the year amounted to KShs 890,846,500; of this KShs 781,337,604 was financed by development partners with the remainder of KShs 109,508,896 being financed by the Government of Kenya (GoK) counterpart funding.
- b) The favourable variance between budget and actual administrative was a result of efficiency in use of resources hence keeping costs lower than budget. The Trust Fund intends to keep these costs at low levels so as to free more funds for project financing.
- c) The variance between budget and actual project expenses is as a result of factors explained in a) above.
- d) The surplus for the year is unutilized funds from the Government of Kenya.

Notes

1 LEGAL STATUS AND OBJECTIVES

The Water Services Trust Fund (WSTF) is a Board Corporate established under the Water Act, 2002, Section 83 (1) with a mandate to *"assist in financing the provision of water services to areas of Kenya which are without adequate water services"*. As one of the new institutions, WSTF operates under the Ministry of Environment, Water and Natural Resources and is guided by the Trust Deed of 26 April 2004 Deed executed by the Cabinet Secretary for the Ministry of Environment, Water and Natural resources.

The WSTF is a basket fund through which the government, through appropriations by Parliament, development partners and other funds, channels financial assistance towards the implementation of water, sanitation and water resources projects throughout the country with special emphasis on the poor and marginalized communities.

During the year the Fund embarked on revision of strategic plan 2014-2017. In the revision, the Fund took cognizance of the anticipated changes in the legal framework as provided for in the Water Bill 2014. The Bill proposed to change the Fund to a Water Sector Trust Fund with an expanded mandate to include provision of conditional and unconditional grants to counties in addition to the current mandate of assisting in financing the development and management of water services in the marginalized areas or any areas which are considered by the Board of Trustees as underserved.

The key strategic focus for the next five years is review of the programme implementation mechanisms for enhanced efficiency and effectiveness and to align the Fund's operation to the devolved governance dispensation, strengthening the institutional capacity of the Fund mobilizing adequate funds to meet investment programmes; and development and implementation of an effective monitoring, evaluation and knowledge management system

2 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) according to Section 82 of the Public Finance Management Act, 2012 and the requirements of the Water Service, Trust Deed.

The financial statements are prepared on the historical cost basis of accounting. The principal accounting policies adopted remain unchanged from the previous year are as stated below:

Transition to the International Public Sector Accounting Standard

The Public Finance Management (PFM) Act 2012 Section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for state organs operating as Commercial Business Entities and The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, the entity adopted the pronouncements made by the IPSAS board in the year ended 30 June 2014. Previously the organization prepared its financial statements under accounting policies that complied with International Financial Reporting Standards (IFRS).

The preparation of financial statements in conformity with IPSAS requires the use of certain critical accounting estimates. It also requires the trustees to exercise judgement in the process of applying the Fund's accounting policies

Notes (continued)

2 ACCOUNTING POLICIES (Continued)

The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Foreign currency translation

(i) Functional and presentation currency

These financial statements are presented in Kenya Shillings (KShs) which is also the functional currency.

(ii) Transactions and balances

Assets and liabilities denominated in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at the end of reporting period. Transactions during the year are translated at the rates ruling on the transaction dates. Gains or losses on translation are dealt with in the surplus or deficit.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the fund and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognized.

- (i) Government grants are recognized as income when there is reasonable assurance that the grants will be received and the entity is in compliance with the conditions attached to the grants.
- (ii) Grants from donors are recognized as income when there is reasonable assurance that the grants will be received. The grants are recognized as income on a systematic and rational basis over the period necessary to match them with the related costs.
- (iii) Grants related to depreciable assets are recognized as income over the periods and in the proportions in which depreciation on those assets is charged.
- (iv) Other income comprises of funds other than the grants from the development partners and the Government of Kenya. Other income is recognized when there is reasonable assurance that it will be received.

Funds received for specific purposes (conditional grants) are treated as unexpended grants and credited to the surplus or deficit when the activities for which they were provided for have been undertaken. Specific grant pledges that have not been received but for which expenditure has been incurred, as well as the excess of expenditure over receipts for specific grants are recognized as revenue and included in the financial statements as grants receivable from donors.

Expenditure

Expenditure comprises expenses incurred directly for programme activities. These are recognized on the accruals basis.

Inventories

Inventories of consumable items are stated at the lower of cost and net realizable value. Cost comprises the purchase price and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs of selling the item.

Notes (continued)

2 ACCOUNTING POLICIES (Continued)

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Property and equipment donated to the fund or purchased using specified donor funds are recognized as deferred income from capital grants. Donated assets are recorded at a reasonable estimate of their fair value to the fund at the date of receipt as determined by the trustees.

Depreciation

Depreciation is calculated on a straight-line basis to write down the cost of each asset to its residual value over its estimated useful life at the following rates:

	% per Annum
Furniture	20
Motor vehicles	25
Computer equipment	30
Equipment	25
Fittings and fixtures	20

Gains and losses on disposal of items of equipment are determined by comparing the proceeds to their carrying amounts and are included in the statement of financial performance

Intangible assets

All costs attributable to the purchase of computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortization and accumulated impairment losses. Amortization is calculated on a straight line basis over the estimated useful lives not exceeding a period of 5 years. It is charged to the surplus or deficit under the expenditure line, amortization of intangible assets.

Impairment of tangible and intangible assets

At end of each reporting period, the Fund reviews the carrying amounts of its financial assets, tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. Any impairment losses are recognized as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount.

Deferred income

Grants received for the purchase of fixed assets or donated assets are recognized as deferred income and transferred to the surplus or deficit over the expected useful lives of the respective assets.

Budget information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Fund. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

2 ACCOUNTING POLICIES (Continued)

Taxation

Water Services Trust Fund is exempt from income tax under the First Schedule, paragraph 10 of the Income Tax Act. As a result, no provision for taxation has been made in these financial statements.

Cash and cash equivalents

For the purposes of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less, and bank overdrafts.

Employee benefits

Employee benefits are all forms of consideration given by the Trust Fund in exchange for the services rendered by all employees. Employee benefits include:

- Short-term employee benefits (such as wages, salaries and paid leave) and non-monetary benefits (such as medical care) for current employees;
- Post-employment benefits such as gratuity and accrued leave pay.

i. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

ii. Other post-employment benefits

Employees on three-year employment contracts are entitled to service gratuity at 31% of their annual salary. Service gratuity and outstanding leave days are recognized when they accrue to employees. A provision is made for the estimated liability for services rendered by employees up to end of the reporting period. The estimated monetary liability for employees' accrued leave and service gratuity entitlements at the end of reporting period is recognized as an expense accrual. Service gratuity is paid at the end of the employment contract.

Provisions are also made in respect of outstanding leave days accruing to staff at the end of the year.

Financial instruments

Financial assets and liabilities are recognized in the Fund's statement of financial position when the Fund has become a party to the contractual provisions of the instrument. Specific accounting policies are adopted by the Fund key for financial instruments outstanding at the end of the reporting period are summarized below.

Financial assets

Receivables

Receivables are initially recognized at fair value and subsequently carried at anticipated realizable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the end of the reporting period. Bad debts are written off when all reasonable steps to recover them have failed.

Payables

Payables are not interest bearing and are stated at their nominal value.

Notes (continued)

2 ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Fund assesses at each reporting period end whether there is objective evidence that a financial asset (or group of financial assets) is impaired. Impairment losses are recognized if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, and that those events have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Financial liabilities

After initial recognition, the Trust Fund measures all financial liabilities other than liabilities held for trading at amortized cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

De-recognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Trust Fund has transferred substantially all risks and rewards of ownership.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE TRUST FUND'S ACCOUNTING POLICIES

In the process of applying the Trust Fund accounting policies, management has made estimates and assumptions that affect the Trust Fund. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future funding that are believed to be reasonable under the circumstances. The key areas of judgment in applying the Trust's accounting policies are dealt with below:

(i) Critical judgments in applying the fund's accounting policies

The Trustees makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(ii) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Property and equipment

Critical estimates are made by the trustees in determining depreciation rates of property and equipment.

Intangible assets

Critical estimates are made by the trustees in determining amortization rates of intangible assets.

Notes (continued)

4 GOVERNMENT OF KENYA GRANTS

The Fund as currently set up, receives grants from the Government of Kenya for two purposes:

- (i) Disbursements to various community water projects (development) throughout Kenya.
- (ii) Operational (recurrent) needs.

During the year, the split for the two functions was as follows:

	2016	2015
	KShs	KShs
Development	380,000,000	400,000,000
Recurrent	26,750,000	27,000,000
	<u>406,750,000</u>	<u>427,000,000</u>

5 DONOR FUNDS

The Fund received restricted donations from several development partners as tabulated below. The grants are recognized as income on a systematic and rational basis over the period necessary to match them with the related project costs.

	2016	2015
	KShs	KShs
Government of Sweden	5,452,474	26,814,432
German Technical Cooperation - GLZ	-	4,110
United Nations Human Settlements Programme -UN-HABITAT	-	5,297
United Nations International Children Emergency Fund (UNICEF)	4,767,786	14,778,515
European Union	165,348,772	-
Government of Germany – KfW	270,491,159	411,458,703
Bill and Melinda Gates foundation	151,930,797	131,885,998
Government of Finland – GoF	-	42,640,393
Government of Denmark	102,124,625	106,483,237
International Fund for Agricultural Development - IFAD	36,627,477	1,135,650
World Bank	44,594,514	-
Total (Note 17)	<u>781,337,604</u>	<u>735,206,335</u>

Notes (continued)

6 MISCELLANEOUS INCOME

	2016 KShs	2015 KShs
Management fee earned on disbursement to some projects*	19,714,927	3,347,853
Deferred income recognized (note 18)	2,737,462	418,500
Other income	32,548	386,313
Proceeds from disposal of assets	214,501	1,579,566
Net foreign exchange gain/(loss)	-	14,776,588
	<u>22,699,438</u>	<u>20,508,820</u>

*Management fee represents the administration cost recovered as a percentage of funds disbursed to projects as per the respective donor agreements currently at 5% of funds. Management fee was earned from the development partners as tabulated below:

	2016 KShs	2015 KShs
DANIDA	5,341,512	2,400,990
European Union (EU)	14,373,415	-
UNICEF	-	946,863
	<u>19,714,927</u>	<u>3,347,853</u>

7 FINANCE INCOME

	2016 KShs	2015 KShs
Bank interest	<u>30,748,808</u>	<u>18,738,291</u>

Bank interest relates to interest earned on interest bearing current account balances.

Notes (continued)

8 ADMINISTRATION EXPENSES

	2016 KShs	2015 KShs
Staff costs (note 9)	136,642,948	104,262,270
Board expenses	38,826,599	15,633,291
Communication expenses	3,659,635	2,570,080
Printing and stationery	1,263,322	1,175,788
Resource centre expenses	317,300	276,040
Travelling and accommodation	11,896,188	6,642,456
Motor vehicle expenses	7,261,311	5,307,942
Computer expenses	2,729,248	2,567,580
Consultancy and professional fees	2,780,976	14,248,568
Audit fee	4,954,740	4,954,740
Resource mobilization expenses	5,298,924	1,262,338
Advocacy	10,356,360	5,679,916
Office running expenses	3,693,996	2,947,993
Insurance	7,187,107	7,406,254
Office rent and land rates	15,053,227	11,328,968
Maintenance and repairs	381,640	737,255
Bank charges	299,500	174,525
Depreciation on property and equipment (note 11)	13,760,227	4,676,335
Amortization expense on intangible assets (note 12)	2,928,926	2,999,963
Movement in provision for bad and doubtful debts (note 14)	8,858,320	2,044,560
Net foreign exchange loss	188,585	-
Payment to Royal Danish Embassy in respect of questioned costs	28,678,594	-
	<u>307,017,673</u>	<u>196,896,862</u>

9 STAFF COSTS

Salaries and wages	109,950,731	78,893,298
Staff gratuity	17,950,503	13,890,776
Staff training expenses	4,992,359	7,484,913
NSSF contribution	124,000	99,600
Other staff expenses	3,625,355	3,893,683
	<u>136,642,948</u>	<u>104,262,270</u>

Notes (continued)

10 PROJECT EXPENSES

These are the funds utilized on various water and sanitation and water resources projects across the country and in various counties. The funds are disbursed to Water Utilities (WUs), Community Based Organisations (CBOs), Community Forest Associations (CFAs), Water Service Providers (WSPs), Water Service Boards (WSBs), and Water Resources Users Associations (WRUAs) in line with proposals received and approved in accordance with documented processes in funding the rural and urban investments projects.

	2016 KShs	2015 KShs
Rural Programme		
Water and Sanitation	240,310,143	119,232,382
Water Resources	138,752,102	15,151,592
Water Sanitation and Hygiene (WASH)	4,767,786	90,090,670
Note 17 (b)	383,830,031	224,474,644
Urban Programme		
Water and Sanitation	310,491,159	449,813,863
Up-scaling Basic Sanitation for the Urban Poor (UBSUP)- Bill & Melinda Gates Foundation (BMGF)	151,930,797	46,685,997
Aid on Delivery	-	46,844,840
OBA (World Bank)	44,594,513	-
Note 17(a)	507,016,469	543,344,700
Project expenses	890,846,500	767,819,344

Project expenditure is funded by development partners and the Government of Kenya funds. The split of funding is as below:

	2016 KShs	2015 KShs
Development partners' funds (notes 5 and 17)	781,337,604	735,206,335
Government of Kenya counterpart – urban (note 17 a)	40,000,000	-
Government of Kenya counterpart – rural (note 17 b)	69,508,896	32,613,009
	890,846,500	767,819,344

Water Services Trust Fund
Annual report and financial statements
For the year ended 30 June 2016

Notes (continued)

11 PROPERTY AND EQUIPMENT

	Furniture Kshs	Motor Vehicle Kshs	Computer Equipment Kshs	Office Equipment Kshs	Field Equipment Kshs	Fixtures and Fittings Kshs	Total Kshs
COST							
At 1 July 2014	4,768,881	31,788,700	14,935,165	3,186,969	892,398	8,366,234	63,938,347
Additions	353,946	26,728,486	3,039,816	437,392	-	-	30,559,640
Disposal	-	(9,091,214)	(2,201,269)	(54,590)	-	-	(11,347,073)
At 30 June 2015	5,122,827	49,425,972	15,773,712	3,569,771	892,398	8,366,234	83,150,914
At 1 July 2015	5,122,827	49,425,972	15,773,712	3,569,771	892,398	8,366,234	83,150,914
Additions	2,682,745	9,270,000	4,449,247	2,106,640	-	6,949,291	25,457,923
Disposal	(1,171,539)	-	(4,131,684)	(275,990)	-	-	(5,579,213)
At 30 June 2016	6,634,033	58,695,972	16,091,275	5,400,421	892,398	15,315,525	103,029,624
DEPRECIATION							
At 1 July 2014	4,461,767	31,222,567	12,310,240	2,113,544	887,621	8,123,436	59,119,175
Charge for the year	180,238	1,866,708	2,005,421	442,214	-	181,754	4,676,335
Disposal	-	(9,091,214)	(2,201,269)	(54,590)	-	-	(11,347,073)
At 30 June 2015	4,642,005	23,998,061	12,114,392	2,501,168	887,621	8,305,190	52,448,437
At 1 July 2015	4,642,005	23,998,061	12,114,392	2,501,168	887,621	8,305,190	52,448,437
Charge for the year	566,733	8,715,248	2,706,856	749,263	-	1,022,127	13,760,227
Disposal	(1,171,539)	-	(4,131,684)	(275,990)	-	-	(5,579,213)
At 30 June 2016	4,037,199	32,713,309	10,689,564	2,974,441	887,621	9,327,317	60,629,451
NET BOOK VALUE							
At 30 June 2016	2,596,834	25,982,663	5,401,711	2,425,980	4,777	5,988,208	42,400,173
At 30 June 2015	480,822	25,427,911	3,659,320	1,068,603	4,777	61,044	30,702,477

A summary of fully depreciated assets is included in Appendix 1

Notes (continued)

12 INTANGIBLE ASSETS

Computer software	SAP	PROMIS	UPCIS	Q-PULSE	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
COST					
At 1 July 2014	3,749,392	3,247,436	12,729,739	588,312	20,314,879
Additions	-	-	-	-	-
At 30 June 2015	3,749,392	3,247,436	12,729,739	588,312	20,314,879
At 1 July 2015	3,749,392	3,247,436	12,729,739	588,312	20,314,879
Additions	-	-	-	-	-
At 30 June 2016	3,749,392	3,247,436	12,729,739	588,312	20,314,879
AMORTIZATION					
At 1 July 2014	3,068,182	3,247,436	7,618,866	313,766	14,248,250
Charge for the year	326,863	-	2,555,437	117,663	2,999,963
At 30 June 2015	3,395,045	3,247,436	10,174,303	431,429	17,248,213
At 1 July 2015	3,395,045	3,247,436	10,174,303	431,429	17,248,213
Charge for the year	255,826	-	2,555,436	117,664	2,928,926
At 30 June 2016	3,650,871	3,247,436	12,729,739	549,093	20,177,139
CARRYING VALUE					
At 30 June 2016	98,521	-	-	39,219	137,740
At 30 June 2015	354,347	-	2,555,436	156,883	3,066,666

SAP, PROMIS, UPCIS and QPULSE are software programs used by the Fund for financial reporting and monitoring of projects. A summary of fully depreciated assets is included in **Appendix 1**

13 INVENTORIES

	2016	2015
	Kshs	Kshs
Office stationery	448,212	469,975

The Fund purchased various stationery items. As at the end of the reporting period, the balance of stock at hand is recognised as inventories.

Notes (continued)

14 RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2016 Kshs	2015 Kshs
Project receivables – Urban Investments	116,588,588	113,215,339
- Rural Investments	460,406,979	6,310,244
Prepayments	7,280,731	6,823,953
Staff receivables	1,776,342	4,580,801
Other Trade Debtors	-	1,579,562
Provision for Bad Debts	(14,051,823)	(5,193,503)
	<u>572,000,817</u>	<u>127,316,396</u>

Urban project receivables relate to unaccounted for disbursements by the Water Service Providers carrying out the implementation of the Urban Project Investments. Rural project receivables relate to unaccounted for funds by various partners under the Rural Investments. The project disbursements are expected to be accounted for within one year. Staff receivables represent funds given to staff as imprest. Movements on the provision for impairment of receivables are as follows:

	2016 Kshs	2015 Kshs
At start of year	5,193,503	3,148,943
Provision in the year	11,511,833	2,044,560
Amounts recovered/accounted for	(2,653,513)	-
At end of year	<u>14,051,823</u>	<u>5,193,503</u>

15 CASH AND CASH EQUIVALENTS

National Bank of Kenya Limited – Recurrent	2,206,683	2,206,683
National Bank of Kenya Limited – OBA	533,311	-
National Bank of Kenya Limited – OBA II	54,897,140	-
Kenya Commercial Bank Limited - Recurrent	23,595,957	14,359,048
Short Term Deposits – Kenya Commercial Bank	-	109,400,000
NIC KFW PHASE II KES	88,893,745	197,141,946
NIC KFW PHASE II EURO	176,654	3,998,408
NIC BMGF KES	18,921,406	110,761,795
NIC BMGF USD	1,070,558	1,039,975
Co-operative Bank Limited – UNICEF	14,009,794	16,838,746
Kenya Commercial Bank Limited - GoF Euro	18,715	220,814,213
Kenya Commercial Bank Limited - GoF KES	90,230,268	6,782,855
NIC Bank Limited-SIDA	71,395,029	205,415,591
Kenya Commercial Bank Limited -MTAP	75,461	12,923,661
National Bank of Kenya – IFAD	4,837,816	3,557,050
Kenya Commercial Bank-STAFF	48,114,063	2,717,599
NIC Bank Limited-MTAP II	121,775,850	257,291,529
NIC Bank – EU SHARE	13,967,793	-
Cash on hand*	81,986	-
Cash in transit**	182,000,000	-
	<u>736,802,229</u>	<u>1,165,249,099</u>

*Cash on hand includes amounts received from staff after surrender of imprest totalling to KShs 11,896.

** Cash in transit represents funds released by the Government of Kenya (GoK) at year end. These funds had not reflected in WSTF's account as at the end of the year.

Notes (continued)

16 ACCUMULATED SURPLUS

This is composed of the excess of revenue over expenditure relating to funds that have no conditions attached to them. It forms the pool from which future expenses will be drawn. The movement is shown below:

	2016	2015
	KShs	KShs
Opening accumulated surplus	547,724,964	310,987,723
Surplus for the year	43,671,677	236,737,241
Closing accumulated surplus	<u>591,396,641</u>	<u>547,724,964</u>

Water Services Trust Fund
Annual report and financial statements
For the year ended 30 June 2016

Notes (continued)

17 UNEXPENDED GRANTS

	2016	2015
	KShs	KShs
Unexpended grants – Urban Investments	83,817,068	227,749,078
Unexpended grants – Rural Investments	579,991,064	499,890,741
	<u>663,808,132</u>	<u>727,639,819</u>

The unexpended grants movement for each investment is presented below:

(a) Unexpended Grants - (Urban investments and others)

	Govt of Germany – KfW	Bill and Melinda Gates	World Bank	Total
	KShs	KShs	KShs	KShs
As at 1 July 2014	82,645,879	44,176,333	-	126,822,212
Funds received from development partners	434,649,528	209,622,039	-	644,271,567
GoK Counterpart funding	-	-	-	-
Total project Expenditure	(411,458,703)	(131,885,998)	-	(543,344,701)
As at 30 June 2015	<u>105,836,704</u>	<u>121,912,374</u>	<u>-</u>	<u>227,749,078</u>
As at 1 July 2015	105,836,704	121,912,374	-	227,749,078
Funds received from development partners	222,294,949	-	100,789,510	323,084,459
GoK Counterpart funding	40,000,000	-	-	40,000,000
Total project Expenditure	(310,491,159)	(151,930,797)	(44,594,513)	(507,016,469)
As at 30 June 2016	<u>57,640,494</u>	<u>(30,018,423)</u>	<u>56,194,997</u>	<u>83,817,068</u>

Donor income recognized in the year (note 5) – Total project expenditure less GoK counterpart funding

2016	<u>270,491,159</u>	<u>151,930,797</u>	<u>44,594,513</u>	<u>467,016,469</u>
2015	<u>411,458,703</u>	<u>131,885,998</u>	<u>-</u>	<u>543,344,701</u>

Water Services Trust Fund
Annual report and financial statements
For the year ended 30 June 2016

Notes (continued)

(b) UNEXPENDED GRANTS (Rural investments)

	Govt of Sweden KShs	UNICEF KShs	Govt of Finland - Gof KShs	European Union - EU KShs	Govt of Denmark KShs	GIZ Habitat	UN-Habitat	IFAD KShs	Total KShs
As at 1 July 2014	15,600,000	23,252,937	12,675,790	1,745,928	4,430,203	4,110	5,297	4,830,000	62,544,265
Funds received from development partners	169,456,510	-	204,751,600	140,000,000	115,000,000	-	-	-	629,208,110
GoK Counterpart funding	4,517,763	21,345,246	6,750,000	-	-	-	-	-	32,613,009
Total project Expenditure	(31,332,195)	(36,123,761)	(49,390,393)	-	(106,483,237)	(4,110)	(5,297)	(1,135,650)	(224,474,643)
As at 30 June 2015	158,242,078	8,474,422	174,786,997	141,745,928	12,946,966	-	-	3,694,350	499,890,741
As at 1 July 2015	158,242,078	8,474,422	174,786,997	141,745,928	12,946,966	-	-	3,694,350	499,890,741
Funds received from development partners	-	-	-	-	325,000,000	-	-	64,696,774	389,696,774
GoK Counterpart funding	45,000,000	-	24,508,896	-	-	-	-	-	67,637,326
Refund from projects	-	4,724,684	-	-	-	-	-	-	4,724,684
Total project Expenditure	(50,452,474)	(4,767,787)	(24,508,896)	(165,348,772)	(102,124,625)	-	-	(36,627,477)	(383,830,031)
As at 30 June 2016	152,789,604	8,431,319	174,786,997	(23,602,844)	235,822,341	-	-	31,763,647	579,991,064

Donor income recognized in the year (note 5) – Total project expenditure less GoK counterpart funding

2016	5,452,474	4,767,787	-	165,348,772	102,124,625	-	-	36,627,477	314,321,135
2015	26,814,432	14,778,515	42,640,393	-	106,483,237	4,110	5,297	1,135,650	191,861,634

Water Services Trust Fund
Annual report and financial statements
For the year ended 30 June 2016

Notes (continued)

18 DEFERRED INCOME

	2016	2015
	KShs	KShs
As at 1 July	1,949,734	328,234
Received during the year	12,139,390	2,040,000
Transfer to income (note 6)	(2,737,462)	(418,500)
As at 30 June	11,351,662	1,949,734
Current	3,441,310	638,234
Non – current	7,910,352	1,311,500
As at 30 June	11,351,662	1,949,734

Deferred income as at 30 June represents the net book value of donated assets. The current portion represents depreciation charge for 12 months after the year end.

19 STAFF GRATUITY

	2016	2015
	KShs	KShs
At start of year	15,857,850	22,639,254
Provision for the year	17,950,503	13,890,776
Paid during the year	(9,134,677)	(20,672,180)
At end of year	24,673,676	15,857,850
Current	8,306,640	3,849,307
Non-current	16,367,036	12,008,543
At end of year	24,673,676	15,857,850

This refers to the estimated monetary liability for contractual employees' accrued service gratuity entitlement at the end of the reporting period. Gratuity is accrued at the rate of 31% of annual basic salary. The non-current portion is payable within the next 3 years.

Notes (continued)

20 TRADE AND OTHER PAYABLES

	2016	2015
	KShs	KShs
Trade payables	28,475,100	13,861,586
Interest payable to Government of Sweden	23,979,275	17,227,428
Staff leave accrual	2,420,573	1,749,912
Withholding tax payable	5,684,112	793,321
	<u>60,559,060</u>	<u>33,632,247</u>

21 CASH GENERATED FROM OPERATIONS

Reconciliation of surplus for the year to cash generated from operations

	Note	2016	2015
		KShs	KShs
Surplus for the year		43,671,676	236,737,241
Adjustments for:			
Depreciation of property and equipment	11	13,760,227	4,676,335
Amortization of intangible assets	12	2,928,926	2,999,963
Gain on disposal of assets		(214,501)	(1,579,566)
		<u>60,146,328</u>	<u>242,833,973</u>
Working capital changes			
Decrease/(increase) in inventories		21,763	(456,726)
(Increase)/decrease in receivables from non-exchange transactions		(444,684,421)	135,714,763
(Decrease)/increase in unexpended grants		(63,831,686)	538,273,341
Increase in deferred income		9,401,928	1,621,500
Increase/(decrease) in staff gratuity		8,815,825	(6,781,404)
Increase in trade and other payables		26,926,814	18,667,870
Net cash (used)/ generated in/from operations		<u>(403,203,448)</u>	<u>929,873,317</u>

Notes (continued)

22 COMMITMENTS

The Fund had capital commitments in the current year as follows.

	2016 KShs	2015 KShs
Budgeted	<u>7,212,000</u>	<u>41,090,000</u>

The Fund has committed to fund projects to the tune of KShs. 2,795 Million (2015: KShs 2,100 Million) for subsequent disbursement requests which become due on the submission of acceptable reports. As at the end of reporting period, the projects were at different stages of implementation. This amount is expected to fall due during the next financial year.

The project commitments are as follows:

	2016 KShs	2015 KShs
Water and sanitation – Rural	843,005,060	402,024,857
Water Resources	547,832,500	379,830,247
WASH	-	44,094,690
Water and sanitation - Urban	1,403,900,000	1,274,421,585
	<u>2,794,737,560</u>	<u>2,100,371,379</u>

23 OPERATING LEASE ARRANGEMENTS

	2016 KShs	2015 KShs
Minimum lease payments under operating leases recognised through profit or loss	15,053,228	11,328,968

At the end of the reporting period, the Trust Fund had outstanding commitments under operating leases, payable as follows:

	2016 KShs	2015 KShs
Within one year	16,400,753	15,046,562
In the second to fifth years inclusive	67,635,667	73,886,436
After five years	-	10,149,983
	<u>84,036,420</u>	<u>99,082,981</u>

Operating lease payments represent rentals payable by the Trust Fund for its office premises.

Notes (continued)

24 RELATED PARTY TRANSACTIONS

i) Key management compensation

The remuneration of Trustees and other members of key management during the year were as follows:

	2016	2015
	KShs	KShs
Salaries and other short term benefits	21,932,594	14,182,949
Gratuity	4,753,664	2,763,650
NSSF	12,400	8,400
	<u>26,698,658</u>	<u>16,954,999</u>
Trustees emoluments	12,458,000	7,480,000
Other emoluments (included in key management compensation above)	4,594,194	9,433,916

ii) WSTF is a State Corporation. Funds received from the Government of Kenya are disclosed under note 4.

25 CONTINGENCIES

In the normal course of funding projects, funds totalling KShs 30,515,207 (2015: KShs 28,635,810) cumulatively, were not adequately accounted for by Project Implementing Organizations in the prior years, the issues relating to these funds are being dealt with legally and administratively. The project funds were recognized as project costs in the profit or loss, in prior years.

26 FINANCIAL RISK MANAGEMENT POLICIES

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

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in note 2 to the financial statements.

(b) Financial risk management objectives

The Trust Fund's activities expose it to a variety of financial risks including credit and liquidity risks and the effects of changes in foreign currency. The fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. In the current year the management met and drafted a risk management manual that will guide in the management of the risks affecting the fund.

(c) Credit risk

The Fund's credit risk is primarily attributable to its liquid funds with financial institutions, staff receivables as well as funds advanced to projects. The credit risk on the liquid funds with financial institutions is low because the counter parties are banks with high credit-ratings. The financial assets are fully performing as the fund continues to enjoy the services secured by these balances. The default rate is low.

Notes (continued)

26 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(c) Credit risk (continued)

The amount that best represents the fund's maximum exposure to credit as at 30 June is made up as follows:

	Fully performing KShs	Past due KShs	Impaired KShs	Total KShs
At 30 June 2016				
Cash at bank	736,802,229	-	-	736,802,229
Project receivables	576,995,567	-	14,051,823	562,943,744
Staff receivables	1,776,342	-	-	1,776,342
	<u>1,315,574,138</u>	<u>-</u>	<u>14,051,823</u>	<u>1,301,522,315</u>
At 30 June 2015				
Cash at bank	1,165,236,452	-	-	1,165,236,452
Project receivables	119,581,856	-	5,193,503	124,775,359
Staff receivables	4,580,801	-	-	4,580,801
Other receivables	1,579,566	-	-	1,579,566
	<u>1,290,978,675</u>	<u>-</u>	<u>5,193,503</u>	<u>1,296,172,178</u>

(d) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the trustees, who have built an appropriate liquidity risk management framework for the management of the Trust Fund short, medium and long-term funding and liquidity management requirements. The fund manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows and developing a risk management policy manual to guide in risk assessment and management in the fund.

The table below analyses the fund's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at year end to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows as the impact of discounting is not significant.

	Less than 1 month KShs	Between 1-3 months KShs	Over 3 Months KShs	Total KShs
At 30 June 2016				
Trade payables	28,475,101	-	-	28,475,101
Interest payable to Government of Sweden	23,979,275	-	-	23,979,275
Withholding tax payable	5,684,112	-	-	5,684,112
	<u>58,138,488</u>	<u>-</u>	<u>-</u>	<u>58,138,488</u>
At 30 June 2015				
Trade payables	13,861,586	-	-	13,861,586
Interest payable to Government of Sweden	17,227,428	-	-	17,227,428
Withholding tax payable	793,321	-	-	793,321
	<u>31,882,335</u>	<u>-</u>	<u>-</u>	<u>31,882,335</u>

Notes (continued)

26 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(e) Market risk management

The Trust Fund takes on exposure to market risk, which is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the fund's surplus or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. Monitoring of market risk is done by management in conjunction with the Board of Trustees. Market risk exposures are measured by the use of sensitivity analyses. The market risk exposure for the Fund relates primarily to currency risk.

Currency Risk

The fund undertakes certain transactions denominated in foreign currencies mainly the USD and Euro. This results in exposures to exchange rate fluctuations. The Fund does not hedge its foreign currency risk.

In light of the above, any adverse movements in exchange rates may result in either exchange gain or loss, with the latter having a negative impact on earnings, as the Fund reports its financial performance in Kenya Shillings.

The balances held in foreign currency as at the end of the year were as follows:

Foreign currency Denominated Balances	2016	2015
	EURO	EURO
Kenya Commercial Bank - GOF Euro	167	2,000,219
NIC Bank- KfW Phase II Euro	1,573	36,219
	<u>1,740</u>	<u>2,036,438</u>
	USD	USD
NIC Bank – KFW USD	<u>10,589</u>	<u>10,543</u>

At the end of the reporting period, an increase/decrease in 5% (2015; 5%) on the foreign currency balances would have resulted in a decrease/increase of KShs. 5,775,595 (2015; KShs 11,129,656) in the surplus for the year.

Interest rate risk

The Fund is exposed to interest rate risk due to fluctuations in interest rates on the bank balances that it holds. As at the end of the reporting period, an increase/decrease in 5% (2015; 5%) in the average interest rates for the year would have resulted in a decrease/increase of KShs. 10,185,206 (2015; KShs 33,325,410) in the surplus for the year.

27 CAPITAL RISK MANAGEMENT

The Trust Fund manages its funds to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and fund balance.

The capital structure of the Fund consists of revenue reserves and the Fund was not geared as at 30 June 2016 and 30 June 2015.

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APPENDIX 1 - SUMMARY OF FULLY DEPRECIATED ASSETS AT THE BEGINNING OF THE YEAR

	Fully depreciated assets as at the beginning of	
	2016	2015
Fixed Assets	KShs	KShs
Furniture	4,192,890	3,949,159
Motor vehicle	32,030,060	27,793,700
Computer equipment	8,422,831	10,116,899
Office equipment	1,533,463	1,533,463
Field equipment	892,395	892,395
Fixtures and fittings	7,457,464	7,457,464
	54,529,103	51,743,080
Intangible assets		
Software	5,362,508	5,362,508

Water Services Trust Fund
Appendix 2 – Status of implementation of prior audit recommendations

APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
2.1	Lack of detailed reconciliation for the rural investments accounts receivable balance; It was noted that the opening balances for the rural investments accounts receivables were not traceable to individual projects on the SAP system.	Management should ensure that balances owing from projects are recorded on SAP and monthly reconciliations done to assist in following up the accounting by the relevant projects.	The management has noted the recommendation which is being implemented for the subsequent period through creation of projects sub ledgers.	Chief Manager, Finance	Resolved after sub-ledgers for each project was created to enable reconciliation.	Resolved during the Financial Year 2015/16.
2.2	Unrecoverable staff debtors; It was noted that some staff receivable balances consisted of amounts totaling Kshs. 442,535 which relate to unaccounted for imprests due from staff who are no longer WSTF employees	Management should write off the balances from the accounting records. Additionally, management should institute procedures to ensure that staff account for imprests within 48 working hours of returning from an assignment as per policy; or recover the amount from the subsequent payroll.	The management has prepared the details of all unrecoverable debts and will be submitted to the Finance and General Purpose for deliberation in the next meeting.	Chief Manager, Finance	Partially resolved during the Financial Year 2015/16. The process is ongoing. The Board approved the write off of the unrecoverable staff debtors.	Unresolved issues to be resolved by 30 June 2017.
2.3	Provision for long outstanding project receivables; It was noted that there were accounts receivable balances outstanding for more than one year totaling Kshs. 4,750,969 relating to amounts due from projects implementing partners	Management should make a provision for doubtful debts against these amounts and follow up with the concerned implementing partners at project level for subsequent accounting and/or refund of the funds in excess of project expenditure. If management follow up reveals that the amounts are not recoverable, a write-off should be done.	The management has engaged the CRMs for follow up and it is expected that expected that full accountability of the amount outstanding in the financial year 2015/16.	Chief Manager, Finance	Resolved and continuous follow up will be undertaken in future.	Partially resolved, provision has been made in the current financial statements. Follow up of receivable balances is ongoing.

APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
2.4	Lack of uniformity in the asset codes (asset register vs the physical assets).	Management should ensure that the asset codes as per the system maintained asset register and that on the physical asset are uniform.	SAP vendor has been engaged to amend the asset register report in SAP to display the full asset codes in the report.	Chief Manager, Finance	Ongoing	To be resolved by 31st December 2016.
2.5	Lack of proper inventory management procedures;	The management has noted the recommendation and are planning for training for staff in the procurement section to enhance their skills on stocks management in the SAP system.	The recommendation has been implemented.	Chief Manager, Finance	Resolved after proper inventory management procedures were put in place.	Resolved during the Financial Year 2015/16.
2.6	Failure to incorporate Government of Kenya (GoK) counterpart funds in the unexpended grants movement; and Lack of procedures to track Government of Kenya (GoK) counterpart funds in project expenditure;	Management should ensure that GoK counterpart funds are tracked to ensure accuracy in the computation of the unexpended grants movement for the year. This portion of project expenditure that is funded by GoK counterpart funds should be excluded in arriving at the unexpended grants amount at the end of the year.	The management has noted the recommendation and shall be implemented from the current FY 2015-2016 period.	Chief Manager, Finance	Resolved after incorporating GoK counterpart in unexpended grants.	Resolved during the Financial Year 2015/16.
2.7	Detailed ledger listing that did not agree to the Trial Balance.	Management should ensure that detailed transaction ledger and trial balance are reconciled regularly.	A reconciliation of the books of accounts was done and the matter resolved	Chief Manager, Finance	Resolved	Resolved during the Financial Year 2015/16.

APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
2.8	Opening reserves as per SAP general ledger do not agree to the signed prior year financial statements. There was a variance between the reserves balance as per the system (SAP) general ledger and the signed prior year financial statements. The system had an amount of Kshs. 397,986,605 bringing about variance of Kshs. 1,563,122	Management should ensure that the balance per the system general ledger and financial statements agree and period end closure of the system is done timely to avoid instances of posting in prior periods. Manual adjustments should be passed to book the correct figures for closing reserves and unexpended grants in their respective system ledgers.	The management has noted the recommendations and will be implemented accordingly.	Chief Manager, Finance	Resolved with the guidance from the external auditor	Resolved with the guidance from the external auditor during the year 2015/16.
2.9	Rural Investments expenditure may not be recognized in the correct period (cut-off). It was noted that there were delays in accounting for expenditure incurred in some of the rural investments implementing partners.	The management has noted recommendation and will institute measures to follow up on projects Fund Accountability Statements Reports (FAS) in a timely manner. The management has engaged County Resident Monitors (CRMs) whose duties include follow up for projects financial reports that will address the observation.	The management has noted the recommendations and will institute measures to follow up on projects Fund Accountability Statements Reports (FAS) in a timely manner. The management has engaged County Resident Monitors (CRMs) whose duties include follow up for projects financial reports that will address the observation.	Chief Manager Finance and Chief Manager Investments	Resolved	Resolved during the Financial Year 2015/16.
Information Technology Issues						
3.1	Former employees with access to SAP Business One; From the review, it was noted that there were two former employees who had access to SAP Business One. This increase the risk of unauthorized access	Management should ensure the deletion/deactivation of the leaver accounts still present in the system.	The two terminated users do not have license for connection (licence removed to prevent access). The system license for SAP is per user and without the	Manager, ICT	Resolved as no former employee has access to SAP Business One.	Resolved during the Financial Year 2015/16.

APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
3.2	Insufficient monitoring of super user activities at the application, database and Operating System levels;	Super user's activity on the application, database and operating system / networks should be regularly reviewed by an independent party such as IT security officer or internal auditor.	license no connection is possible. WSTF only have limited user license of 10 users. The deletion could not be done for future audit purpose. The internal audit department has been involved in the review of the super user logs during the year.	Manager, ICT and Chief Manager, Internal audit and Risk management	Resolved as internal audit does monitoring of super user activities.	Resolved during the Financial Year 2015/16.
3.3	Lack of monitoring of SAP, UPCIS and Aren user access rights; It was noted that periodic review of user access rights on the SAP, UPCIS and Aren application to ensure that users have access rights commensurate to their job roles and responsibilities is not being carried out.	Users' access on applications, databases and operating systems / networks should be reviewed at least every quarter, by the departmental heads (such as line managers). This will ensure user rights are commensurate with job roles.	The user access rights have already been mapped out and since there are only few known users connecting to the system, no changes are expected unless the roles and responsibilities of this users changes which has never happened.	Manager, ICT and Chief Manager, Audit and Risk Management	Resolved as internal audit does monitoring of the application systems.	Resolved during the Financial Year 2015/16.
3.4	Weak password settings for the Aren application; It was observed that password policy was not enforced on the Aren application.	We recommend the password policy be enabled on the application.	The management had noted this as a weakness in the current system and has initiated the process of procuring a different module of Human Resources Management Information system that will include payroll and integrated with SAP.	Manager, ICT	Process of implementation of the Human Resource Module for SAP is ongoing.	To be resolved by 31st March 2017.

APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
3.5	Dormant accounts in the active directory; It was noted that there are accounts that are dormant in the active directory. Most of these belong to the drivers and external consultants.	The dormant accounts should be disabled or deleted if they are not in use.	There are no dormant accounts because the accounts that appear to be dormant are used to log into other systems like webmail and Cyberoam for SSO authentication.	Manager, ICT	Resolved	Resolved during the Financial Year 2015/16.
3.6	ICT officer account has the password set to never expire;	All user accounts should confirm to the password policy and be changed regularly to avoid them being compromised.	The recommendations was noted and will be implemented	Manager, ICT	Resolved after making the ICT officer account to expire.	Resolved during the Financial Year 2015/16.
3.7	Lack of segregation of duties in the access of the development, testing and production environment;	All changes to the production environment should be regularly reviewed by management to ensure that they were appropriate.	The management has employed additional staff in ICT department as per the approved organogram. This will now enhance segregation of duties.	Manager, ICT	Resolved as there is clear segregation of duties.	Resolved during the Financial Year 2015/16.
3.8	Lack of evidence of change request approval on UPCIS	All changes to the production environment should be appropriately approved and tested before being effected in the production environment. Evidence of the same should be maintained for future reference	The management has noted the recommendation. Change requests between the UPCIS process owners and the vendors will be documented in subsequent periods.	Manager, IT	Resolved	Resolved during the Financial Year 2015/16.
3.9	Funds accountability statement creation is manual for the rural investment projects. It was noted that the fund accountability statement was created manually by the senior accountant. This is recreating the statement from the cashbook.	Management should ensure the creation of an automated process of generating the funds accountability statement. This is by ensuring there is a mapping in SAP Business One from which the	The observation and recommendations is noted and management will consult with SAP service providers to design and automate the FAS report	Chief Manager, Finance	Resolved during the financial year 2015/16.	Resolved during the Financial Year 2015/16.

APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
Update of other matter raised at organisational and project level in the 2014 audit						
2.3.1	Delays in project completion. In some cases, contract timelines for the completion of funded projects and reporting of project progress through project accountability reports were not strictly adhered.	Regular monitoring of projects should be enforced to ensure that they are implemented on schedule to ensure that project deliverables are realized within expected time. Causes of project delays should be investigated and resolved in good time to ensure projects stay on schedule.	To enhance management and follow up of funded projects, the Fund has procured a Project Management Information System (PMIS)	Chief Manager, Investments and Programmes	Continuous follow up undertaken to ensure that projects are completed on time. The Fund has also engaged CRMs to assist in follow up and monitoring.	Resolved during the year, continuous follow up will be undertaken to ensure compliance.
3.2.2	Vacant critical staff position During the review of Trust Fund's organogram, indicated that the positions of Legal officer and planning officer had been vacant.	It is important that the Trust Fund recruit for these positions given their importance within the Fund.	The Fund was facing threats of being dissolved by the Presidential task Force on reorganization of the Government at the time of audit. Now that the Fund's existence has been secured in the Water Act 2014, recruitment of key positions as per the approved organogram is ongoing.	Chief Executive Officer	Partially resolved as the new WSTF Organization structure is being implemented.	Management is considering to fill the vacant positions by 30 June 2017.

APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
3.4.1	Inadequate Risk Management framework. The Fund has developed a Risk Management Framework defining the procedures and guidelines for identifying, classifying, monitoring and reporting on its exposures to both internal and external risk.	Management should update the risk management framework and seek Board approval and adoption. In addition, a framework should be implemented to ensure that the framework is regularly updated.	Risk Management Policy and frameworks will be reviewed and aligned with the WSTF strategic plan.	Chief Manager, Internal Audit and Risk Management.	Resolved after the Revised Risk Management Framework and Policy was approved by Board.	Resolved during the Financial Year 2015/16.
2.1	Non Compliance with the Income Tax requirements. The organization did not tax amounts in excess of Kshs. 20,000 per month or Kshs. 240,000 per year for pension contributions as per the requirement for employees or organization not chargeable to tax where an employer also contributes to the fund.	<ul style="list-style-type: none"> The updated framework should define an acceptable risk exposure for the Fund; indicate how such risks will be monitored; and provide guidance on risk ownership and strategies to create sustained risk awareness within the Fund and its stakeholders. 	The Management is in consultation with AREN software Consultants to effect the guidelines on tax in Pension Contributions.	Chief Manager, Finance	Resolved after accurate tax was charged to the affected staff.	Resolved during the Financial Year 2015/16
2.2	Lack of exemption certificate. Water services Trust Fund does not have a tax exemption certificate as required by Kenya Revenue Authority	<ul style="list-style-type: none"> The definition of risk should be enhanced to include the missed opportunity to gain. 	The management has noted the recommendation. It has however been a challenge for the Trust Fund to determine the most probable exemptions required.	Chief Manager Finance	Open, the Trust Fund has applied for the exemption certificate in financial year 2015/16	To be resolved by 30 June 2017.
3.3	Questioned costs During the audit it was noted that there were questioned costs from the past audits amounting to Kshs. 43Milliom which have not been closed.	The organisation should ensure that they adhere to all guidelines and regulations set by KRA. They can also put in place adequate policies and procedures within their payroll system to capture the PAYE	The management notes the recommendation and will follow up on the outstanding questioned costs	Chief Manager Finance and Chief Manager, Audit and Risk Management	Resolved after the questioned amount for Kenya Water and Sanitation Programme (KWSP) was	Resolved during the Financial Year 2015/16 for KWSP and other questioned

APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
4.1	Lack of Log Books In the review of fixed assets it was noted that there are vehicles whose ownership could not be verified to a logbook and hence ownership could not be ascertained. - GK458K, Nissan Xtrail at cost of Kshs, 2,934,854 - KAN 576Y, Isuzu Trooper	A system to keep track of taxation requirements should be designed and implemented by management to ensure all requirements are adhered to.	The management is still making follow up to get the log books of the two vehicles from the Ministry of Water and Irrigation.	Human Resources and Administration Manager	Resolved after log books were provided to WSTF.	Resolved during the Financial Year 2015/16.
		guidelines provided by KRA on excess pension contribution by non-taxable employers.			paid back to the donor.	costs relating to other programmes are expected to be resolved by 31st December 2016.