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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 18 FEB 2021 THURSDAY

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TABLED BY: **OF** Majority Whip
Hon. Wangwe
Anne Musandu


THE AUDITOR-GENERAL

ON

**WATER AND SANITATION SERVICES
IMPROVEMENT PROJECT
(IDA CREDIT NO.5103 KE)**

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

**ATHI WATER WORKS
DEVELOPMENT AGENCY**

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 18 FEB 2021 <i>Thursday</i>	
TABLED BY:	<i>Majority Whip</i> <i>Hon. Wangwe</i>
CLERK-AT-TABLE:	<i>Anne Musanda</i>



PROJECT NAME: Water and Sanitation Service Improvement Project –Additional Finance

IMPLEMENTING ENTITY: Athi Water Works Development Agency

PROJECT GRANT/CREDIT NUMBER: IDA 5103-KE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2020

ISSUED ON: AUGUST 30, 2020

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

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: the projects official name is **Water and Sanitation Services Improvement Project Additional Financing**

Objective: The key project development objective is to increase access to water supply and sanitation services by improving the water and wastewater services in the areas served by Athi Water Works Development Agency, Lake Victoria North Water Works Development Agency, and Coast Water Works Development Agency.

Address: The project headquarters offices are;

Athi Water Works Development Agency
P.O. Box 45283-00100 GPO
Africa-Re Centre, 3rd Floor
Hospital Road-Upper Hill
NAIROBI

Contacts: The following are the project contacts;

Tel: +254 020 2724292/3, +254 715 688 272

Email: info@awwda.go.ke

Website: www.awwda.go.ke

1.2 Project Information

Project start Date	The program start date is 10/5/2012
Project End Date:	The program end date is 30/6/2020
Project Manager:	The Project Manager is Eng Bonnie Nyandwaro
Project Sponsor:	The program sponsors are the Government of Kenya (GOK), which contributes 7%, the World Bank 93%

1.3 Project Overview

Water and sanitation improvement project -IDA 5103-KE is under the supervision of Ministry of Water, Sanitation and Irrigation.

Strategic goals of the project

The project has three components being implemented by AWWDA, CWWDA and LVNWWDA. The goals of component one is to Provide support to AWWDA by;

- Assisting in the rehabilitation and extension of water supply systems
- Development of additional water sources for Nairobi,
- Drought mitigation measures, and improvements in wastewater treatment facilities in AWWDA area.
- Technical assistance to the AWWDA and its water services providers, the Water Services Regulatory Board (WSRB), and the Water Appeals Board (WAB).

Water supply/distribution and wastewater collection and treatment

Projects Prepared under WaSSIP (designs and environmental impact assessments completed, awaiting clearance and disclosure)

- **Construction of northern collector tunnel (river abstraction/intake structures and 11.8-kilometer tunnel) (US\$85.20 million).** This sub-component is part of the recommendations from the feasibility study and master

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plan for the development of new water sources for Nairobi and satellite towns being undertaken by AWWDA under WaSSIP. The northern collector phase 1 is part of the selected scenario, which is the most preferred of the six scenarios reviewed under this consultancy. Proposed works include construction of the northern collector tunnels (11.8 kilometres), diverting the three rivers of Irati, Gikigie, and Maragua for a flow of 1.6 cubic meters per second as previously designed in 1998; improvement of Mwagu intake structure and screening equipment and construction of Mataara–Ngethu raw water main.

A preliminary environmental impact assessment has been undertaken and disclosed as part of the feasibility study and masterplan. Works are ongoing and the tunnel is at 84% completion

- **Improvement of water and sanitation in the informal settlements in Nairobi (US\$3.2 million).** Designs, environmental impact assessment, and tender documents for improvements in the informal settlements exist. The informal settlements under consideration for support of water and sanitation schemes under WaSSIP AF include: Kayole Soweto, Matopeni Spring Valley, Mabatini, River Bank, Maili Saba, Huruma, Mathare and Kahawa Soweto. The project was completed and handed over to the operator NCWSC.
- **Construction of water reticulation system for Ruiru and Juja (US\$1.7 million).** The proposed works include the construction of a water service reservoir with a capacity of 5,000 cubic meters at Ruiru and reinstatement of distribution pipes scaled down from the original WaSSIP. The development of the distribution system will release water intended for Githurai and Kahawa Sukari areas. The designs and tender documents for these works are ready and the environmental impact assessment is awaiting approval by the Bank. The project has been completed and handed over to Ruiru Juja Water service provider.

Consultancy Services to AWWDA in specific areas (US\$22.37 million by IDA/AFD)

- Design, supervision and preparation of environmental impact assessments for indicative projects to be financed under WaSSIP- AF
- Other consultancies including, setting up of sewer connections revolving fund, energy audits, customer identification survey, automatic meter reading, and others
- Project communication

Institutional support (goods and training) for AWWDA and its water services providers (US\$4.64 million)

- **Supply and installation of water and wastewater management equipment (US\$2.96); and purchase of motorcycles for water services providers (US\$210,000).** This will include water metering programme, leak detection equipment, and supply of pipes and fittings and motorcycles for water services providers.
- **Supply and installation of office and information and communications technology (US\$380,000).** This will include the supply and installation of hardware and software for AWWDA and its water services providers, and a software for network model (WaterCAD) for NCWSC. AWWDA will receive support to interlink the Board with the water services providers under its jurisdiction with internet office facilities for effective communication. AWWDA will also receive technical assistance for provision of legal assistance for establishing and registering water and sewerage infrastructure wayleaves and implementation of the Resettlement Action Plan.
- **Training and capacity building for AWWDA and its water service providers (US\$850,000 million)**
This will entail training for project teams and WSPs staff to enhance capacity in delivery of the overall project objectives. All project team members and key personnel in the WSPs have been trained.
- **Project communication materials (US\$300,000).** This will support project communication activities over the 5 years of implementation. A project communications strategy will be developed to scale up and build up on gains made under WaSSIP-AF. This has already been done.

Support to the Water Service Regulatory Board (US\$1.93 million). WaSSIP AF will help the Water Service Regulatory Board to strengthen its capacity for effective regulation. The project will support implementation of a compliance and

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enforcement strategy for water services boards and water services providers, strengthening management of human resources, and preparation of disaster preparedness and management plans for water services providers. Support includes procurement of information and communications technology, and training, study tours, and workshops.

Support to the Water Appeals Board (US\$1.0 million). The project will support the Water Appeals Board to improve its capacity to handle complaints and resolve disputes. Specifically, it will assist rehabilitation or construction of county offices and courts, strengthening of claims and dispute resolution, and implementation of public awareness campaigns. Support will include procurement of information and communications technology, and training, study tours, and workshops. Construction works for WAB regional offices

Activities under the original Wassip (US\$1.5 million). The budget for on-going is amount provided to cater for commitments under Wassip beyond the funds available.

Implementation of drought mitigation measures (US\$16.5 million)

- Supply of 120 collapsible water tanks (capacity 10 cubic meters and 5 cubic meters) including a hosepipe and pump set.
- Supply of 1080 10-cubic meters plastic water tanks to public schools and institutions for rainwater harvesting including gutters, downpipes, fittings and concrete base.
- Supply of 14 utility mini-lorries for carrying pipes, collapsible tanks, and similar goods.
- 18 mobile water treatment units for both turbid river water and saline water from boreholes (to be pulled by a pickup).
- Development of 39 borehole water sources and equipping with submersible pump sets, electricity supply/solar panels and generator sets and water storage tanks.
- Supply of ten 6-wheel drive drought monitoring vehicles-hardtops for Tana and Tanathi Water Works Development Agency

Project Duration

The project started on 10th May 2012 and was expected to run for 5 years. It however got extended to 30th April 2020 having the final disbursement date as 30th June 2020

1.4 Bankers

The following are the bankers for the current year:

- a) Special deposit account
CFC Stanbic Bank Kenya
Account No. 0100000487923
- b) Local project accounts
Kenya commercial bank
Account No.1139107380
Kipande House Branch

1.5 Auditors

The project is audited by:

Office of the Auditor General
Kenya National Audit Office
P.O. Box 30084-00100
NAIROBI

1.6 Roles and Responsibilities

The Project's governance framework requires the stakeholders to uphold the highest professional, ethical, moral and legal standards. This is achieved through effective segregation of duties with clear checks and balances as articulated in the Project Loan/Credit Agreement, the PFM Act, 2012, the Project Design Report, the Implementation Manual and the Finance and Procurement Manuals.

1.6.1 The Project Steering Committee (PSC)

This Committee is responsible for overseeing the implementation of the Project, approving the annual work plan and budget, and ensuring that the activities are in compliance with the donor and government policies.

1.6.2 IDA, World Bank

These are the project sponsors. They are responsible for reviewing and approving the project's withdrawal applications, expenditure justifications, no objection requests, reviewing and approving the annual work plan and budget, expenditure category reallocation request, and participating in implementation support missions.

1.6.3 The Parent Ministry

The parent ministry ensures that the Project's budget is captured in its development projects and disburses the government counterpart funding. The ministry reviews and tracks the Project's annual work plan and budget against the set targets and makes the approvals. The parent ministry also oversees the execution of the project coordinating team.

1.6.4 The Auditor

The Supreme Audit Institution in Kenya, that is, the Office of the Auditor General, is mandated by the Constitution of Kenya Chapter 12, Part 6, and Article 229 which establishes the Office of the Auditor General. Chapter 15, Article 248, Section 3 and Article 249, Section 2 (a) and (b) and section 10 of the Public Audit Act, 2015 provide for the independence of the Office of the Auditor General.

The Auditor General is mandated to audit all national government entities, which include government development projects and present these statutory financial statements to the Parliament. This facilitates the submission of the audited report to the project's sponsors by 31 December each year.

1.6.5 Project Coordinating Team (PCT)

This team is based in Nairobi and is responsible for the project management and coordination functions. The PCT comprises of the Project Coordinator and a team of Technical Officers. The PCT is also supported by other administrative staff.

These key staffs, which form the project coordinating team that is involved in the day to day management of the project and its implementation, are:

Name and contact details	Title designation	Qualifications	Responsibilities
Eng Bonnie Nyandwaro	Program Coordinator	B-Tech-Civil & structural Eng., MTEK, PE	Coordination of the day to day activities of the Program.
Michael Kimotho	Finance Management Expert	B. Com, MBA, CPA (K), ACCA.	Management of the finance functions of the Program.
Anne Gacheri	Senior Procurement Expert	MSc. Procurement & Logistics -BA-Economics, MCIPS, MKISM	Responsible for the management of the procurement process of goods and services, and safety of the assets.

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1.6.6 County Project Coordinating and Facilitation Committee (CPCFC):

Based in 2 county offices, this committee is responsible for facilitating and harmonizing the implementation of the Project at the county level. The Senior County Officials form the policy organ (CPCFC) while the County Project Coordinators (CPCs) lead the technical heads of collaborating departments. The roles of the technical heads of departments include coordinating of the project programs in line with the sectoral priorities in the respective counties, coordinating, guiding and participating in the development of action plans by participatory identification of the projects to be financed under Wassip-AF Project, carrying out monitoring and evaluation of project's activities in the counties and offering oversight in the implementation of the project activities.

1.7 Funding summary

Source of funds	Donor Commitment-		Amount received to date – (30 th June 2020)		Undrawn balance to date (30 th June 2020)	
	Donor currency	Kshs	Donor currency	Kshs	Donor currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
IDA GRANT	16,789,434	1,788,450,817	16,789,431	1,788,450,524	3	293
IDA Loan	142,227,135	15,150,375,748	142,227,050	15,150,366,747	85	9,001
Government of Kenya Counterpart funds	11,936,860	1,204,190,401	17,693,703.59	1,884,775,772	-5,756,844	(680,585,371)
Total	170,953,429	18,143,016,966	176,710,185	18,823,593,043	-5,756,756	-680,576,076

1.8 Summary of Overall Project Performance:

The project is in the Seventh year of implementation and has disbursed USD 159,016,569 which is approximately 100% of the project value. The commitments for the project were valued at 100% of the project value and several projects were completed during the year. Some of these projects include; Tigoni Water Supply, Githinguri Water Supply, Ruiru Sewerage Network, Muranga Water Supply, Kiambu Water Supply, and boreholes in Tana Athi and Tanathi regions. The outputs and impacts of the project will be realised on completion of the works projects whose construction period ranges from a period of 12 months to 42 months for the major works. Implementation of the project is generally satisfactory and the project is on track to achieve its objectives. The project has led to a rise in the number of people provided with access to improved water and sewerage services.

Challenges faced during implementation were:

- The long procurement process which required a lot of consultation between AWSB and the World Bank.
- Unavailability of way leaves and project sites.
- Delay at the Ministry in processing direct payment
- Inadequate counterpart funding

1.9 Summary of Project Compliance:

During the period the project complied with all the relevant laws, regulation and conditions set for the proje

2 STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETRMINED OBJECTIVES

Introduction

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

The key development objectives of the project's 2018-2022 plan are to:

1. Increase access to reliable, affordable, and sustainable water supply and sanitation services;
2. Improve water and wastewater services in the areas served by AWWDA

Progress on attainment of Strategic development objectives

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

Project	Objective	Outcome	Indicator	Performance
Rehabilitation and expansion of existing Water supply systems	Increase access to reliable, affordable, and sustainable water supply and sanitation services Improve water and wastewater services in the areas served by AWWDA	Increase Coverage of safe water	% of WSP project operational areas with coverage of safe water	People benefiting from the water supply interventions under the project in AWWDA area were 1,295,850 with 330,000 from community water points, 148,533 informal settlements and 287,792 other areas. A total of 529,525 people was benefiting from better services. Construction of NCT is over 70% complete. The project is expected to be completed by 2021 and will additional 140,000M3/d. This will benefit additional 1.2Million people. (Ruiru-Juja hours of supply improved from 20hrs per day to 22
Rehabilitation and expansion of sewerage networks and sewerage treatment facilities in Nairobi and selected towns, including the informal settlements	Increase access to reliable, affordable, and sustainable water supply and sanitation services Improve water and wastewater services in the areas served by AWWDA	Increase Coverage of safe sewerage or sanitation access	% of WSP project operational areas with coverage of safe sewerage or sanitation access	Under the project, construction and rehabilitation of trunk sewers and reticulation networks in Nairobi region including the informal settlements of Matopeni Spring Valley, Riverbank and Huruma were completed. Some 43,000 connections to the trunk sewers were made directly through the WSPs. 350,100 people currently benefiting. The project also rehabilitated the Dandora Sewerage treatment plant.

3 CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Athi Water Works Development Agency (AWWDA) is a state corporation established by the Water Act 2016 under the Ministry of Water, Sanitation and Irrigation covering Nairobi City County, Kiambu County and Murang'a County. Its key responsibility as defined by the Water Act 2016 is to;

1. Undertake the development, maintenance and management of National Public Waterworks,
2. Operate the waterworks and provide water services as a water service provider, until such a time as responsibility for the operation and management of waterworks are handed over to a county government, joint committee, authority of county government or water services provider,
3. Provide reserve capacity for purposes of providing water services where the Regulatory Board orders the transfer of water services functions from a defaulting water services provider to another licensee,
4. Provide technical services and capacity building to such county government and water providers,
5. Provide to the cabinet secretary technical support in discharging of his or her functions under the Water Act 2016.

Sustainability strategy and profile

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

- **Distribution of water tanks;**

AWWDA through the support of the Government of Kenya is addressing the water crisis currently being experienced public schools through supply of branded plastic water tanks. The tanks are 100no. 6,000l water tanks have been distributed to schools within Nairobi, Murang'a and Kiambu counties at a cost of Kshs. 4,988,000.00.

- **Community support activities under Water and Sanitation Improvement project Additional Financing**

AWWDA has undertaken Community Water Supply Projects under the WaSSIP Programme as follows;

1. Ten Number community water supply projects to establish an additional production of 42,000m³ of water per day to serve over 400,000 people in Muranga, Kigumo, Mathioya and Kiharu. The scope of these projects entails main water supply, whereby the Individual Connections will be installed by Water Service Providers (WSP)
2. Engineer's Project office and Accommodation were constructed of permanent design and will be handed over to the Community upon completion of the Project
3. Two four-wheel drive ambulances purchased under the Project will be handed over to the community after completion of the project.
4. Excavated Spoil material from the Tunnel is being used by the local tea factories for road maintenance. So far, a total of 57,686 Tones has been utilized with a value of approximately Kshs. 90M using delivery rates at site.

Environmental performance

Environmental and Social Sustainability refers to concerted efforts to mitigate against environmental degradation and social impacts. It is the maintenance of the factors and practices that contribute to the quality of environment on a long-term basis as well acceptable social norms over the long term.

It involves making decisions and taking action that are in the interests of protecting the natural and social environment, with particular emphasis on preserving the capability of the environment to support human life; and social wellbeing of communities.

Athi Water Works Development Agency (AWWDA) as a state corporation with key functions of Planning, development, rehabilitation and expansion of water and sanitation services infrastructure is cognizant of the possible impacts (both positive and negative) resulting from interaction of the organization's activities with both physical and social environment.

As such, AWWDA is committed to environmental conservation and protection as well as safeguarding of health and safety of workers within the premises and projects. Through the integrated Environment, Health and Safety policy statement, the organization commits to protecting the environment, preserving the health and safety of employees and communities, and ensuring safe development of water and sanitation infrastructure within the Institution's area of jurisdiction.

AWWDA has a structured way of managing the environmental and social aspects associated with its operations through the existing Environmental and Social Safeguards unit with a total of 10 permanent staff.

Pollution prevention, regulatory compliance, stakeholder engagement, public consultation and continual improvement are the key elements which underpins AWWDA environmental sustainability.

The objective of the AWWDA's environmental sustainability is therefore to promote sustainable development within our area of jurisdiction by ensuring environmental protection, social equity, and economic development.

AWWDA environmental sustainability is guided by the Environmental Management and Coordination (Amendment) Act of 2015 which is the principal legislation governing the conduct of environmental management in Kenya; and the Constitution of Kenya, 2010. Other legislation related to natural resources such as Water Act, forest Act, Land planning Act, National land policy etc. as well as the Occupational Health and Safety Act, 2010 are also used as guidelines. AWWDA also complies with the other environmental requirements of International Development Funding agencies such as World Bank, Africa Development Bank, French Development Bank among others.

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Table 1: Environmental and Social Safeguards

IDF	Environment Safeguards Instruments	Description of safeguards
African Development Bank	Operational Safeguards (OS)	OS 1: Environmental and Social Assessment. OS 2: Involuntary Resettlement: Land Acquisition, Population Displacement and Compensation. OS 3: Biodiversity and Ecosystem Services. OS 4: Pollution Prevention and Control, Greenhouse Gases, Hazardous Materials and Resource Efficiency. OS 5: Labour Conditions, Health and Safety.
World Bank	Environmental and Social operational policies (OP)	OP4.01: Environmental Assessment OP4.36: Forestry OP 4.04: Natural Habitats OP4.12: Involuntary Resettlement OP 4.11: Physical Cultural Resources OP 4.10: Indigenous Peoples Policy OP 4.09: Pests Control Management

Employee welfare

All employees for the project are from AWWDA. The employees are hired competitively as per the existing labour laws and best practice.

Market place practices-

AWWDA ensures responsible competition practices -with issues like anti-corruption, responsible political involvement, fair competition and respect for competitors -by sensitizing staff and stakeholders on corruption issues, having corruption prevention policies such as Ethics and anti-corruption committee, code of conduct and Ethics.

AWWDA also ensures there is transparency and accountability in matters of public finance. This is through quarterly accounts that are forwarded to the National Treasury and through public procurement where the process is open to the public. There are also the annual audits by KENAO on all the project funds and institution development and recurrent expenditure.

When it comes to good business practices such as honoring contracts with suppliers and respecting payment practices, AWWDA has hired professional in the supply chain department who understand the supplier's operations and offer support to both internal and external stakeholders on all issue's procurement. They also encourage suppliers to comply to the organization ethical guidelines and ensure contracts and supplier information's are confidential. Athi Water Works Development Agency has a payment policy of 30 days credit period. The Organization endeavors to pay All the suppliers and contractors within 30 days. All updates about the organization are posted on the website and there is annual stakeholders/suppliers' workshop which gives suppliers an opportunity to voice complaints and to interact with their client.

Community Engagements

In line with the right to Access to Information as enshrined under Article 35 of the COK and as part of disability mainstreaming, AWWDA is committed to increasing access to the visually impaired. During the financial year 2019/2020, AWWDA brailled and distributed 100 copies of the service delivery charter on 28th February 2020 at the Thika School for the Blind. During the event, AWWDA also donated a 6000lts plastic water tank for rain water harvesting and dry food stuffs to boost the school feeding program

4 STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The project coordinator Athi Water Works Development and the Project accountant for Water and Sanitation Improvement Project Additional Financing (ID Grant No.5103-KE) are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The project coordinator for the Athi Water Works Development Agency and the Project accountant for Water and Sanitation Improvement Project Additional Financing (IDA Grant No.5103-KE) accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Project coordinator for Athi Water Works Development Agency and the Project accountant for Water and Sanitation Improvement Project Additional Financing (IDA Grant No.5103-KE) are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year/period ended June 30, 2020, and of the Project's financial position as at that date. The project coordinator for Athi Water Works Development Agency and the project accountant for Water and Sanitation Improvement Project (IDA Grant No.5103-KE) further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The Project coordinator for Athi Water Works Development Agency and the Project accountant for Water and Sanitation Improvement Project Additional Financing (IDA Grant No.5103-KE) confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by the Chief Executive Officer Athi Water Works Development Agency and the Project Coordinator for Water and Sanitation Improvement Project (IDA Grant No.5103-KE) on 28th September 2020 and signed by them.



Chief Executive officer
Eng. Michael M. Thuita

Date: 28/09/2020



Project Coordinator
Eng. Bonnie Nyandwaro

Date: 28/09/2020



Chief Manager-FS
Michael Kihungi Kimotho
ICPAK No: 6490
Date: 28/09/2020

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OFFICE OF THE AUDITOR GENERAL

Enhancing Accountability

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON WATER AND SANITATION SERVICES IMPROVEMENT PROJECT (IDA CREDIT NO.5103 KE) FOR THE YEAR ENDED 30 JUNE, 2020 - ATHI WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Water and Sanitation Services Improvement Project set out on pages 1 to 16, which comprise of the statement of financial assets as at 30 June, 2020, statement of receipts and payments, statement of cash flows and the statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Water and Sanitation Services Improvement Project as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Financing Agreement No.5103-KE dated 21 June, 2012, between the International Development Association (IDA) and Government of Kenya and the Public Finance Management Act, 2012.

In addition, the special accounts statement present fairly, the special accounts transactions and the closing balance has been reconciled with the books of account.

Basis for Qualified Opinion

Unauthorized Expenditure

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,670,169,379 and Kshs.1,571,379,933 respectively resulting in underfunding of Kshs.98,789,446 or 6% of the budget. In addition, the statement reflects a final payments budget of Kshs.758,859,795 against actual on comparable basis amount of Kshs.2,568,088,669 resulting in an over expenditure of Kshs.1,809,228,874 or 238% of the budget.

Consequently, the validity of the over expenditure could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Water and Sanitation Services Improvement Project Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

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

Other Matter

1. Pending Accounts Payables

Note 11.1 to the financial statements reflects accounts payables of Kshs.21,989,341. Management has not explained why the bills were not settled during the year they occurred. The Project is at risk of incurring significant interest costs and penalties with their continued delay in payment.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

2. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2020 reflects actual receipts of Kshs.1,571,379,933 against final receipts budget of Kshs.1,670,169,379 resulting in a shortfall of Kshs.98,789,446. Further, actual expenditure for the year amounted to Kshs.2,568,088,670 against final expenditure budget of Kshs.758,859,795 resulting to an over expenditure of Kshs.1,809,228,874. Management has not provided explanation regarding the over expenditure.

Consequently, the underfunding and low expenditure may affect the planned activities and impact negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness

and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Delay in the Completion of Projects

1.1 Northern Collector Tunnel and Water Intake Project

Works at the Northern Water Collector Tunnel and Water Intake Project budgeted to cost US\$85,200,000 (equivalent to Kshs.9,031,000,000) commenced on 10 May, 2012. The works entails development of river abstraction and water intake structures and a 11.7 kilometers underground tunnel, and was expected to be completed by 30 December, 2020. As at November, 2020, approximately 75% of the permanent works had been completed, which included 100% excavation of the tunnel and primary support, 44% tunnel secondary lining and 60% surface structures (intakes and outfall structure). However, there was slow progress at the tunnel which had affected the projected delivery timelines.

Consequently, the project was behind schedule and thus, it was not confirmed when the remaining works were likely to be completed, and whether the project objectives will be realized as envisaged.

1.2 Community Water Supplies Project

Implementation of Ichichi, Kiruri and Makomboki Community Water Supplies Projects for Kshs.305,478,208 commenced on 28 August, 2017 with the completion date set for 28 April, 2019 and later revised to 15 September, 2020. Physical verification conducted in November, 2020 revealed that laying of pipes had been completed at Kiruri and Ichichi Water sites. However, construction of a river intake in the forest was still ongoing. In addition, construction of a 10 kilometer access road from the forest edge to the intake site had been partially done.

It was not possible to confirm whether the project will be completed considering the contract period had expired.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Financing Agreement between the International Development Association (IDA) and Republic of Kenya except for the matters under Other Matter and for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I report based on my audit that: -

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

Responsibilities of Management and those Charged With Governance

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

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue to sustain its services, disclosing, as applicable, matters

related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to terminate the Project or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that

might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.


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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

31 December, 2020

Water and Sanitation Service Improvement Project-Additional financing
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6 STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30TH JUNE 2020

	Note	FY 2019/20		FY 2018/19		Cumulative to Date
		Receipts and payments controlled by the entity Kshs	Receipts and Payments made by third parties Kshs	Receipts and payments controlled by the entity Kshs	Receipts and Payments made by third parties Kshs	
RECEIPTS						
Receipts from Government of Kenya	10.3	1,021,309,584		180,052,369		1,884,775,772
Proceeds from Domestic and Foreign Grants	10.4	83,700,256		44,721,854		1,550,120,529
Loan from External Development Partners	10.5	452,510,298	0	1,947,445,319	907,820,444	13,858,852,923
Miscellaneous Receipts	10.6	13,859,796		5,154,198		146,522,516
TOTAL RECEIPTS		1,571,379,933	0	2,177,373,740	907,820,444	17,440,271,739
PAYMENTS						
Compensation of Employees	10.7					0
Purchase of goods and services	10.8	146,020,795		121,045,746		1,302,360,197
Social Security Benefits	10.9	0		0		0
Acquisition of Non-financial Assets	10.10	2,422,067,874	0	1,169,832,873	907,820,444	13,630,297,736
Transfers to Other Government Entities	10.11	0		0		0
Other grants and transfers and payments	10.12	0		0		0
TOTAL PAYMENTS		2,568,088,670	0	1,290,878,619	907,820,444	14,932,657,933
SURPLUS/DEFICIT		-996,708,737	0	886,495,121	0	2,507,613,806



Chief Executive officer
Eng. Michael M. Thuita



Project Coordinator
Eng. Bonnie Nyandwaro



Chief Manager-FS
Michael Kihungi Kimotho
ICPAK No: 6490

Water And Sanitation Service Improvement Project-Additional financing
 Reports and Financial Statements
 For the Financial Year ended June 30, 2020

Date: 28/09/2020

Date: 28/09/2020

Date: 28/09/2020

7 STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2020

	Note	2019/20	2018/19
		Kshs	KShs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	10.13. A	11,622,073	1,312,932,382
Cash Balances	10.13. B		
Cash equivalents (short-term deposits)	10.13. C		
Total Cash Equivalents		11,622,073	1,312,932,382
Accounts receivables – Imp rest and Advances	10.14		0
TOTAL FINANCIAL ASSETS		11,622,073	1,312,932,382
REPRESENTED BY			
Fund balance	10.15	1,008,330,810	426,437,262
Prior year adjustments	10.16	0	0
Surplus/Deficit for the year		-996,708,737	886,495,120
NET FINANCIAL POSITION		11,622,073	1,312,932,382

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 26th September 2020 and signed by:



Chief Executive officer
 Eng. Michael M. Thuita

Date: 28/09/2020



Project Coordinator
 Eng. Bonnie Nyandwaro

Date: 28/09/2020



Chief Manager-FS
 Michael Kihungi Kimotho
 ICPAK No: 6490
 Date: 28/09/2020

Water And Sanitation Service Improvement Project-Additional financing
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8 STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2020

	Note	2019/20 Kshs	2018/19 KShs
Receipts for operating activities			
Transfer from Government entities	10.3	1,021,309,584	180,052,369
Miscellaneous receipts	10.6	13,859,796	5,154,198
Payments for operating activities		1,035,169,379	185,206,567
Compensation of employees			
Purchase of goods and services	10.7		
Social security benefits	10.8	-146,020,795	-121,045,746
Transfers to other government entities	10.9		
Other grants and transfers	10.11	0	0
	10.12		
Adjusted for:			
Changes in receivables		-146,020,795	-121,045,746
Adjustments during the year	10.16		
Net cash flow from operating activities		-304,601,572	-985,020,119
		584,547,012	-920,859,298
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets			
Net cash flows from Investing Activities	10.10	(2,422,067,874)	-1,169,832,873
		(2,422,067,874)	-1,169,832,873
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings			
Net cash flow from financing activities	10.5	536,210,554	1,992,167,172
		536,210,554	1,992,167,172
NET INCREASE IN CASH AND CASH EQUIVALENT			
Cash and cash equivalent at BEGINNING of the year		-1,301,310,309	-98,524,999
Cash and cash equivalent at END of the year		1,312,932,382	1,411,457,381
		11,622,073	1,312,932,382

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 26th September 2020 and signed by:



Chief Executive officer
 Eng. Michael M. Thuita

Date: 28/09/2020



Project Coordinator
 Eng. Bonnie Nyandwaro

Date: 28/09/2020



Chief Manager-FS
 Michael Kihungi Kimotho
 ICPAK No: 6490
 Date: 28/09/2020

Water And Sanitation Service Improvement Project-Additional financing
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9 STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Consolidated	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Utilisation Variance	% of Utilisation
	A	B	c=a+b	D	e=c-d	f=d/c %
Receipts/Payments Item						
Receipts						
Receipts from Government of Kenya	150,000,000.00	916,309,583.55	1,066,309,583.55	1,021,309,583.55	45,000,000.00	96%
Loan from External Development Partners (REVENUE)	536,210,553.90	-	536,210,553.90	536,210,553.90	-	100%
Loan from External Development Partners (A.I.A)	1,238,789,446.10	(1,185,000,000.00)	53,789,446.10	-	53,789,446.10	0%
Miscellaneous receipts	13,859,795.65		13,859,795.65	13,859,795.65	-	100%
Total Receipts	1,938,859,795.65	(268,690,416.45)	1,670,169,379.20	1,571,379,933.10	98,789,446.10	94%
Payments						
Compensation of employees	-	-	-	-	-	-
Use of goods and services	150,000,000.00		150,000,000.00	146,020,795.38	3,979,204.62	97%
Social Security Benefits						
Acquisition of Non-financial Assets	1,788,859,795.65	(1,180,000,000.00)	608,859,795.65	2,422,067,874.48	(1,813,208,078.83)	398%
Transfers to Other Government Entities						
Other Grants and Other Payments						
Total Payments	1,938,859,795.65	(1,180,000,000.00)	758,859,795.65	2,568,088,669.86	(1,809,228,874.21)	338%

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



Chief Executive officer
Eng. Michael M. Thuita

Date: 28/09/2020



Project Coordinator
Eng. Bonnie Nyandwaro

Date: 28/09/2020



Chief Manager-FS
Michael Kihungi Kimotho
ICPAK No: 6490
Date: 28/09/2020

10 NOTES TO THE FINANCIAL STATEMENTS

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

10.1 Basis of Preparation

10.1.1 Statement of compliance and basis of preparation

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

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

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

10.1.2 Reporting entity

The financial statements are for the Water And Sanitation Service Improvement Project-Additional financing (Wassip-AF) under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

10.1.3 Reporting currency

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

10.2 Significant Accounting Policies

a) Recognition of receipts

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

• Transfers from the Exchequer

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

• External Assistance

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

Significant Accounting Policies (Continued)

Donations and grants

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

Proceeds from borrowing

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

Undrawn external assistance

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

• **Other receipts**

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

b) **Recognition of payments**

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

• **Compensation of employees**

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

• **Use of goods and services**

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

• **Interest on borrowing**

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

Significant Accounting Policies (Continued)

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

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

- **Acquisition of fixed assets**

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

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

c) In-kind donations

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

d) Cash and cash equivalents

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

Restriction on cash

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

Significant Accounting Policies (Continued)

e) Accounts receivable

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

f) Pending bills

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

g) Budget

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

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

h) Third party payments

There were no third-party payments during the year in the project

Significant Accounting Policies (Continued)

i) Exchange rate differences

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

j) Comparative figures

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

k) Subsequent events

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

l) Errors

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

Water And Sanitation Service Improvement Project-Additional financing
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10.3 RECEIPTS FROM GOVERNMENT OF KENYA

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

	2019/2020	2018/2019	Cumulative to Date
	KShs	KShs	KShs
Counterpart funding through State Department for Water Services			0
Counterpart funds Quarter 1			0
Counterpart funds Quarter 2			0
Counterpart funds Quarter 3	1,021,309,584		1,884,775,772
Counterpart funds Quarter 4	0	0	0
Other transfers from government entities	0	0	0
Appropriations-in-Aid	1,021,309,584	0	1,884,775,772

10.4 PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

Name of Donor	Amount received in donor currency	Grants received in cash	Grants received as direct payment*	Grants received in kind	Total amount in Kshs	
					FY 2019/20	FY 2018/19
	USD	Kshs	Kshs	Kshs	Kshs	Kshs
Grant received from International Development Association (IDA)	785,753	83,700,256	0	0	83,700,256	44,721,854
Total	785,753	83,700,256	0	0	83,700,256	44,721,854

Water And Sanitation Service Improvement Project-Additional financing
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10.5 LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

Name of Donor	Amount in loan currency	Amount received in kshs	Total amount in Kshs	
			FY 2019/20	FY 2018/19
		Kshs		Kshs
Proceeds from Foreign Borrowings	5,174,029	536,210,554	536,210,554	1,992,167,172
Total	5,174,029	536,210,554	536,210,554	1,992,167,172

10.6 MISCELLANEOUS RECEIPTS

	Receipts controlled by the entity in Cash	Receipts controlled by third parties	TOTAL RECEIPTS		Cumulative to- date
			FY 2019/20	FY 2018/19	
	Kshs	Kshs	Kshs	Kshs	Kshs
Interest on Deposits	13,859,796	0	13,859,796	5,154,198	146,522,516
	13,859,796	0	13,859,796	5,154,198	146,522,516

10.7 COMPENSATION OF EMPLOYEES

There was no compensation of employees in the reporting period

Water And Sanitation Service Improvement Project-Additional financing
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10.8 PURCHASE OF GOODS AND SERVICES

	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		Cumulative to date
			FY 2019/20	FY 2018/19	
	Kshs	Kshs	Kshs	Kshs	Kshs
Operations costs	146,020,795	0	146,020,795	121,045,746	1,248,058,497
Training	0	0	0	0	54,301,700
Total	146,020,795	0	146,020,795	121,045,746	1,302,360,197

10.9 SOCIAL SECURITY BENEFITS

There is no social security benefit in the project

10.10 ACQUISITION OF NON-FINANCIAL ASSETS

	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		Cumulative to-date
			FY 2019/20	FY 2018/19	
	Kshs	Kshs	Kshs	Kshs	Kshs
Works	2,183,280,521	0	2,183,280,521	1,789,422,302	11,044,905,213
Goods	0	0	0	15,182,054	663,980,356
services	238,787,354	0	238,787,354	273,048,961	1,921,412,167
Total	2,422,067,874	0	2,422,067,874	2,077,653,317	13,630,297,736

10.11 TRANSFERS TO OTHER GOVERNMENT ENTITIES

During the 12 months to 30 June 2019, there were no transferred funds to reporting government entities

10.12 OTHER GRANTS AND TRANSFERS AND PAYMENTS

There were no other grants and transfers and payments

Water And Sanitation Service Improvement Project-Additional financing
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10.13 CASH AND CASH EQUIVALENTS CARRIED FORWARD

Cash and Cash Equivalents	2019/20	2018/19
	Kshs	Kshs
IDA USD-Designated account		304,614,558
Project Account	12,986	
cooperative bank account	11,609,087	1,008,317,824
Actual Total Closing Cash Balance	11,622,073	1,312,932,382

The project has 1 project accounts and 1 foreign currency designated accounts managed by the National Treasury as listed below:

10.13 A) Bank Accounts

Project Bank Accounts

Foreign Currency Accounts	FY 2019/20	FY 2018/19
	Kshs	Kshs
CFC Stanbic kenya [A/c No]	12,986	304,614,558
Total Foreign Currency balances	12,986	304,614,558
Local Currency Accounts		
Cash in Transit	-	0
Kenya Commercial Bank [A/c No: 1139107380]	11,609,087	1,008,317,824
Total local currency balances	11,609,087	1,008,317,824
Total bank account balances	11,622,073	1,312,932,382

Special Deposit Accounts

The balances in the Project's Special Deposit Accounts as at 30th June 2019 are not included in the Statement of Financial Assets since they are below-the-line items and are yet to be drawn into the Exchequer Account as a voted provision.

The Special Deposit Account (SDA) movement schedule which shows the flow of funds that were voted in the year is presented below. These funds have been reported as loans/grants received in the year under the Statement of Receipts and Payments.

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Special Deposit Accounts Movement Schedule

	2019/20	2018/19
	Kshs	Kshs
(i) Central Bank of Kenya [A/c NO:0100000487923]		
Opening balance	304,614,558.24	1,289,634,677
Total amount deposited in the account	258,870,039.49	267,997,513
Total amount withdrawn (as per Statement of Receipts & Payments)	536,210,553.90	1,253,017,632
Add amount of exchange loss in the project account	(27,261,057.68)	
Closing balance (as per SDA bank account reconciliation attached)	<u>12,986</u>	<u>304,614,558</u>

10.13 B) Cash In Hand

There was no cash in hand in the project.

10.13 C) Cash equivalents (short-term deposits)

There were no cash equivalents (short term deposits)

10.14 OUTSTANDING IMPRESTS AND ADVANCES

The project did not have any outstanding imprests and advances during the year financial year 2018-19

10.15 FUND BALANCE

	2019/20	2018/19
	Kshs	Kshs
Fund Balance	1,008,330,810	426,437,262
Total	1,008,330,810	426,437,262

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10.16 PRIOR YEAR ADJUSTMENT

The Designated had opening balances of USD 2668749.85 which translated to Ksh 304,614,558.24 which were utilised in the FY 2019/20. During the Financial year USD 2,505,401.43 was received from the World Bank translating Ksh 258,870,039.49 giving a total funds available of USD 5,174,151.28 and USD 5,174,029.37 was utilised leaving a balance of USD 121.91 translating to Ksh 12,986. The Adjustment of Ksh 304,601,572.09 (Ksh 304,614,558.24- Ksh 12,986).

11 OTHER IMPORTANT DISCLOSURES

11.1 Pending Accounts Payable (See Annex 2a)

Supplier	FY2019/20 Amount Due
Neliwa builders	21,989,341
	21,989,341

11.2 PENDING STAFF PAYABLES (See Annex 2B)

There were no pending staff payables in the project

11.3 Other Pending Payables (See Annex 2C)

There were no other pending payables in the project

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12 PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	There were no pending issues	There were no pending issues			



Chief Executive officer
Eng. Michael M. Thuita
Date: 28/09/2020



Project Coordinator
Eng. Bonnie Nyandwaro
Date: 28/09/2020



Chief Manager-FS
Michael Kimotho
ICPAK No: 6490
Date: 28/09/2020

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ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Consolidated	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Utilisation Variance	% of Utilisation	Comments
	A	B	c=a+b	D	e=c-d	f=d/c %	
Receipts/Payments Item							
Receipts							
Receipts from Government of Kenya	150,000,000.00	916,309,583.55	1,066,309,583.55	1,021,309,583.55	45,000,000.00	96%	Third quarter we received less by 7.5Million 4th quarter allocation was received on 8th of July 2020
Loan from External Development Partners(REVENUE)	536,210,553.90	-	536,210,553.90	536,210,553.90	-	100%	
Loan from External Development Partners(A.I.A)	1,238,789,446.10	(1,185,000,000.00)	53,789,446.10	-	53,789,446.10	0%	There were no direct payments in the financial year hence zero absorption
Miscellaneous receipts	13,859,795.65		13,859,795.65	13,859,795.65	-	100%	
Total Receipts	1,938,859,795.65	(268,690,416.45)	1,670,169,379.20	1,571,379,933.10	98,789,446.10	94%	
Payments							
Compensation of employees	-	-	-	-	-		
Use of goods and services	150,000,000.00		150,000,000.00	146,020,795.38	3,979,204.62	97%	
Social Security Benefits			-	-	-		
Acquisition of Non-financial Assets	1,788,859,795.65	(1,180,000,000.00)	608,859,795.65	2,422,067,874.48	(1,813,208,078.83)	398%	The over expenditure is due to last years closing balance of Kshs 1,008,317,824.
Transfers to Other Government Entities			-	-	-		
Other Grants and Other Payments			-	-	-		
Total Payments	1,938,859,795.65	(1,180,000,000.00)	758,859,795.65	2,568,088,669.86	(1,809,228,874.21)	338%	

ANNEX 2A - ANALYSIS OF PENDING BILLS

Supplier of Goods or Services	Original Amount	Amount paid to date	Outstanding Balance 2020
	A	C	d=a-c
Construction of civil works			
Nelliwa builders	282,757,132	260,767,791	21,989,341
Sub-Total	282,757,132		21,989,341

ANNEX 3 – SUMMARY OF FIXED ASSET REGISTER

Assets	Opening Cost (KShs) 2019/20	*Purchases/Additions in the Year (KShs) 2019/20	**Disposals in the Year (KShs) 2019/20	Transfers in/(out) Kshs 2019/20	Closing Cost (KShs) 2020
	(a)	(b)	(c)	(d)	(e)= (a)+ (b)-(c)+ (-) d
Goods	810,678,916.20	-			810,678,916.20
Water and sewerage work	3,807,018,720.06	109,852,711.55			3,916,871,431.61
Work in Progress	12,828,143,969.00	2,458,235,958.31			15,286,379,927.31
Total	17,445,841,605.26	2,568,088,669.86	-	-	20,013,930,275.12

APPENDICES

- I. Signed confirmations from beneficiaries in Transfers to Other Government Entities
- II. Bank Reconciliations
- III. Cash Count Certificate
- IV. Special Deposit Account(s) reconciliation statement