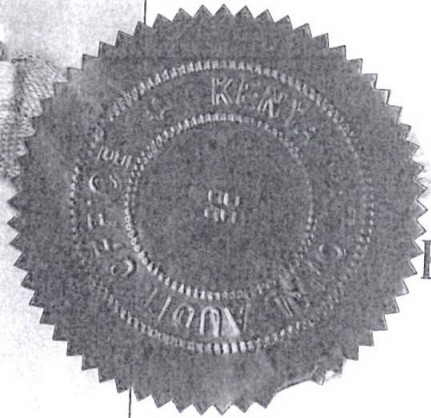


REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

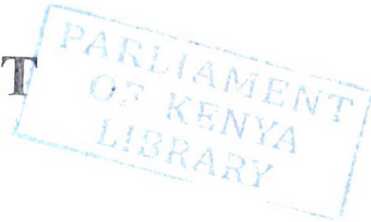
OF

THE AUDITOR-GENERAL

ON

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

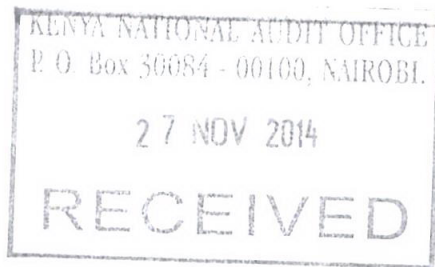
**FOR THE YEAR ENDED
30 JUNE 2014**



WATER SERVICES TRUST FUND

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
30 JUNE 2014**



WATER SERVICES TRUST FUND

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

GLOSSARY OF TERMS

Acronym	Description
ADB	African Development Bank
ASAL	Arid and Semi-Arid Lands
BMGF	Bill and Melinda Gates Foundation
BoT	Board of Trustees
CBO's	Community Based Organisations
CPC	Community Project Cycle
DANIDA	Danish International Development Agency
EC	European Commission
EU	European Union
FHI	Family Health International
GIZ	German Society for International Cooperation
GoF	Government of Finland
GoK	Government of Kenya
IFAD	International Fund for Agricultural Development
KfW	Government of Germany
KWSP	Kenya Water and Sanitation Programme
MDNKOAL	Ministry of Development of Northern Kenya and Other Arid Land
MKEPP	Mount Kenya East Pilot Project
MTAP	Medium Term Arid Programme
OBA	Output Based Aid
SIDA	Swedish International Development Agency
SNV	Stichting Nederlandse Vrijwilligers (Netherlands Development Organization)
UDDTs	Urine Diversion Dehydrating Toilets
UN HABITAT	United Nations Human Settlements Programme
UNICEF	United Nations International Children Emergency Fund
UPC	Urban Project Cycle
UTaNRMP	Upper Tana National Resources Management Programme
UWF	Urban Window Funding
UWFP	Urban Window Funding Partner
WASH	Water and Sanitation for Hygiene
WASREB	Water Services Regulatory Board
WDC	WRUA Development Cycle
WRUA	Water Resources Users Association
WSB	Water Service Boards
WSPs	Water Services Providers
WSTF	Water Services Trust Fund

WATER SERVICES TRUST FUND

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

CONTENTS	PAGES
Corporate information	3 - 4
Board of trustees	5 - 7
Management	8
Chairman's report	9 - 10
Chief executive officer's statement	11 - 14
Statement of corporate governance	15 - 17
Corporate Social Responsibility Statement	18
Report of the trustees	19
Statement of trustees' responsibilities	20
Independent auditors' report	21 - 22
Financial statements	
Statement of financial performance	23
Statement of financial position	24
Statement of changes in reserves	25
Statement of cash flows	26
Statement of comparison of budget and actual amounts	27
Notes to the financial statements	28 - 45
Progress on follow up of auditor recommendation	Appendix I

WATER SERVICES TRUST FUND

CORPORATE INFORMATION

INCORPORATION

Water Services Trust Fund is a corporate body established under the provisions of the Water Act, 2002 of the laws of Kenya and it is domiciled in Kenya.

BOARD OF TRUSTEES

Prof. Charles Nzioka	- Board Chairman (Retired 31 January 2014)
Mr. Parmain Ole Narikae	- Member
Eng. Jacqueline Musyoki (Mrs.), OGW	- Chief Executive Officer
Mr. James Teko Lopoyetum	- PS, Ministry of Environment, Water and Natural Resources
Ms. Melisa Musoma	- Alternate Trustee to PS: Ministry of Environment, Water and Natural Resources
Dr. Kamau Thuge, EBS	- PS, The National Treasury
Mr. Daniel Mutua	- Alternate Trustee to PS: National Treasury
Mr. Kiema Mwandia	- Member (Retired on 19 May 2014)
Mr. John Khaoya Musebe	- Member
Ms. Rose Kavula Mwanga	- Member
Mr. Gershon A. Dulo	- Member
Ms. Catherine Muimi	- Member

MANAGEMENT TEAM

Eng. Jacqueline K. Musyoki, (Mrs) OGW, BSc. Eng. (Civil), MBA, R. Eng., MIEK	- Chief Executive Officer
Boniface Wanyonyi, BCom (Accounting), MBA, CPA (K)	- Finance and Administration Manager (From 1 August 2013)
Mr. Samuel Gitau Mbugua, BCom (Accounting), MBA, CPA (K),	- Acting Finance Manager (Up to July 2013)
Mr. Phaniel Matseshe, HSC, BSc, R. Geo, MGSK	- Quality Assurance Manager
Mr. Edwin Korir, BEd (Arts), MBA, CPA (K)	- Internal Audit Manager.

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@wstf.go.ke
Website: www.wstf.go.ke

BANKERS

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

WATER SERVICES TRUST FUND

CORPORATE INFORMATION (Continued)

BANKERS (Continued)

Kenya Commercial Bank Limited
Capital 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.

AUDITORS

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

Nyamweya Mamboleo Advocates
Finance House, 11th floor, Loita Street,
P O Box 20621 - 00100
Nairobi, Kenya.

WATER SERVICES TRUST FUND

BOARD OF TRUSTEES

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

Prof. Charles Nzioka - Board Chairman (Retired on 31 January 2014)



Prof. Charles Nzioka joined Water Services Trust Fund in November, 2007 as the Chairman of the Board of Trustees. Previously, he served as a Director at the Water Services Regulatory Board (WASREB). Prof. Nzioka has a wealth of managerial and administrative experience having held the position of Chairman, Department of Sociology, University of Nairobi and later Program Specialist, UNESCO in Paris. He has served as a consultant on a wide range of development issues for agencies including UNESCO, UNDP, UNICEF, FHI and the World Bank. He serves on the boards of several local, national and international organizations. He has assisted several organizations in fund raising and grant-making activities. He has authored and co-edited several books and monographs. He holds a PhD in Sociology from the University of London in the United Kingdom.

Mr. Parmain ole Narikae – Trustee



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 Masters in Business Administration (high Distinction) and a Bachelors 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.

Mr. James Teko Lopoyetum, HSC



Mr. James Teko Lopoyetum became a Trustee on 26 June 2013 when he was sworn in as the Principal Secretary (PS), State Department for Water in the Ministry of Environment, Water and Natural resources. Previously, he was the Director of Currency Operations and Branch Administration with the Central Bank of Kenya.

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.

Mr. Daniel Mutua



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 Masters degree in Business Administration.

WATER SERVICES TRUST FUND

BOARD OF TRUSTEES



Ms. Melisa Musoma

Ms. Melisa Musoma has been alternate Trustee to the Principal Secretary, Ministry of Environment, Water and Natural Resources (MEWNR) since November 2010. She is a Senior Finance Officer in the Ministry of Water and Irrigation and has over 25 years of experience in Government budgeting, financial control and management. She holds a Masters degree, Post graduate diploma and a Bachelors degree.

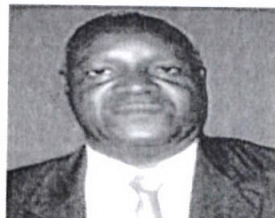


Mr. Kiema Mwandia (Retired on 19 May 2014)

Mr. Kiema Mwandia joined Water Services Trust Fund in May, 2011 as a Trustee. He has extensively published studies in water supply, conservation, irrigation and marketing. He has hands-on experience on various institutional donor funding requirements, grants management and Project Cycle management.

Mr. Kiema has held various managerial positions in Public Service, Civil Society and in the Private Sector. He previously served as the Monitoring and Evaluation Manager, Investment and Resources Mobilizing Manager, Regional Coordinator and Agronomist as well as GIS/EWS Expert for Ewaso Ng'iro River Development Authority (ENNDA); Principal Agricultural officer for the Ministries of Agriculture and Regional Development Authorities amongst others. He is currently working with Trade Marks East Africa, Kenya Country Office as the Programme Officer.

Mr. John K. Musebe



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 Pan 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 amongst others.

Mrs. Rose Kavula Mwanga



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 Counseling from Kenya Professional School of Guidance and Counseling 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

WATER SERVICES TRUST FUND

BOARD OF TRUSTEES (Continued)

Ms. Catherine M. Muimi



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 profession 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



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 Masters in Business Administration and a Bachelors 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 Sharppers, Kenyan Institute of Management, Kenya Professional Trainers Association, and Organizing Secretary General of the University of Nairobi (UoN) Alumni – Business School Chapter.

WATER SERVICES TRUST FUND

MANAGEMENT TEAM



Chief Executive Officer

Eng. Jacqueline Musyoki (Mrs.), OGW, BEng. (Civil), MBA, R. Eng., MIEK

Eng. Jacqueline Musyoki was appointed the Chief Executive Officer in July 2008. She holds a degree in Bachelors of Engineering from Liverpool University and A Master of Business Administration from the University of Nairobi. She has a wealth of technical and managerial experience acquired in the water sector, having worked in senior management positions.



Acting Finance Manager - Up to 31st July 2013
Mr. Samwel Gitau Mbugua, BCom (Accounting),
MBA, CPA (K)



**Finance and Administration Manager (W.E.F
1st August 2013)**
Mr. Bonface Wanyonyi, BCom (Accounting),
MBA, CPA (K)



Quality Assurance Manager
Mr. Phanuel Matseshe, HSC, BSc, R. Geo,
MGSK



Internal Audit Manager
Mr. Edwin Korir, BEd (Arts), MBA, CPA (K)

WATER SERVICES TRUST FUND

CHAIRMAN'S REPORT

It is my pleasure to present to you the results of our activities for the year 2013/2014.

Water Sector Review

The water sector is undergoing major changes so as to realign itself to the requirements of the new constitution. The reforms which have been successfully implemented since the year 2004 are being looked at afresh so as to meet the constitutional expectations of the country.

The sector is currently reviewing its legislative framework with a view to enhance service delivery to the many Kenyans in need of water and sanitation. During the year, the Water Bill 2014 was published and is currently under review by the parliament. The bill proposes enhancing the mandate of Water Services Trust Fund as pro-poor mechanism of the National Government of extending water and sanitation service to the underserved and poor areas of the country in both urban and rural areas. I am certain that the bill will be enacted into law and the core focus of providing financial support for improved access to water and sanitation will be enhanced.

Partnerships

The Fund is run on a network of partnerships. Some of these are vertical while others are horizontal. It is these partnerships that have enabled us to achieve so much and remain very lean at the same time.

During the year, we signed an MOU with International Fund for Agricultural Development (IFAD) to implement the Water Resources Management component of Upper Tana Natural Resource Management Programme which will be implemented for 8 years at a cost of Ksh. 700 million. The negotiations for new funding with the Governments of Finland, Sweden and the World Bank also continued during the year and we are optimistic the financing agreements will be signed in the first half of 2014/2015. The Fund also partnered with Sustainable Water and Sanitation for Africa (SUWASA), Water and Sanitation for the Urban Poor (WSUP), SNV and the Government of Kenya.

During the year, the Fund sought to enhance its partnership with the County governments by holding county stakeholders meeting and started development of a county engagement strategy. The Fund will continuously strive to improve these partnerships.

Strategic Plan

During the year, the Fund's second strategic plan 2008-2013 ended and it embarked on development of the new plan 2014-2019. In developing the strategic plan the Fund took cognizance of the anticipated changes in the legal framework as provided for in the Water Bill 2014. The Bill proposes to change the Fund to a Water Sector Trust Fund with an expanded mandate which will 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.

Income

The income recognised by the Fund grew by 52% from the previous year. This was mainly due to the increase in the disbursement from the Government of Kenya support to the Trust Fund which increased by 90% and development partners grants which increased by 50%.

Expenditures

Project Expenses

Project expenditure increased by KSh. 479 million (50%) from the previous financial year which is mainly as a result of increased accountability of previous project disbursement recognized as receivables in prior year. The project expenses amounted to 90% of the total expenses of the Fund.

WATER SERVICES TRUST FUND

CHAIRMAN'S REPORT (Continued)

Administration Expenses

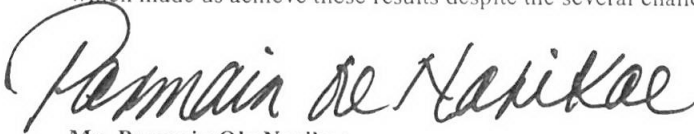
The administrative expenses decreased by Ksh. 32.7 million (16%) from the prior year Ksh. 200.8 million to Ksh 168.1 million. The Fund administrative costs represented 10% of the total expenses. The decrease in administrative costs resulted from efficiency in employment of resources thus releasing more funds to development activities. The Fund intends to keep these costs at low levels so as to free more resources for project financing.

Trustees

The members of the Board who have served during the year are shown in the report of the Board of Trustees in previous pages. During the year the terms of the Chairman and one member of the Board of Trustees came to an end. The vacancies remained unfilled as at the end of the financial year.

Appreciation

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



Mr. Parmain Ole Narikae
Trustee

WATER SERVICES TRUST FUND

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 2014.

During the Financial 2013/2014, WSTF experienced continued support from the development partners, the Government of Kenya (GoK) and other ministries in supporting WSTF's initiatives. The income recognised from both development partners and GoK increased. The Fund experienced a stable funds absorption in both the rural and urban programme as there were no major externalities that affected the organisation.

WSTF participated in several County engagement forums that ensured the Fund familiarize itself with the new structures to enable it undertake the new responsibilities in providing water and sanitation services to counties and also to make known to the counties the existence of the Fund and the underlying benefits in engaging the Fund.

WSTF also pulled talents within the year by bringing in new member of staff on certain key position. Overall the performance was good despite the underlying challenges.

Pro-poor mandate

WSTF is part of the Pro-Poor Strategy of the Ministry of Environment Water and Natural Resources with the mandate is to enhance access to water and sanitation to poor and marginalized areas of the Country. According to the proposed Water Bill 2014, the objective of the Fund (renamed Water Sector Trust Fund) is to provide conditional and unconditional grants to Counties and to assist in financing the development and management of water services in the marginalized areas or any area which is considered by the Board of Trustees as underserved.

Most areas of the country will continue to be considered commercially unviable for provision of services, and the urban poor will continue to be underserved due to the dynamics of informal settlements. The role and mandate of WSTF is therefore critical to ensure the attainment of Vision 2030 and the Constitutional right to water and sanitation for all.

In the Provision of Water to the Poor and Under-Served Areas the Medium Term Plan 2013-2017 entails strengthening the Water Sector Trust Fund (current Water Services Trust Fund) in order to ensure that the less fortunate and vulnerable members of society who mostly live in the rural areas and the informal settlements are catered for.

BUSINESS PERFORMANCE

Revenue

The Fund was able to mobilize funds amounting to Kshs 1.8 Billion. This is an increase of 52% from the previous year.

The funding from the Government of Kenya increased by 90% from previous year while the support from the development partners increased by 50%. The sharp increase from the Government of Kenya is due to the fact that in the previous year, the Fund managed to access half year allocation of the funds from the Government while in the current reporting period, the Fund accessed the full Government allocation. The Fund experienced financial stability in undertaking its mandate due to this support as compared to the prior year.

The Fund is projecting continued support and growth in the revenues from these two indispensable sources.

Cash flow

The cash and cash equivalents increased from KShs 210 million as at 30 June 2013 to KShs 264 million as at 30th June 2014.

WATER SERVICES TRUST FUND

CHIEF EXECUTIVE OFFICER'S STATEMENT (Continued)

OPERATIONAL PERFORMANCE

The Trust Fund's main operating activity has been the financing of projects in water, sanitation and water resource management. It has continued to make remarkable progress with additional Development Partners joining the Fund. The success of the Fund largely depends on the resources mobilized from the Government of Kenya and other partners. In the year 2013/2014, the Fund signed for more funding from both the existing and new partners. An MOU was signed with IFAD for the Upper Tana Natural Resources Management Programme (UTaNRMP) for a grant of about Ksh.700 million.

During the year, the Fund received Ksh. 1.36 billion from GOK, KfW, Danida, Sweden, EU, BMGF and IFAD for water, sanitation and water resources projects. GIZ and SNV provided technical assistance for the urban and rural programmes respectively. Negotiations are at an advanced stage for new funding from Sweden, Finland, KfW, EU, and the World Bank.

During the period, the Water and Sanitation for the Urban Poor (WSUP) supported the Fund financially and technically in the development of the Strategic Plan 2014-2019.

The Sustainable Water and Sanitation for Africa (SUWASA) partnered with the Fund to provide financial and technical support to Water Services Providers (WSPs) in the development of project designs for commercial financing which is a new programme under the urban window.

The achievements of each window are summarized as follows;

The Urban Window

The Urban window implements projects through call for proposals. The Fund has had six calls for proposals since the inception of the urban programme through support from KfW, EU and BMGF. The sixth call was launched during the financial year 2013/2014.

During the year the urban window focused on the implementation of fifth and sixth call projects through the water service providers across the country. Seventy projects under the fifth call were implemented while Forty three projects under the sixth call were implemented which are vision 2030 flagship projects with a total financing of Ksh. 501 million with 284,755 beneficiaries.

The urban window also implemented projects under Up-Scaling of Basic Sanitation for the Urban poor (UBSUP) where three pilot projects were under implementation at Nakuru and Ongata Rongai at a cost of Ksh. 66.8 Million. A total of 1,702 toilets have been completed.

Commercial financing which comprises of Aid on Delivery (AOD) and Output Based Aid (OBA) were launched during the year. The Fund signed its first Commercial Financing Agreement with Embu Water and Sanitation Company after securing a loan of 71% of the project cost from Housing Finance Corporation (HFCK).

The Fund is pursuing the signing of the agreement with the World Bank on financing of the OBA projects.

Community Project Cycle (CPC)

The CPC is a financing model that is used to provide water and sanitation to communities in targeted rural areas that are underserved with water. The Trust Fund has funded one hundred and ninety three projects under the CPC window within the eight Water Services Boards. The projects have been financed through three funding streams namely the Government of Sweden (GoS), Government of Denmark (GoD) and Government of Finland (GoF).

WATER SERVICES TRUST FUND

CHIEF EXECUTIVE OFFICER'S STATEMENT (Continued)

During the year 2013/2014, 18 new CPC projects under MTAP programmes were approved and supported and seven on-going projects were financed through the support from the Government of Kenya, GoS and GoF. 30 support organizations were engaged to oversee project implementation of the projects. Capacity building, exchange visits and monitoring & evaluation activities were conducted to support the projects. Overall, the window disbursed a total Ksh. 174.1 million to the projects.

Water and Sanitation for Hygiene (WASH)

The programme is a collaboration between the Government of Netherlands, the Ministry of Environment, Water and Natural Resources (MEWNR), UNICEF Kenya and Water services Trust Fund through a programme agreement and a Memorandum of Understanding (MOU). Initially, it was to be implemented between 2008-2013 as a direct contribution to the acceleration of Millennium Development Goals (MDGs) and to the improvement of child survival rates and development in the 16 target Counties of: Busia, Kisumu, Siaya, Homa Bay, Kwale, Tana River, Kitui, Kajiado, Pokot, Turkana, Nyeri, Mandera, Isiolo, Garissa, Wajir and Marsabit counties. However, following the recommendations of the Mid-Term Review concluded in November, 2011, the programme period was extended to 2014 to compensate for time lost. UNICEF has not indicated willingness to extend the programme beyond December, 2014 and hence the programme is in its face out period and expected to close by 31st December, 2014. The initial budget was Ksh Ksh 2.4 Billion. However Ksh 1.3 billion has been mobilised and disbursed to date.

The following achievements were realized during the year;

- Disbursement of Ksh 26.5 M mainly as counterpart funding to on-going projects.
- Completion of already funded community water projects covering 199,200 new beneficiaries, bringing total beneficiaries reached by the programme to 967,400,
- Liquidation to UNICEF of Ksh 194,204,760 (96%) of the outstanding disbursements to WSB through WSTF,
- Capacity development of 732 CBO committee members for the completed water projects,
- Strengthening of the already establishment spare parts supply chain in six Counties: Kitui, Kajiado, Busia, Kisumu, Siaya and Homa bay.
- Formulation of a programme phase-out strategy with enumeration of clear results/activities to be achieved and time lines.

The Water Resources Window

The Water Resources Users Development Cycle (WDC) is a mechanism that seeks to mitigate the effects of floods and drought in the country. The Fund therefore supports climate change adaptation and mitigation initiatives in Kenya by supporting the WDC activities. The Fund supported twenty nine Water Resources Users Associations (WRUAs) during the year in planning and implementing of Integrated Water Resource Management activities in the water catchment areas at a cost of Kshs. 47.7 Million. Cumulatively, a total of three hundred and four WRUAs have been funded in the programme at a cost of Kshs. 332 Million. The surface area covered under this achievement is 30,000 Sq. Kms. The financing continued to focus on the alarm catchment areas.

Employees

The recruitment policy of the Fund provides for hiring of high caliber and qualified staff in order to realize the mandate and goals of the organization. The Fund appreciates the importance of human resource capital by heavily investing in the development of its staff in ensuring staff retention, high performance and a motivated team. In the year 2013/2014, in its endeavor to provide technical support to project, the Fund brought on board two senior staff, a Technical Auditor to address the ever changing technical challenges posed to projects and Finance and Administration Manager.

WATER SERVICES TRUST FUND

CHIEF EXECUTIVE OFFICER'S STATEMENT (Continued)

Conclusion

I wish to take this opportunity to thank the Board of Trustee for the support and time that they have sacrificed in providing oversight to the Fund. We are grateful to the Ministry of Environment, Water and Natural Resources, the development partners and the stakeholders for the support and trust that they had in the Fund in delivering its mandate. I am thankful to the management and staff for their commitment and dedication through hard work in delivering services to the communities. We shall continue to work more effectively and efficiently and engage with the County Governments in providing technical support and other services in water and sanitation.



Eng. Jacqueline Musyoki, (Mrs.), OGW
Chief Executive Officer
Water Services Trust Fund (WSTF)

25 November 2014

WATER SERVICES TRUST FUND

STATEMENT OF CORPORATE GOVERNANCE

THE BOARD

Water Services Trust Fund was established by the Water Act, 2002 and 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 structure is designed to ensure an informed decision making process based on accurate reporting to the Board.

THE BOARD OF TRUSTEES

The Board is made up of nine independent non-executive Trustees, including the Chairman, all appointed by the Cabinet Minister 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 through the Corporate Governance training facilitated by the Centre for Corporate Governance. 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 four full Board and three Special Board meetings during the Financial Year 2013/2014. Trustees also attended team building retreat with members of staff from 29 to 30 April 2014 with the aim of creating an understanding and common commitment to the Fund's goals and creating an effective and cohesive team of Board of Trustees and staff members.

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 four Meetings during the financial year. The members of trustees who served on this Committee during the year under review were:

1. Mr. Kiema Mwandia - Chairman (Up to May 2014)
2. Mr. Gershon Dulo
3. Mr. Daniel Mutua
4. Ms. Melissa Musoma

ii) Finance & General Purposes Committee

This Committee was established to advice the Board of Trustees in matters relating to Finance, Resource Mobilization, Human Resource Management and Corporate Social Responsibility. The Committee held 7 Meetings during the year. The members who served on this Committee during the year under review were:

WATER SERVICES TRUST FUND

STATEMENT OF CORPORATE GOVERNANCE (Continued)

1. Ms. Catherine Muimi - Chairperson
2. Mr. John Musebe
3. Ms. Melisa Musoma
4. Mr. Daniel Mutua

iii) Audit Committee

This Committee was established to advise the Board of Trustees on institutional risk management and compliance. The Committee held four Meetings during the year. The Committee also met the Fund's external Auditors Deloitte & Touché to deliberate on risk management issues. The members of this Committee during the year under review were:

1. Mr. Parmain Ole Narikae
2. Mrs Rose K Mwanga
3. Mr. Daniel Mutua
4. Ms. Melisa Musoma

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 the Water Services Trust Fund has throughout the FY2013/2014 complied with all statutory and Regulatory requirements and that the Fund has been managed in accordance with the principles of good corporate Governance.

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 window.

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 fulfill their responsibilities, and that the Trust Fund can meet its future management requirements.

WATER SERVICES TRUST FUND

STATEMENT OF CORPORATE GOVERNANCE (Continued)

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 Committee.

The Audit 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 Audit Committee ensures that management takes appropriate action. No significant failings or weaknesses were identified during 2013/14.

Risk Management

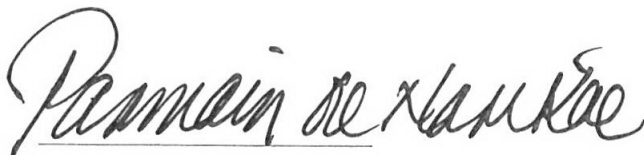
The Trust Fund has a structure and process to help identify, assess and manage risks. The process was in place for the period up to the time this report was approved. This team reviews all the risks in the Trust Fund and updates the risk register and ensures that all new and emerging risks are appropriately evaluated and any further actions identified. The identified risks are reported to the Audit Committee to assist the Board in the management of risk.

Management Team

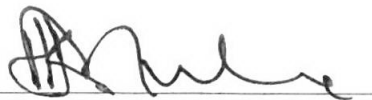
The management team headed by the Chief Executive Officer implements the Board decisions and policies through action plans. The team meets regularly to review these action plans to ensure that the Board's objectives are achieved effectively and efficiently. Such policies developed include the Anti-corruption policy, Disability, Gender and HIV mainstreaming, the ICT policy, etc.

Auditor

The Trust Fund is audited by the Auditor-General. The Auditor-General has however delegated this function to an independent auditor as per Section 39 of the Public Audit Act, 2003. During the year, Deloitte & Touché were appointed as the auditors of the Trust Fund to conduct the organisational audit while PricewaterhouseCoopers (PWC) was appointed as auditors of the rural and urban projects for the period ending 30 June 2014. PWC was appointed as the organisational auditors for three years commencing in the financial year 2014/2015.



Mr. Parmain Ole Narikae
Trustee



Eng. Jacqueline K. Musyoki (Mrs.), OGW
Chief Executive Officer

25 November

2014

WATER SERVICES TRUST FUND

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. We offered attachment to several students from various universities within the country that ensure building of capacities and skills that are most needed when they graduate.

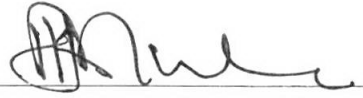
In disseminating ICT knowledge to school going children, we donated computers in Kabolelo Primary School, Tinderet, Nandi through the 'Give IT to Kids' initiative where the Fund and its Technical Advisors - GFA refurbish used computers and laptops to support IT knowledge of children in pro-poor areas.

The Schools that could benefit from the 'Give IT to Kids' programme require to have a working electricity connection, be able to provide the necessary security (e.g. a lockable room and windows equipped with burglar bars) and the computers should be used only for the intended purpose. The programme's purpose is to make the children computer literate. The Fund maintains computers with a maintenance service agreement being signed with the school.

We also engaged Fariji Africa Counseling Consultants (FACCS) to facilitate an awareness activity on vulnerable and orphaned children. The activity took place on 19 December 2013 at the Maji Mazuri centre (Kasarani) in Nairobi. The primary beneficiaries of the sessions were the children, Maji Mazuri staff and WSTF staff. The session was handy in enlightening the children on how to cope with day to day challenges concerning vulnerability. It also aimed at improving their ability to make informed choices. The Centre has an impact on transforming and improving the lives of the special children. The sessions covered various topics such as HIV and relationships. The main theme was behavior change. Play therapy was used as a medium to get to a level that not only acted as a climate setter but also enhanced the interaction between the children and the facilitators.



Mr. Parmain Ole Narikae
Trustee



Eng. Jacqueline K. Musyoki (Mrs.), OGW
Chief Executive Officer

25 November 2014

WATER SERVICES TRUST FUND

REPORT OF THE TRUSTEES

The Trustees submit their report together with the audited financial statements for the year ended 30 June 2014.

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. 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.

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 and marginalised communities.

RESULTS

	KShs
Income	1,805,652,907
Expenditure	(1,608,442,996)
Surplus for the year	<u>197,209,911</u> =====

TRUSTEES

The Trustees who served during the year are shown on page 3.

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

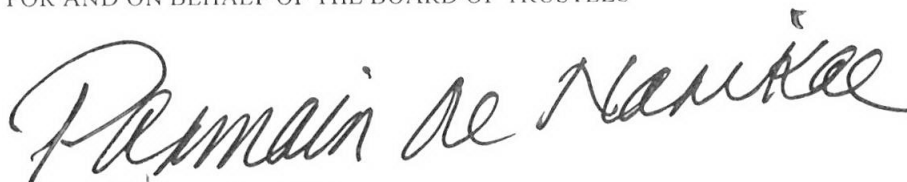
The following retired from the Board of Trustees:

1. Prof. Charles Nzioka (Retired on 31 January 2014)
2. Mr. Kiema Mwandia (Retired on 19 May 2014)

AUDITORS

The Auditor General is responsible for the statutory audit of the Trust Fund's books of account. In accordance with Sections 14 and 39(i) of the Public Audit Act, 2003 which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf, Deloitte & Touché were appointed as the auditors of the Trust Fund to conduct the organisational audit while PricewaterhouseCoopers (PWC) was appointed as auditors of the rural and urban projects for the period ending 30 June 2014. PWC was appointed as the organisational auditors for three years commencing in the financial year 2014/2015.

FOR AND ON BEHALF OF THE BOARD OF TRUSTEES


25 November 2014

Nairobi

WATER SERVICES TRUST FUND

STATEMENT OF TRUSTEES' RESPONSIBILITIES

Section 82 of the Public Finance Management 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 state of affairs of the Trust Fund at the end of the financial year and the operating results of the entity for that year. The Trustees are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Trustees are also responsible for safeguarding the assets of the entity.

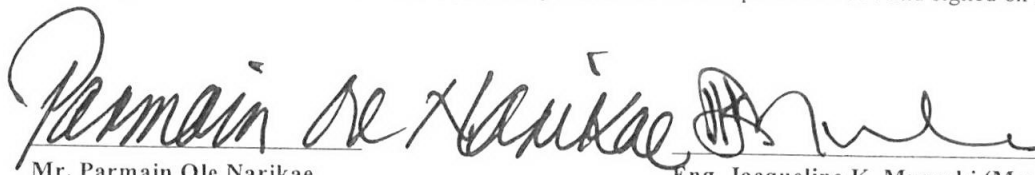
The Trustees are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Trustees accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, the State Corporations Act and the Trust Deed. The Trustees are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2014, and of the entity's financial position as at that date. The Trustees further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Trustees to indicate that the entity will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The entity's financial statements were approved by the Board on 8 September 2014 and signed on its behalf by:



Mr. Parmain Ole Narikae
Trustee

Eng. Jacqueline K. Musyoki (Mrs.), OGW
Chief Executive Officer

25 November 2014



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON WATER SERVICES TRUST FUND FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

The financial statements of Water Services Trust Fund set out on pages 23 and 45, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in reserves and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Deloitte and Touche, auditors appointed under Section 39 of the Public Audit Act, 2003. The audit was carried out in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. The auditors have duly 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 were 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 (Cash Basis of Accounting) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 13 of the Public Audit Act, 2003.

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 15 of the Public Audit Act, 2003. 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, 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 evaluating the appropriateness of 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 audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Water Act, 2002 and Water Services Trust Deed.

Other Matters

Questions Costs

During the year under review, there were questioned costs from past audits amounting to Kshs.43,865,465 which have not been cleared. Though the Management has disclosed these costs as contingent liabilities in the financial statements, it is not clear whether or not these will eventually crystallize.

REPORT ON OTHER LEGAL 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 Trust, so far as appears from examination of those books; and

- (iii) The Trust's statement of financial position and statement of financial performance are in agreement with the books of account.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

20 January 2015

WATER SERVICES TRUST FUND

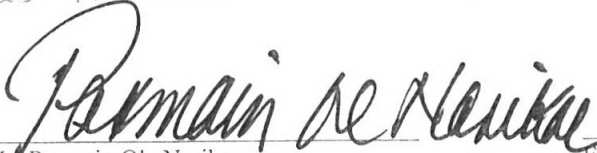
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2014


	Notes	2013/14 KShs	2012/13 KShs
INCOME			
Revenue from non-exchange transactions			
Government of Kenya grants	4	333,000,000	175,552,000
Donor funds	5	1,444,016,637	964,649,770
		<u>1,777,016,637</u>	<u>1,140,201,770</u>
Revenue from exchange transactions			
Miscellaneous income	6	18,581,559	40,691,262
Finance income	7(a)	10,054,711	10,377,918
		<u>28,636,270</u>	<u>51,069,180</u>
Total income		<u>1,805,652,907</u>	<u>1,191,270,950</u>
EXPENDITURE			
Finance costs	7(b)	-	(3,229,282)
Administration expenses	8	(164,426,359)	(200,803,475)
Project expenses	10	(1,444,016,637)	(964,649,770)
		<u>(1,608,442,996)</u>	<u>(1,168,682,527)</u>
Total expenditure		<u>(1,608,442,996)</u>	<u>(1,168,682,527)</u>
SURPLUS FOR THE YEAR		<u>197,209,911</u> =====	<u>22,588,423</u> =====

WATER SERVICES TRUST FUND
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Notes	2013/14 KShs	2012/13 KShs
ASSETS			
Non - current assets			
Property and equipment	11	4,819,172	10,527,187
Intangible assets	12	6,066,629	9,066,592
		<u>10,885,801</u>	<u>19,593,779</u>
Current assets			
Inventories	13	13,249	105,427
Trade and other receivables	14	263,031,159	538,846,365
Cash and cash equivalents	15	264,355,856	210,272,326
		<u>527,400,264</u>	<u>749,224,118</u>
TOTAL ASSETS		<u>538,286,065</u>	<u>768,817,897</u>
RESERVES AND LIABILITIES			
Reserves			
Revenue reserve	16	397,986,605	200,776,694
Unexpended grants	17	102,367,595	516,831,781
Non-current liabilities			
Deferred income	18	328,234	2,112,901
Staff gratuity	19	10,711,292	15,061,507
		<u>11,039,526</u>	<u>17,174,408</u>
Current liabilities			
Staff gratuity	19	11,927,962	10,366,993
Trade and other payables	20	14,964,377	23,668,021
		<u>26,892,339</u>	<u>34,035,014</u>
TOTAL RESERVES AND LIABILITIES		<u>538,286,065</u>	<u>768,817,897</u>

The financial statements on pages 23 to 45 were approved and authorized for issue by the Board of Trustees on 25 November 2014 and were signed on its behalf by:


Mr. Parmain Ole Narikae
Trustee


Eng. Jacqueline K. Musyoki (Mrs.)
Chief Executive Officer

WATER SERVICES TRUST FUND

STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 30 JUNE 2014

	Revenue reserves KShs
As at 1 July 2012	178,188,271
Surplus for the year	22,588,423
As at 30 June 2013	<u>200,776,694</u> =====
As at 1 July 2013	200,776,694
Surplus for the year	197,209,911
As at 30 June 2014	<u>397,986,605</u> =====

WATER SERVICES TRUST FUND

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2013/14 KShs	2012/13 KShs
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash generated /(used) in operations	21	55,456,381	(153,769,838)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	11	(1,406,653)	(3,829,320)
Purchase of intangible assets	12	-	(414,364)
Proceeds from disposal of property and equipment		33,802	-
NET CASH USED IN INVESTING ACTIVITIES			
		(1,372,851)	(4,243,684)
Net increase/(decrease) in cash and cash equivalents			
		54,083,530	(158,013,522)
Cash and cash equivalents as at the beginning of the year			
		210,272,326	368,285,848
Cash and cash equivalents as at the end of the year			
	15	264,355,856	210,272,326

WATER SERVICES TRUST FUND

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2014

	Original budget 2013/2014 Kshs	Adjustments 2013/2014 Kshs	Final Budget 2013/2014 Kshs	Actual 2013/2014 Kshs	Performance difference 2013/2014 Kshs	Notes
REVENUE FROM NON-EXCHANGE TRANSACTIONS						
Government of Kenya grants	566,700,000	(233,700,000)	333,000,000	333,000,000	-	
Donor funds	2,423,942,302	(86,228,857)	2,337,713,445	1,444,016,637	893,696,808	(a)
REVENUE FROM NON-EXCHANGE TRANSACTIONS						
Miscellaneous income	126,901,984	(39,884,479)	87,017,505	18,581,559	68,435,946	
Finance income - external investments	2,000,000	-	2,000,000	10,054,711	(8,054,711)	
Total Revenue	3,119,544,286	(359,813,336)	2,759,730,950	1,805,652,907	954,078,043	
EXPENSES						
Administration expenses	(327,619,953)	55,095,207	(272,524,746)	(164,426,359)	(108,098,387)	(b)
Project expenses	(2,769,324,333)	291,718,129	(2,477,606,204)	(1,444,016,637)	(1,033,589,567)	(c)
Total expenses	(3,096,944,286)	346,813,336	(2,750,130,950)	(1,608,442,996)	(1,141,687,954)	
Surplus for the period	22,600,000	(13,000,000)	9,600,000	197,209,911	(187,609,911)	

a) The variance between budget and actual donor funds is mainly attributed to UNICEF, which is one of the major donors pulling out during the year to fund the County Governments directly. No funds were received from UNICEF against a budget of Ksh 450 Million.

b) The variance between budget and actual administrative costs resulted from efficiency in employment of resources thus releasing more funds to development activities. The Fund intends to keep these costs at low levels so as to free more resources for project financing.

c) The variance between budget and actual project expenses is mainly as a result of increased accountability of previous project disbursement recognized as receivables in prior year.

WATER SERVICES TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

1 LEGAL STATUS AND OBJECTIVES

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"*. 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.

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's second strategic plan 2008-2013 ended and it embarked on development of the new plan 2014-2019. In developing the strategic plan the Fund took cognizance of the anticipated changes in the legal framework as provided for in the Water Bill 2014. The Bill proposes to change the Fund to a Water Sector Trust Fund with expanded mandate which will 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 is 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 fund 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 has adopted the pronouncements made by the IPSAS board in preparation of its current year financial statements.

The organisation's annual financial statements for the year ended 30 June 2014 are its first annual financial statements prepared under accounting policies that comply with the International Public Sector Accounting Standards (IPSAS). Previously the organisation prepared its financial statements under accounting policies that complied with International Financial Reporting Standards (IFRS).

The adoption of the IPSAS has not led to any change in the organisation's accounting policy.

WATER SERVICES TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2 ACCOUNTING POLICIES (Continued)

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.

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 recognised 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.

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. Donated assets are recorded at a reasonable estimate of their fair value to the fund 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

WATER SERVICES TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (Continued)

Intangible assets

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortisation and accumulated impairment losses. Amortisation 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, amortisation of intangible assets.

Impairment of tangible and intangible assets

At end of each reporting period, the Trust 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 recognised 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.

Gains and losses on disposal of items of equipment are determined by reference to their carrying amounts.

Deferred income

Grants received for the purchase of fixed assets or donated assets are recognised 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.

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.

Foreign currencies

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.

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 and which were within three months of maturity when required, less advances from the banks repayable within three months from the dates of advance.

Pension obligations

The organization contributes to the statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs 200 per employee per month. A new NSSF Act No 45 of 2013 effective 10 January 2014 requires the contributions to change as follows:

NOTES TO THE FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (Continued)

Pension obligations (Continued)

For the purposes of the Act, the Upper Earning Limit (UEL) will be KES. 18,000 while the Lower Earnings Limit (LEL) will be KES 6,000. The pension contribution will be 12% of the pensionable wages made up of two equal portions of 6% from the employee and 6% from the employer subject to an upper limit of KES 2,160 for employees earning above KES 18,000. The employee contribution shall be drawn directly from his salary and wages while the employer's contribution shall come directly from the employer. The contributions relating to the earnings below the LEL of the earnings (a maximum of KES. 720) will be credited to what will be known as a Tier I account while the balance of the contribution for earnings between the LEL and the UEL (up to a maximum of KES 1,440) will be credited to what will be known as a Tier II account. This new Act was challenged and its implementation delayed awaiting determination of a case currently in court

Employee entitlements

Employee entitlements to service gratuity and leave are recognised 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 recognised as an expense accrual.

Financial instruments

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

Financial assets

Receivables

Receivables are 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.

Impairment of financial assets

The Trust 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 recognised 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 amortised 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 derecognised 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.

WATER SERVICES TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 amortisation rates of intangible assets.

Impairment

At the end of each reporting period, the Trustees review the carrying amounts of the Trust's tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Trustees estimate the recoverable amount of the cash generating unit to which the asset belongs.

4 GOVERNMENT OF KENYA GRANTS

The Trust 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:

	2013/14 KShs	2012/13 KShs
Development	306,000,000	160,000,000
Recurrent	27,000,000	15,552,000
	-----	-----
Total	333,000,000	175,552,000
	=====	=====

WATER SERVICES TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 DONOR FUNDS

The Trust Fund received funding from several donors as shown below. The funds are disbursed to various projects both in the rural and urban areas of Kenya. The Trust Fund has funding arrangement with the Government of Finland, Government of Sweden and UNICEF in the rural programme and Government of Germany (KfW) and the European Union (EU) in the urban programme. Bill and Melinda Gates Foundation joined the Fund through KfW. The Trust Fund is also partnering with IFAD and World Bank.

	2013/14 KShs	2012/13 KShs
Government of Sweden	80,651,498	72,072,804
Bill and Melinda Gates foundation	44,502,986	1,352,608
United Nations Human Settlements Programme -UN-HABITAT	41,314	5,077,898
United Nations International Children Emergency Fund (UNICEF)	169,889,195	153,763,892
European Union – EU	210,987,964	91,913,785
Government of Germany – KfW	486,054,738	575,651,614
Government of Finland – GoF	5,687,035	51,463,875
Government of Denmark	445,871,496	13,353,294
African Development Bank	282,371	-
GIZ	48,040	-
	(Note 17)	
	<u>1,444,016,637</u>	<u>964,649,770</u>

6 MISCELLANEOUS INCOME

Management fee	13,654,366	36,976,337
Sale of tender documents	-	998,000
Deferred income recognized (note 18)	1,784,667	2,633,625
Other income	119,744	83,300
Gain on disposal	21,802	-
Foreign exchange gain	3,000,980	-
	<u>18,581,559</u>	<u>40,691,262</u>

Management fee represents the administration cost recovered as a percentage of funds received from donors per the donor agreements currently at 5% of funds disbursed.

7(a) FINANCE INCOME

Bank interest	<u>10,054,711</u>	<u>10,377,918</u>
---------------	-------------------	-------------------

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

7(b) FINANCE COST

Net foreign exchange losses	<u>-</u>	<u>3,229,282</u>
-----------------------------	----------	------------------

WATER SERVICES TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013/14 KShs	2012/13 KShs
8 ADMINISTRATION EXPENSES		
Staff costs (note 9)	86,424,729	90,225,579
Communication expenses	3,812,515	4,164,932
Printing and stationery	1,262,651	1,226,357
Resource center expenses	262,370	255,371
Travelling and accommodation	9,940,413	12,022,516
Motor vehicle expenses	6,984,373	8,434,203
Computer expenses	1,184,270	1,938,815
Consultancy and professional fees	11,061,158	24,800,896
Advocacy	1,855,463	5,456,258
Board expenses	13,770,929	18,943,880
Office running expenses	3,472,928	2,928,881
Insurance	7,955,850	8,344,628
Office rent and land rates	5,707,645	5,476,170
Maintenance and repairs	838,314	310,262
Bank charges	265,348	279,412
Depreciation on property and equipment	7,102,668	9,384,993
Amortization expense on intangible assets	2,999,963	2,986,151
Movement in Provision for bad and doubtful debts	(475,228)	3,624,171
	<u>164,426,359</u>	<u>200,803,475</u>
	=====	=====
9 STAFF COSTS		
Salaries and wages	70,193,716	71,008,190
Staff gratuity	10,585,398	14,563,228
Staff training expenses	4,459,198	3,083,165
Other staff expenses	1,186,417	1,570,996
	<u>86,424,729</u>	<u>90,225,579</u>
	=====	=====

WATER SERVICES TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 PROJECT EXPENSES

These are the funds utilised on various water projects across the country. The funds are disbursed to Community Based Organizations (CBO's), Water Service Providers (WSPs), Water Service Boards (WSBs), Support Organizations (SOs), and Water Resources Users Associations (WRUAs) in line with proposals received and approved and in accordance with the Community Project Cycle (CPC), Water Resources Users Association (WRUA) Development Cycle (WDC), Water, Sanitation and Hygiene (WASH), Pro-poor mapping and Urban Project Concept (UPC).

	2013/14 KShs	2012/13 KShs
Rural Programme		
Community Project Cycle (CPC)	220,889,809	116,917,862
WRUA Development Cycle (WDC)	64,277,943	25,061,011
Water Sanitation and Hygiene (WASH) Programme	417,202,536	153,883,321
	<hr/>	<hr/>
	702,370,288	295,862,194
	<hr/>	<hr/>
Urban Programme		
Urban Project Concept (UPC)	697,143,363	667,434,967
UBSUP-BMGF	44,502,986	1,352,609
	<hr/>	<hr/>
	741,646,349	668,787,576
	<hr/>	<hr/>
	1,444,016,637	964,649,770
	=====	=====

WATER SERVICES TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 INTANGIBLE ASSET

Computer software

	SAP KShs	PROMIS KShs	UPCIS KShs	QPULSE KShs	Total KShs
COST					
At 1 July 2012	3,335,028	3,247,436	12,729,739	588,312	19,900,515
Additions	414,364	-	-	-	414,364
At 30 June 2013	3,749,392	3,247,436	12,729,739	588,312	20,314,879
At 1 July 2013	3,749,392	3,247,436	12,729,739	588,312	20,314,879
At 30 June 2014	3,749,392	3,247,436	12,729,739	588,312	20,314,879
AMORTIZATION					
At 1 July 2012	2,428,266	3,247,436	2,507,992	78,442	8,262,136
Charge for the year	313,052	-	2,555,437	117,662	2,986,151
At 30 June 2013	2,741,318	3,247,436	5,063,429	196,104	11,248,287
At 1 July 2013	2,741,318	3,247,436	5,063,429	196,104	11,248,287
Charge for the year	326,864	-	2,555,437	117,662	2,999,963
At 30 June 2014	3,068,182	3,247,436	7,618,866	313,766	14,248,250
CARRYING VALUE					
At 30 June 2014	681,210	-	5,110,873	274,546	6,066,629
At 30 June 2013	1,008,074	-	7,666,310	392,208	9,066,592

SAP, PROMIS, UPCIS and QPULSE are software programs used by Trust for financial reporting and monitoring projects.

13 INVENTORIES

	2013/14 KShs	2012/13 KShs
Office stationery	13,249	105,427

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

WATER SERVICES TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013/14 KShs	2012/13 KShs
14	TRADE AND OTHER RECEIVABLES	
Project receivables - Urban	140,985,286	100,731,370
- Rural	115,052,222	432,268,195
Prepayments	4,272,123	4,427,304
Staff receivables	2,721,528	1,419,496
	<hr/>	<hr/>
	263,031,159	538,846,365
	<u>=====</u>	<u>=====</u>

Urban project receivables relate to unaccounted for disbursements by the Water Service Boards carrying out the implementation of the Urban Project Concept (UPC).

Rural project receivables relate to unaccounted for funds by various partners under the Rural Window. It mainly relates to amounts advanced close to the end of the reporting period.

The project disbursements are expected to be accounted for within one year.

Staff receivables represent funds given to staff as imprest, for which they are yet to account for.

15 CASH AND CASH EQUIVALENTS

	2013/14 KShs	2012/13 KShs
National Bank of Kenya Limited	2,206,683	2,197,023
Kenya Commercial Bank Limited -Recurrent	19,028,075	894,471
Kenya Commercial Bank Limited -GIZ	-	134,375
NIC KFW PHASE II KES	14,688,705	48,651,417
NIC KFW PHASE II EURO	62,819,645	145,304
NIC BMGF KShs	31,441,702	27,999,102
NIC BMGF USD	216,529	43,233
Kenya Commercial Bank Limited -UN-HABITAT	-	46,611
Co-operative Bank Limited – UNICEF	3,867,287	3,153,715
Kenya Commercial Bank Limited -KfW	-	2,679,312
NIC Bank Limited – EU	1,635,416	64,782,019
Kenya Commercial Bank Limited -KfW Euro	-	14,178
NIC Bank Limited – EU Euro	112,903	320,530
Kenya Commercial Bank Limited -GoF Euro	30,950	37,306
Kenya Commercial Bank Limited -GoF	11,824,210	1,765,472
NIC Bank Limited-SIDA	31,641,101	1,918,548
Kenya Commercial Bank Limited -MTAP	63,244,216	55,419,710
National Bank of Kenya - IFAD	4,829,100	-
Kenya Commercial Bank-STAFF	3,640,439	-
Short Term Deposits	13,058,895	-
Cash on hand	70,000	70,000
	<hr/>	<hr/>
	264,355,856	210,272,326
	<u>=====</u>	<u>=====</u>

16 REVENUE RESERVE

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.

WATER SERVICES TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 UNEXPENDED GRANTS

Donor	As at 1 July 2012	Income	Expenditure	As at 30 June 2013	Income	Expenditure (note 5)	As at 30 June 2014
Government of Sweden	(70,795,693)	-	70,795,693	-	(80,651,498)	80,651,498	-
African Development Bank	(282,371)	-	-	(282,371)	-	282,371	-
GIZ	(52,150)	-	-	(52,150)	-	48,040	(4,110)
UN-Habitat	(5,124,509)	-	5,077,898	(46,611)	-	41,314	(5,297)
UNICEF	40,584,797	(364,737,346)	153,763,892	(170,388,657)	499,462	169,889,195	-
European Union-EU	68,799,119	(252,795,215)	91,913,785	(92,082,311)	(120,651,581)	210,987,964	(1,745,928)
Government of Germany-KfW	(58,464,967)	(557,101,268)	575,651,614	(39,914,621)	(493,315,841)	486,054,738	(47,175,724)
Government of Finland-GoF	(58,428,021)	-	52,740,986	(5,687,035)	-	5,687,035	-
Bill and Melinda Gates	-	(28,428,934)	1,352,608	(27,076,326)	(61,602,993)	44,502,986	(44,176,333)
Government of Denmark	(194,654,993)	-	13,353,294	(181,301,699)	(269,000,000)	445,871,496	(4,430,203)
IFAD	-	-	-	-	(4,830,000)	-	(4,830,000)
	<u>(278,418,788)</u>	<u>(1,203,062,763)</u>	<u>964,649,770</u>	<u>(516,831,781)</u>	<u>(1,029,552,451)</u>	<u>1,444,016,637</u>	<u>(102,367,595)</u>

18 DEFERRED INCOME

	2013/14 KShs	2012/13 KShs
As at 1 July	-	-
Received during the year	2,112,901	4,746,526
Transfer to income (note 6)	(1,784,667)	(2,633,625)
As at 30 June	<u>328,234</u>	<u>2,112,901</u>

Deferred income represents the net book value of donated assets or assets purchased using donor funds.

WATER SERVICES TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 NOTE TO THE STATEMENT OF CASH FLOWS

Reconciliation of surplus for the year to cash (used in)/ generated from operations

	Note	2013/14 KShs	2012/13 KShs
Surplus for the year		197,209,911	22,588,423
Adjustments for:			
Depreciation of property and equipment	11	7,102,668	9,384,993
Amortization of intangible assets	12	2,999,963	2,986,151
Gain on disposal of assets		(21,802)	-
		<hr/>	<hr/>
		207,290,740	34,959,567
Working capital changes			
Decrease/(increase) in inventories		92,178	(45,091)
Decrease/(increase) in trade and other receivables		275,815,206	(456,897,699)
(Decrease)/increase in unexpended grants		(414,464,186)	238,412,993
Decrease in deferred income		(1,784,667)	(2,633,625)
(Decrease)/increase in staff gratuity		(2,789,246)	13,034,417
(Decrease)/increase in trade and other payables		(8,703,644)	19,399,600
		<hr/>	<hr/>
Net cash generated from/ (used) in operations		55,456,381	(153,769,838)
		<hr/> <hr/>	<hr/> <hr/>

22 COMMITMENTS

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

	2013/14 KShs	2012/13 KShs
Budgeted but not contracted	15,590,000	9,600,000
	<hr/> <hr/>	<hr/> <hr/>

The Trust Fund has committed to fund projects to the tune of KShs. 1,572 Million (2012/13: KShs 2,957 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:

	2013/14 KShs	2012/13 KShs
CPC	182,871,800	596,798,554
WDC	95,829,100	294,933,881
WASH	44,094,690	609,417,243
UPC	1,249,421,585	1,456,796,977
	<hr/>	<hr/>
	1,572,217,175	2,957,946,655
	<hr/> <hr/>	<hr/> <hr/>

WATER SERVICES TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 OPERATING LEASE ARRANGEMENTS

	2014/15 KShs	2013/14 KShs
Minimum lease payments under operating leases recognised through profit or loss	5,707,645	4,673,487
At the end of the reporting period, the Trust Fund had outstanding commitments under operating leases, payable as follows:		
Within one year	5,118,125	4,659,552
In the second to fifth years inclusive	10,884,901	10,483,992
After five years	-	-
	<u>16,003,026</u>	<u>15,143,544</u>

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

24 RELATED PARTY TRANSACTIONS

i) Key management compensation

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

	2013/14 KShs	2013/12 KShs
Key management salaries and other benefits	17,929,950	13,057,000
Trustees emoluments	13,770,929	18,943,881

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 totaling KShs 43,865,465 (2013/12: KShs 43,000,000) 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 minimise 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.

WATER SERVICES TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 FINANCIAL RISK MANAGEMENT POLICIES (Continued)

(c) Credit risk

The Trust 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.

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 2014				
Cash at bank	264,285,856	-	-	264,285,856
Project receivables	256,037,508	-	3,148,943	259,186,451
Staff receivables	2,721,528	-	-	2,721,528
	<u>523,044,892</u>	<u>-</u>	<u>3,148,943</u>	<u>526,193,835</u>
At 30 June 2013				
Cash at bank	210,202,326	-	-	210,202,326
Project receivables	532,999,565	-	3,624,171	536,623,736
Staff receivables	1,419,496	-	-	1,419,496
	<u>744,621,387</u>	<u>-</u>	<u>3,624,171</u>	<u>748,245,558</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 1-3months KShs	Over 3 months KShs	Total KShs
At 30 June 2014				
Trade payables	3,670,467	-	-	3,670,467
Interest payable to Government of Sweden	9,632,870	-	-	9,632,870
	<u>13,303,337</u>	<u>-</u>	<u>-</u>	<u>13,303,337</u>
At 30 June 2013				
Trade payables	15,340,395	-	-	15,340,395
Interest payable to Government of Sweden	6,263,395	-	-	6,263,395
	<u>21,603,790</u>	<u>-</u>	<u>-</u>	<u>21,603,790</u>

WATER SERVICES TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS (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 Trust 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 Trust 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 Trust Fund reports its financial performance in Kenya Shillings.

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

Foreign currency Denominated Balances	2014	2013
	€	€
Kenya Commercial Bank - GOF Euro	259	332
Kenya Commercial Bank - KfW Euro	-	129
NIC Bank - Euro	941	4,243
NIC Bank- KfW Phase II Euro	523,964	-
	-----	-----
Total	525,164	4,704
	=====	=====
	USD	USD
NIC Bank – KfW USD	2,471	502
	=====	=====

At the end of the reporting period, an increase/decrease in 5% on the foreign currency balances would have resulted in a decrease/increase of KShs. 3,159,001 (30 June 2013 – KShs 28,554) 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% in the average interest rates for the year would have resulted in a decrease/increase of KShs. 12,843,827 (30 June 2013 – KShs 10,513,616.30) in the year.

WATER SERVICES TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 Trust Fund consists of revenue reserves and the Fund was not geared as at 30 June 2014 and 30 June 2013.

28 INCORPORATION

The Trust Fund is established under the Water Act 2002 and incorporated in Kenya vide a Trust Deed executed by the Cabinet Secretary for the Ministry of Environment, Water and Natural resources.

29 CURRENCY

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

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (<i>Name and designation</i>)	Status: (<i>Resolved / Not Resolved</i>)	Timeframe: (<i>Put a date when you expect the issue to be resolved</i>)
2.1.1 WSTF strategic plan	<p>WSTF's financial year ended in June 2013. There is however no current strategic plan to guide the Fund's corporate objectives for the next 5 years as the current strategic plan is expiring in 2013.</p> <p>Furthermore, formal fundraising measures to ensure continuity of funded programmes are not in place. Per review of current donor contracts, we observed that the European Union (EU) and Bill & Melinda Gates are the only current donors for Urban Project Concepts (UPC projects) while Medium Term Asal Programme (MTAP) is the only donor for Community Project Cycle (CPC) projects. These donor contracts are scheduled to expire in December 2016 and 30 June 2013 respectively.</p> <p>Several other donor contracts had come to a close as at the time of review and were running on brief contract extensions.</p>	<p>The current strategy will be revised or updated to provide clear direction for the next five years. The plan will also outline measures for continued and sustainable access to funds for currently running water programmes. Legislative changes (e.g. devolution directives that affect provision of water services, etc.) will also be factored and aligned to the Fund's overall strategies.</p>	CEO	Strategic Plan 2014-2019 has been developed and in use. Awaiting finalisation of Water Bill 2014 to be harmonise, launched and published.	<p>When the Water Bill 2014 is enacted at the Parliament.</p> <p>Target Date 31Dec 2014</p>
2.2.1 Delays in project completion and reporting	<p>Contract timelines for the completion of funded projects and reporting of project progress through project accountability reports were not strictly adhered to.</p> <p>Water Resource Users Authority (WRUA's) are expected as per respective contract terms to submit project completion reports alongside funding accountability statements. As at August 2013, 54 per cent of WRUAs had not submitted their fund accountability statements after completion of projects. See appendix 3.1 for further details.</p>	<p>The WDC team will closely follow-up the funded projects by ensuring program reports by WRUAs from the six catchments are submitted on quarterly basis. This will resolve the stagnation of WRUAs as the red-flagged WRUAs will easily be identified, challenges noted and a way forward determined. The WRUAs have continued submitting their fund accountability statements and</p>	<p>Eng. Rose Nyikuri (Senior Programme officer WDC)</p> <p>Eng. Nelson Bosuben (Senior Programme Officer, Urban)</p>	Continuous follow up to ensure compliance	Continuous follow up to ensure compliance

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)
	<p>□ The Urban Projects Cycle (UPC) window funded projects are tracked to ensure that they are closed on time and that they do not extend beyond the contract period. 14 projects that were to start in July 2012 and to be complete by April 2013 were still less than 95 per cent complete as of July 2013. See appendix 3.2 for further details.</p>	<p>currently over 75% have done so. WSTF is supporting WSPs to strengthen their capacities for improved procurement processes and contractor management to ensure that related delays are minimized and projects completed on time. In addition, WSTF provides close monitoring support to projects through support of Field monitors and UPC team. During this period, WSTF experienced challenges in funds availability affecting timely disbursement to WSPs. This has since been resolved and some WSPs have managed to complete their projects.</p>			
<p>2.2.2 Non adherence to contracts by WSB's for UNICEF WASH programs</p>	<p>Contractual agreements between Water Services Trust Fund (WSTF) and Water Service Boards (WSB's) require that WSB's monitor projects and account for UNICEF WASH projects completed under their boards. Quarterly progress reports, project completion reports and expenditure reports however were not prepared and submitted by WSBs during the review period as required.</p>	<p>We shall continue with the monitoring and enforce scheduled reporting by Water Service Boards on projects' progress and status.</p>	<p>Isaac Isika (Programme Officer, WASH)</p>	<p>Resolved</p>	<p>Resolved</p>
<p>2.3 Human Resource Management 2.3.1 Leave days management</p>	<p>The HR policy requires that leave days may be carried forward if they are half the number of total annual leave days (15 days) or less. However, 2 of the 5 randomly sampled employees had exceeded the set limit. These include: 1. Martin Kiarie, Driver, who had accrued 54 leave days; and 2. Violet Mucheni, Community Development Officer, who had accrued 46 leave days.</p>	<p>We shall ensure that WSTF staff take leave as per the Human Resources policy requirements.</p>	<p>Paul Atwa (Human Resources and Admin Officer)</p>	<p>Resolved</p>	<p>Resolved</p>

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)
2.4.1 Backup Management (CFWD)	WSTF heavily relies on SAP Business One financial application system for the processing of all financial transactions and reporting. System backups are maintained onsite but these are formally not tested for readability to confirm reliance should the backups be required for system restoration.	The restoration for backups is usually done on a quarterly basis as per the signed contract with the vendor though in future documentation will need to be provided for management review as recommended above.	Kennedy Lukhando (ICT Officer)	Resolved	Resolved
2.4.2 Servicing of server room equipment	The WSTF Information Technology (IT) policy requires that the server room equipment e.g. fire extinguishers be serviced annually. However, there is no formal documentation maintained to independently confirm that such equipment was serviced during the period under review.	Servicing of firefighting equipment will be undertaken and required documentations maintained.	Kennedy Lukhando (ICT Officer)	Resolved	Resolved
2.4.3 Password Security Controls	WSTF's password security policy does not define key password security parameters such as Account lockout, password history and lockout duration. Additionally, the current password parameters configured on the domain controller, financial application system (SAP) and payroll system (Aren) are not strong enough to prevent unauthorized access to these systems.	The management have taken note and included the account lockout, password history and account lockout duration into the manual of operation. Subsequently the password parameter has been configured as recommended above for Domain controller and SAP. This has not been applied for Aren although the supplier has confirmed that a newer version (Aren Register version 6.0) will be release early next year that will encompass all the above features	Kennedy Lukhando (ICT Officer)	Resolved	Resolved
2.4.4 Audit Logs	Transaction logs in the application system (SAP), the domain controller and the payroll system (Aren) are not periodically reviewed to ensure detection of any unauthorised events.	The Internal Audit Department will be reviewing the domain controller and payroll system on regular basis.	Edwin Korir (Internal Audit Manager)	Resolved	Resolved
2.4.5 Review of super user activities	As at the time of review, the Chief Executive Manager (CEO) and the IT Manager had pervasive super user privileges in the SAP	The management has noted the recommendation and the internal audit has been tasked to regulary	Kennedy Lukhando (ICT Officer)	Resolved	Resolved

Reference No. in 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)
	system. The IT Manager had pervasive administrative privileges in the Aren Payroll system. The activities of such users are not independently tracked and reviewed to confirm that those activities in the system remain valid and appropriate.	review the activities of the super user accounts.			
2.1 Non-compliance with Income Tax Act	<p>Non-compliance with Income Tax Act requirements The Trust Fund did not comply with the following Income Tax requirements:</p> <p>The organization did not tax amounts in excess of Ksh 20,000 per month or Ksh 240,000 per year for pension contribution as per the requirement for employees of organizations not chargeable to tax where an employer also contributes to the fund.</p> <p>The organization does not have a tax exemption certificate as required by the Income Tax Act.</p>	<p>The organization did not tax amounts in excess of Ksh 20,000 per month or Ksh 240,000 per year for pension contribution as per the requirement for employees of organizations not chargeable to tax where an employer also contributes to the fund.</p> <p>The organisation should also implement the requirements relating to taxation of the excess contribution.</p>	Bonface Wanyonyi (Finance and Admin Manager)	<p>Issue repeated in the current year MLP</p> <p>Tax exemption pending</p>	<p>Issue repeated in the current year MLP</p> <p>Pension contribution Resolved</p> <p>30 June 2015</p>
2.2 Contributions by the Government of Kenya	<p>Contributions by the Government of Kenya. We noted that the Government of Kenya did not make contributions to various projects as per the grant agreements.</p>	WSTF Management shall follow up the matter with Government of Kenya through the parent ministry to ensure that GOK contributions are provided to WSTF as per the agreed bilateral agreements.	Bonface Wanyonyi (Finance and Admin Manager)	Resolved	Resolved
3.1 Lack of contracts for UNICEF projects	<p>Lack of contracts for UNICEF projects We observed that there were still no contracts made between the Community Based Organisations (CBOs), the Water Service Boards (WSBs) and WSTF for the UNICEF projects selected e.g. Lake Victoria North Water Services Board and Lake Victoria South Water Services Board.</p>	Contracts have been prepared.	Isaac Isika (Programme Officer, WASH)	Resolved	Resolved

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (<i>Name and designation</i>)	Status: (<i>Resolved / Not Resolved</i>)	Timeframe: (<i>Put a date when you expect the issue to be resolved</i>)
3.2 Delayed accounting for funds upon disbursements	During our examination of project expenses relating to rural projects, we noted that a number of UNICEF projects had balances that remained un accounted for in the whole period under review.	Continuous follow up is being undertaken to ensure that the disbursed funds are accounted for within the agreed period of time.	Isaac Isika (Programme Officer, WASH)	Follow up ongoing.	December 2014
3.3 Questioned costs	<p>Questioned Costs</p> <p>During the audit we noted that there were questioned costs from past audits amounting to KSHs. 43,000,000, which have not been closed out. The Trust Fund have disclosed these costs as contingent liabilities in the financial statements. However, there is need to follow up with the concerned implementing entities, to establish if the same is recoverable or not since the amounts may be payable to the donors.</p>	The management has developed guidelines used to resolve the questioned costs that arose during the project implementation. WSTF has been using these guidelines and will continue to use them to follow up and resolve the questioned costs.	<p>Eng. Rose Nyikuri (Senior Programme officer WDC)</p> <p>Eng. Nelson Bosuben (Senior Programme Officer, Urban)</p> <p>Eng. Emmanuel Macharia (Senior Programme Officer Rural)</p> <p>Edwin Korir (Internal Audit Manager)</p> <p>Phanuel Matseshe (Quality Assurance Manager)</p>	Follow up ongoing.	December 2014
4.1 Log books	<p>WSTF does not have car log books for the following vehicles GK A458K-Nissan Xtrail & KAN 576Y-Isuzu Trooper</p> <p>The Fund should follow up on the transfer of vehicles title from the Ministry of Water and Irrigation.</p>	The management is still making follow up to get the log books of the two vehicles from the Ministry of Environment, Water and Natural Resources.	Paul Atwa (Human Resources and Admin Officer)	Not Resolved	December 2014