

REPUBLIC OF KENYA



Enhancing Accountability

REPORT



THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 04 DEC 2024	WEDNESDAY
TABLED BY: Hon. OWEN BANYA	
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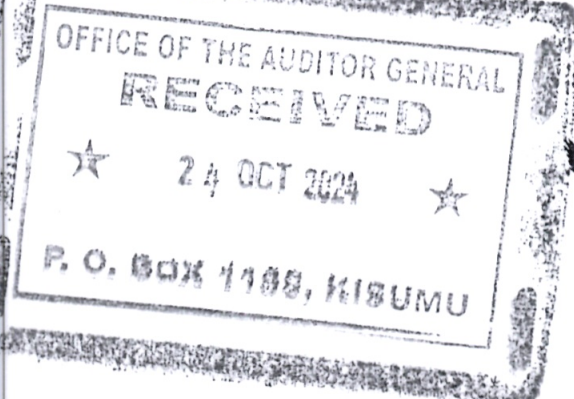
THE AUDITOR-GENERAL

**LAKE VICTORIA WATER SUPPLY AND
SANITATION PROGRAMME PHASE II
PROJECT NO. P-Z1-EAO-004 (ADF GRANT
NO.2100155019967)**

**FOR THE YEAR ENDED
30 JUNE, 2024**

**LAKE VICTORIA SOUTH WATERWORKS
DEVELOPMENT AGENCY**

LAKE VICTORIA WATER SUPPLY AND SANITATION PHASE II (LVWATSAN II)
Annual Report and Financial Statements for the financial year ended June 30, 2024



**LAKE VICTORIA WATER SUPPLY AND SANITATION PROJECT
(LVWATSAN PHASE II)**

LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY

**PROJECT GRANT/CREDIT NUMBER P-Z1-EA0-004
(ADF GRANT NO. 2100155019967)**

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2024

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

LAKE VICTORIA WATER SUPPLY AND SANITATION PHASE II (LVWATSAN II)
Annual Report and Financial Statements for the financial year ended June 30, 2024

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LAKE VICTORIA WATER SUPPLY AND SANITATION PHASE II (LVWATSAN II)
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1. Acronyms and Glossary of Terms

STI	Short Term Interventions
ICPAK	Institute of Certified Public Accountants of Kenya
LTI	Long Term Interventions
IPSAS	International Public Sector Accounting Standards
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
Comparative FY	Financial year preceding the current financial year.
LVWATSAN CSR	Lake Victoria Water & Sanitation Corporate Social Responsibilities

2. Project Information and Overall Performance

2.1 Name and registered office

Name

Lake Victoria Water Supply and Sanitation Phase II

Objective

The key objective of the project is to contribute to the improvement of livelihoods and health of communities in the basin and the reduction of pollution of the lake through improvements in sustainable water sanitation infrastructure.

Address

Lake Victoria South Water Works Development Agency
Lavictors House
Off Ring Road, Milimani
P. O. Box 3325 Kisumu
KENYA

Contacts

The following are the project contacts

P.o Box 3345-40100
Telephone: (254) 057 2025127
E-mail: info@lvswwda.go.ke
Website: www.lvswwda.go.ke

2.2 Project Information

Project Start Date:	4 th April 2011
Project End Date:	31 st December 2019
Project Coordinator:	Eng. Daniel Oronje
Project Sponsor:	African Development Fund (ADF)

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Project Information and Overall Performance (Continued)

2.3 Project Overview

Line Ministry of the project	The Project is under the supervision of the Ministry of Water Sanitation and Irrigation.
Project number	NUMBER P-Z1-EA0-004 (ADF GRANT NO. 2100155019967)
Strategic goal of the Project	To reduce pollution of the Lake Victoria by implementing sustainable water and sanitation infrastructure in 15 selected secondary towns in the Lake Victoria Basin, among them, Kericho, Keroka and Isebania
Achievement of strategic goals	The Project management aims to achieve the goal through the following means: (i) Support pro-poor water and sanitation investments in the secondary urban centers in the Lake Victoria Region (ii) Build institutional and human resource capacities at local and regional levels for the sustainability of improved water and sanitation services (iii) Facilitate the benefits of upstream water sector reforms to reach the local level in the participating urban centers (iv) Reduce the negative environmental impact of urbanization in the Lake Victoria Basin
Other important background information of the Project	The project is divided into three components namely: Works: (Short term and Long Term Interventions) Water Supply systems, Sanitation, Storm water drainage and land fill and skip sites development. Goods: Purchase of Tractors, Trailers and Skips, Exhausters and Ugotugs, Vehicles and Motorcycles, Furniture and office Equipment. Services: Study, Design, Supervision, Hygiene and Sanitation promotion and other consultant services.
Current situation that the project was formed to intervene	The project was formed to intervene in the following areas:- (i) Kericho (ii) Keroka (iii) Isebania
Project duration	The project started on 15 th April 2011 and ran until 31 st December 2019

Project Information and Overall Performance (Continued)

2.4 Bankers

The following are the bankers for the current year:

1. Cooperative Bank of Kenya
Kisumu Branch
Account no. 01141295755600.

2. Kenya Commercial Bank
Kisumu Branch
Account Number 1104035464

2.5 Independent Auditors

The project is audited by the

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

LAKE VICTORIA WATER SUPPLY AND SANITATION PHASE II (LVWATSAN II)
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2.6 Roles and Responsibilities

Names	Title designation	Key Qualifications	Responsibilities
Ms. Jackline Kemunto	Chief Executive Officer	Master of Business Administration and Bachelors' Commerce (Management Option)	Accounting Officer
Eng. Daniel O. Oronje	Project Coordinator	BSC degree in Civil Engineering and MA in Project Planning and Management	Project Coordinator
Vincent Kipng'eno	Water Engineer	B-Tech Degree in Soil and Structural Engineering	Project Engineer.
George Ageng'o	Chemist	BSC degree and MA in Project Planning and Management	Environmentalist
Martin O. Mayi	Procurement Manager	BA degree, and MBA	Procurement Expert
CPA Samwel Ogalo	Senior Accountant	Bachelor of Commerce, Finance CPAK	Project Accountant
Diana Adhiambo	Community Development Officer	BA. Community development	Community Development Officer

2.7 Funding summary

The Projects initial duration was for Four years from 2011 to 2015 but has been extended to 31st December 2019 with an approved budget of UA 11.84 million equivalent to KShs. 1,506,725,531 as highlighted in the table below:

Project information and overall performance (continued)

Below is the funding summary:

A. Source of Funds

Source of funds	Donor Commitment-		Amount received to date – (30-06-2024)		Undrawn balance to date	
	Donor currency UA	KSh.	Donor currency UA	KSh.	Donor currency UA	KSh.
	(A)	(A')	(B')	(B')	(A)-(B)	(A)-(B)
(i) Grant						
African Development Bank	10,390,000	1,320,593,041	11,385,363	1,447,105,994	-	-
(ii) Counterpart funds					-	-
Government of Kenya	1,450,000	186,132,490	5,195,384	640,009,269	-	-
Total	11,840,000	1,506,725,531	16,580,747	2,087,115,263	-	-

LAKE VICTORIA WATER SUPPLY AND SANITATION PHASE II (LVWATSAN II) Annual Report and Financial Statements for the financial year ended June 30, 2024

Project information and overall performance (continued)

B. Application of Funds

Application of funds	Amount received to date – (30 th June 2024)		Cumulative Amount paid to date – (30 th June 2024)	Unutilized balance to date (30-06-2024)	
	Donor currency (UA)	Ksh.		Donor currency (UA)	Ksh.
	(A)	(A')	(B')	(A)-(B)	(A')-(B')
(i) Grant					
African Development Bank	11,385,363	1,447,105,994	1,447,105,994	-	-
(ii) Counterpart funds					
Government of Kenya	5,195,384	640,009,269	600,745,821	288,275	39,257,440
Total	16,580,747	2,087,115,263	2,047,851,815	288,275	39,257,440

Project information and overall performance (continued)

2.8 Summary of Overall Project Performance:

- i) The project was completed, and the Budget allocation was to cater for the pending bills that had not been paid by the time the project closed.
- ii) The projects physical progress is operational and were handed over to Gusii, Kericho and Migori Water and Sanitation Companies for operation.
- iii) The project achieved its value on completion and handing over for operation.
- iv) The project still has pending bills to be paid

2.9 Summary of Project Compliance:

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

3 Statement of Performance against Project's Predetermined Objectives

Introduction.

The Development Objectives of LVWATSAN II was to improve the health and quality of life of the populations living in the Lake Victoria basin. The Project's main objective was to reduce pollution of Lake Victoria by implementing sustainable water and sanitation infrastructure in 15 selected secondary towns in the Lake Victoria basin, among them, Kericho, Keroka and Isebania.

The key development objectives of the project are to:

- a) Support pro-poor water and sanitation investments in the secondary urban centres in the Lake Victoria Region;
- b) Build institutional and human resource capacities at local and regional levels for the sustainability of improved water and sanitation services;
- c) Facilitate the benefits of upstream water sector reforms to reach the local level in the participating urban centres;
- d) Reduce the negative environmental impact of urbanization in the Lake Victoria Basin.

Progress on attainment of Strategic development objectives

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

Below we provide the progress on attaining the stated objectives:

Project	Objective	Outcome	Indicator	Performance
Lake Victoria South Water Supply and Sanitation Phase II.	To contribute to the improvement of livelihoods and health of communities in the basin and the reduction of pollution of the lake through improvements in sustainable water sanitation infrastructure	To purchase performance enhancing equipment. To rehabilitate Kericho sewer line system	5 Motor Vehicles, 5 Motorcycles, 5 exhausters, 4 Tractors, 7 Trailers, 86 Skips. The complete sewer line system was rehabilitated in Kericho.	Enhanced waste collection. Improved sewer and sanitation system

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Annual Report and Financial Statements for the financial year ended June 30, 2024

Procurement of: -

- Purchase of performance enhancing equipment such as: Motor vehicles (5no.), Motorcycles (5no.), Exhausters (4no.), Tractors (7no.) Trailers (7no) and Skips (86no).
- Construction of STI Works for Kericho, Keroka & Isebania, was successfully completed. The project is currently benefitting the communities with number of new connections being 300 in Keroka and 500 in Isebania
- Rehabilitation of Kericho Sewerage System, Sewer Extensions and Sanitation Facilities was initially awarded to Stansha Ltd but was terminated at 70% completion due to non-performance of the Contractor. The project has been re-awarded to Zhongmei Engineering Co. for the completion of outstanding works and other additional works. The project is substantially completed.
- Construction of Water Supply and Sanitation Works for Keroka & Isebania Towns:
 - Keroka Component awarded to Zhongmei is complete and currently benefitting the residents. Isebania component Completed by Zhongmei and is currently benefitting the residents. Sirare works is about 100% complete.
 - Construction of Sanitary Landfill & Faecal Sludge Treatment Plant for Isebania Town awarded to Riang International Group Ltd. Works initially delayed by presence of huge underlying rock formation leading to re-design of the landfill, which are now complete
- Consultancy Services for Detailed Designs and Supervision was awarded to GIBB Africa Ltd. Currently all designs for the works projects have been done. The contract is substantially completed. An addendum to the consultancy contract was given to cover the extended implementation period of the on-going works and the Defects Notification Period.
- Consultancy for Hygiene and Sanitation Promotion was awarded to RAPADO. It entailed promotion of hygiene and sanitation practices. The contract was completed.

4 Environmental and Sustainability reporting

Lake Victoria Water and Sanitation Phase II Project exists to contribute to the reversal of the pollution of the Lake through the improvement of sustainable water and sanitation infrastructure by ensuring the provision of sufficient, hygienic, economically viable and affordable Water and Sanitation Services for the population of the selected towns, thus contributing to the overall development goal of improving the health of the urban population by reducing waterborne diseases and favouring economic development. The other main purpose was to improvement of water supply, improvement of hygiene and environmental sanitation, Urban drainage improvement and Strengthen Capacity Building of the institutions. Below is a brief highlight of our achievements in each pillar.

i. Sustainability strategy and profile

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

ii. Environmental performance

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

iii. Employee welfare

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

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

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

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

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

iv. Market place practices-

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

LAKE VICTORIA WATER SUPPLY AND SANITATION PHASE II (LVWATSAN II) Annual Report and Financial Statements for the financial year ended June 30, 2024

Lake Victoria South Water Works Development Agency has always maintained an effective feedback mechanism by holding an annual supplier meeting to get feedback from suppliers and contractors. Any concerns raised during the forum are adequately addresses.

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

iv. Community Engagements

The Agency undertook various CSR activities within the area of project implementation.

5 Statement of Project Management responsibilities

The Chief Executive Officer of Lake Victoria South Water Works Development Agency (The Agency), which is the implementing agency (IA) of the project under the Ministry of Water & Irrigation and the Project Coordinator for ADB funded Projects are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2024. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.


The Chief Executive Officer of the Agency and the Project Coordinator for LVWATSAN II project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Chief Executive Officer of the Agency and the Project Coordinator for LVWATSAN II Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2024, and of the Project's financial position as at that date. The Chief Executive Officer of the Agency and the Project Coordinator for LVWATSAN II Project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

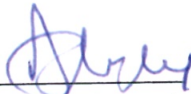
The Chief Executive Officer of the Agency and the Project Coordinator for LVWATSAN II Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Project Financial Statements

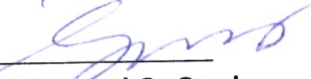
The Project financial statements were approved by The Chief Executive Officer of the Agency and the Project Coordinator for LVWATSAN II Project on 28/09/2024 and signed by them.



Ms Jackline Kemunto
Chief Executive Officer



Eng. Daniel Oranje
Project Coordinator



CPA Samwel O. Ogalo
Project Accountant
ICPAK MNo: 9933

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON LAKE VICTORIA WATER SUPPLY AND SANITATION PROGRAMME PHASE II PROJECT NO. P-Z1-EAO-004 (ADF GRANT NO.2100155019967) FOR THE YEAR ENDED 30 JUNE, 2024 – LAKE VICTORIA SOUTH WATERWORKS DEVELOPMENT AGENCY

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;
- B. Report on the Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,
- C. Report on the Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, is effective in the use of resources, or that its internal control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Lake Victoria Water Supply and Sanitation Programme Phase II Project No. P-Z1-EAO-004 (ADF Grant

Report of the Auditor-General on Lake Victoria Water Supply and Sanitation Programme Phase II Project No. P-Z1-EAO-004 (ADF Grant No.2100155019967) for the year ended 30 June, 2024 – Lake Victoria South Waterworks Development Agency

No.2100155019967) – Lake Victoria South Waterworks Development Agency set out on pages 1 to 14, which comprise of the statement of financial assets and liabilities as at 30 June, 2024, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position Lake Victoria Water Supply and Sanitation Programme Phase II as at 30 June, 2024 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the Financing Loan Agreement ADF Grant No. Grant No.2100155019967 dated 4 April, 2011 between African Development Fund, and the East Africa Community and the Subsidiary Agreement No. LVWATSAN/KE/002 dated 15 April, 2011 between the Government of Kenya and East Africa Community.

Basis for Qualified Opinion

1. Unsupported Bank Balances

The statement of financial assets and as disclosed in Note. 5 to the financial statements reflects bank balances of Kshs.39,257,440. This amount include amount of Kshs.39,257,283 held at Kenya Commercial Bank, which was unsupported by way of cash books, bank reconciliation statements, and certificate of bank balance.

In the circumstances, the accuracy and completeness of bank balance of Kshs.39,257,440 as at 30 June, 2024 could not be confirmed.

2. Unsupported Pending Bills

Note 8 to the financial statements on other important disclosures and as analyzed in Annex 3 to the financial statements reflects an amount of Kshs.140,187,852 in respect of accounts payable for the construction of civil works in Kericho. However, the pending bills were not supported by way of pending bills register, pending bills schedule and ageing analysis.

In the circumstances, the accuracy and validity of the pending bills amount of Kshs.140,187,852 could not be confirmed.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Lake Victoria Water Supply and Sanitation Programme Phase II Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in

accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

In the audit report of the previous year, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance which have remained unresolved as at 30 June 2024.

Other Information

Conclusion

The Management is responsible for the other information set out on page iv to xvi which comprise of Project Information and Overall Performance, Statement of Performance Against Project's Predetermined Objectives, Environmental and Sustainability Reporting and Statement of Project Management Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

Basis for Conclusion

In connection with my audit on the Project financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

Failure to Close the Project

The Lake Victoria Water Supply and Sanitation Phase II Project was completed in September, 2018 and a completion report was prepared. During the year under review, the Project did not receive any funding and there were no activities carried out by the Project. In a letter dated 28 August, 2024, Management indicated that the Project was closed. However, it is not clear and Management has not indicated why the Project has not been formally handed over to the agency.

The continued failure to close the Project exposes it to incurring avoidable expenditures.

The audit was conducted in accordance with ISSAIs 3000 and 4000. The Standards require that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Conclusion

As required by African Development Fund, I report based on my audit that I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit. In my opinion:

- i. Information given in the Management report on pages iv to xvi is consistent with the financial statements;

- ii. Adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and
- iii. The Project's financial statements are in agreement with the accounting records and returns.

Basis for Conclusion

The African Development Fund requires that, I report on the legal or regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to the Projects' compliance with laws and regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion

Responsibilities of the Management and Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the INTOSAI Framework of Professional Pronouncements (IFPP). The Framework requires that, in conducting the audit, I obtain reasonable assurance about whether the financial

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

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

06 November, 2024

LAKE VICTORIA WATER SUPPLY AND SANITATION PHASE II (LVWATSAN II)
Annual Report and Financial Statements for the financial year ended June 30, 2024

7 Statement of Receipts and Payments for the year ended 30th June 2024

	N o t e	2023/2024			2022/2023			Cumulative to-date (From inception) Total
		Receipts and payments controlled by the entity	Payments made by third parties	Total	Receipts and payments controlled by the entity	Payments made by third parties	Total	
					KSh.	KSh.		KSh.
RECEIPTS								
Transfer from Government entities	1	-	-	-	75,000,000		75,000,000	640,009,269
Proceeds from domestic and foreign grants	2				-	-	-	1,447,105,994
TOTAL RECEIPTS		-	-	-	75,000,000		75,000,000	2,087,115,263
PAYMENTS								
Payment of Bank Charges	4	6,008		6,008	35,755,426		35,755,426	2,047,863,831
TOTAL PAYMENTS		6,008		6,008	35,755,426	-	35,755,426	2,047,863,831
SURPLUS/(DEFICIT)		(6,008)		(6,008)	39,244,574	-	39,244,574	39,251,432

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

.....
Ms Jackline Kemunto
Chief Executive Officer

.....
Eng. Daniel Oronje
Project Coordinator


.....
Samwel O Ogalo
Project Accountant

LAKE VICTORIA WATER SUPPLY AND SANITATION PHASE II (LVWATSAN II)
Annual Report and Financial Statements for the financial year ended June 30, 2024

8 Statement of Financial Assets as at 30th June 2024

Details	Note	2023-2024	2022-2023
		KShs	KShs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	5	39,257,440	39,263,448
Cash Balances		-	-
Cash Equivalents (short-term deposits)		-	-
Total Cash and Cash Equivalents		39,257,440	39,263,448
NET ASSETS		39,257,440	39,263,448
REPRESENTED BY			
Fund balance b/fwd	6	39,263,448	18,874
Surplus/(Deficit) for the year		(6,008)	39,244,574
NET FINANCIAL POSITION		39,257,440	39,263,448

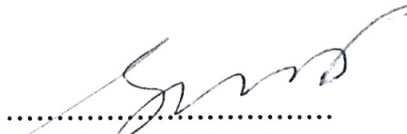
The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30/09 2024 and signed by:



Ms. Jackline Kemunto
Chief Executive Officer



Eng. Daniel Oranje
Project Coordinator



CPA Samwel Ogalo
Project Accountant
ICPAK Member No. 9933

LAKE VICTORIA WATER SUPPLY AND SANITATION PHASE II (LVWATSAN II)
Annual Report and Financial Statements for the financial year ended June 30, 2024

9 Statement of Cashflow for the year ended 30th June 2024


		2023/2024	2022/2023
	Note	KShs	KShs
CASHFLOW FROM OPERATING ACTIVITIES			
Receipts from operating activities			
Transfer from Government entities	1	-	75,000,000
Payments from operating activities			
Purchase of goods and services			
Transfers to other government entities			
Adjustments during the year			
Adjustments/Bank Charges	3	(6,008)	
Decrease/(Increase) in Accounts Receivable			
Increase/(Decrease) in Accounts Payable:		-	
Net cash flow from operating activities	1	(6,008)	75,000,000
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets		-	(35,755,426)
Net cash flows from Investing Activities	1	-	39,244,574
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings		-	
Net cash flow from financing activities			
Net Increase/(decrease) in Cash and Cash Equivalent		(6008)	-
Cash and cash equivalent at BEGINNING of the year		39,263,448	18,874
Cash and cash equivalent at END of the year		39,257,440	39,263,448

LAKE VICTORIA WATER SUPPLY AND SANITATION PHASE II (LVWATSAN II)
Annual Report and Financial Statements for the financial year ended June 30, 2024

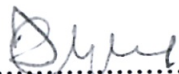
10 Statement of Comparison of Budget and Actual amounts for the year ended 30th June 2024

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	D	e=c-d	f=d/c %
Receipts						
Transfer from Government entities	135,000,000	(135,000,000)	-	-	-	0%
Proceeds from domestic and foreign grants						
Total Receipts	135,000,000	(135,000,000)	-	-	-	0%
Payments						
Acquisition of non-financial assets	135,000,000	(135,000,000)	-	-	-	0%
Transfers to other government entities		-				
Total Payments	135,000,000	(135,000,000)	-	-	-	0%
Surplus or Deficit	-	-	-	-	-	

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



Ms Jackline Kemunto
Chief Executive Officer



Eng. Daniel Oranje
Project Coordinator



CPA Samwel O Ogalo
Project Accountant
ICPAK Member No:9933

11 Significant Accounting Policies

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

11.1 Statement of compliance and basis of preparation

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

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

11.2 Reporting entity

The financial statements are for Lake Victoria South Water & Sanitation Project Phase II under the Ministry of Water , Sanitation and Irrigation. The financial statements are for the Lake Victoria South Water & Sanitation Project Phase II as required by Section 81 of the PFM Act, 2012 .

11.3 Reporting currency

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

11.4 Recognition of receipts

Lake Victoria South Water & Sanitation Project Phase II recognises all receipts from the various sources when the event occurs, and the related cash has actually been received.

i) Transfers from the Exchequer

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

ii) External Assistance

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

Significant Accounting Policies (Continued)

iii) Other receipts

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

iv) Donations and grants

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

v) Proceeds from borrowing

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

vi) Undrawn external assistance

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

11.5 Recognition of payments

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

i) Use of goods and services

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

ii) Interest on borrowing

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

Significant Accounting Policies (Continued)

iii) Repayment of borrowing (principal amount)

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

iv) Acquisition of fixed assets

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

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

11.6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

11.7 Restriction on cash

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

- i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

Significant Accounting Policies (Continued)

- ii) The amount of the obligation cannot be measured with sufficient reliability.

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships, The Entity does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

As at the reporting year, there were no contingent liabilities attributed to this project.

11.8 Pending bills

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

11.9 Budget

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

11.10 Third party payments

During the year, the project did not receive third party payments

Significant Accounting Policies (Continued)

11.11 Exchange rate differences

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

11.12 Comparative figures

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

11.13 Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2024.

11.14 Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). There were no prior year adjustments.

12 Notes to the Financial Statements

1. Transfers from Government entities

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

Details	2023/2024	2022/2023	Cummulative to date from inception
	KShs	KShs	KShs
Counterpart funding through Ministry of Water & Irrigation			
Counterpart funds Quarter 1		25,000,000	
Counterpart funds Quarter 2			
Counterpart funds Quarter 3	-		
Counterpart funds Quarter 4	-	50,000,000	
Total	-	75,000,000	640,009,269

2. Proceeds From Domestic and Foreign Grants

During the financial period to 30 June 2024, there was no grants received from donors.

3. Bank Charges

	2023/2024	2022/2023
	KShs	KShs
Payment of Bank Charges	6,008	-
Total	6,008	-

4. Acquisition of Non-Financial Assets

Description	2023-2024			2022-2023	Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs.	Kshs.	Kshs	Kshs	Kshs
Construction and civil works	-	-	-	-	2,047,857,823
Total	-	-	-	-	2,047,857,823

Notes to the Financial Statements (Continued)

5. Cash And Cash equivalents

	2023/2024	2022/2023
	KShs	KShs
Bank accounts (Note 5A)	39,257,440	39,263,448
Cash in hand (Note 5B)	-	-
Cash equivalents (short-term deposits) (Note 5C)	-	-
Total	39,257,440	39,263,448

Lake Victoria Water and Sanitation Project one project account spread within the project implementation area and no foreign currency designated accounts managed by the National Treasury as listed below:

5. A Bank Accounts

Project Bank Accounts

Details	2023-2024	2022-2023
	KShs	Kshs
Local Currency Accounts		
Co-operative Bank of Kenya [A/c No. 01141295755600]	157	18,874
Kenya Commercial Bank (Dev)	39,257,283	39,244,574
Total local currency balances	39,257,440	39,263,448
Total bank account balances	39,257,440	39,263,448

Note: Some of the project money was still held in Development Account during the period under review

6. Fund Balance Brought Forward

Description	2023-2024	2022-2023
	KShs	KShs
Bank accounts	39,263,448	39,263,448
Cash equivalents (short-term deposits)	-	-
Total	39,263,448	39,263,448

LAKE VICTORIA WATER SUPPLY AND SANITATION PHASE II (LVWATSAN II)
Annual Report and Financial Statements for the financial year ended June 30, 2024

Notes to the Financial Statements (Continued)

7. Prior Year adjustment

There was no prior year adjustment

8. Other Important Disclosures

1. Pending Accounts Payable (See Annex 3a)

	Balance b/f FY 2023/2024	Additions for the period	Paid during the year	Balance c/f FY 2023/2024
Description	Kshs	Kshs	Kshs	Kshs
Construction of civil works	140,187,852	-	-	140,187,852
Total	140,187,852	-	-	140,187,852

LAKE VICTORIA WATER SUPPLY AND SANITATION PHASE II (LVWATSAN II)
Annual Report and Financial Statements for the financial year ended June 30, 2024

13. Annexes:

Anneex 1 Prior Year Auditor-General's Recommendations

No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
1	<p>Unsupported pending accounts payable. In the notes is a balance of Ksh 140,187,852 in relation to pending bills. The balance includes retention monies owed to contractors of Ksh 115,740,344, but the management did not provide evidence of how the claims were arrived at</p>	<p>The Ministry wish to state that the balances represent claims, interests, and not retention monies and have now been titled so. Supporting documents are attached. SEE ANNEX 1198 THE LETTER FROM CONTRACTOR AND CLAIM ACCEPTANCE LETTER</p>	Resolved	30.09.2024
2	<p>Budgetary control and performance The statement of Budget and accrual amounts reflects a final budget of Ksh 75,000,000 and actual payments of Ksh 35,755,426 leading to under utilization of Ksh 39,244,574 r 52%.</p>	<p>The underutilization identified was due to the fact that the second disbursement of funds for the project delayed and was received towards the end of the fourth quarter. This in turn delayed the payments to the contractor.</p>	Resolved	30.09.2024
3	<p>Avoidable costs on the delayed settlement of pending bills An amount of Ksh 35,755,426 was paid to a contractor as interests due to delayed payments. Further, it is stated that the contractor is still owed Ksh 115,740,344 in respect of unpaid claims and interest. As such, the value of money for this payment could not be ascertained</p>	<p>The Ministry wish to state that the implementation of the actual works under the contract in question is complete as evidenced by the Taking Over Certificates provided as attachments. However, formal closure cannot be executed owing to pending payments yet to be made to the Contractor. Formal closure will only be made when there will be no more</p>	Resolved	30.09.2024

LAKE VICTORIA WATER SUPPLY AND SANITATION PHASE II (LVWATSAN II)
Annual Report and Financial Statements for the financial year ended June 30, 2024

No.	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
		<p>obligations by any party to the other in the contract. As it stands, the Contractor has no obligation to the Employer having implemented the project to the required specifications. The Employer (LVSWWDA) on the other hand has an outstanding obligation, i.e., payment of pending amounts to the Contractor. This makes formal closure impossible at the moment. The Agency will make budgetary requests to the parent ministry to clear the pending payments and upon clearing of pending payment to the Contractor, formal closure will be executed.</p> <p>Any asset that whose right to use has not been transferred to the county governments will be effected at the time of official closure. SEE ANNEX 1200 FOR THE TAKING OVER CERTIFICATES.</p>		

.....
 Ms Jackline Kemunto
Chief Executive Officer

.....
 Eng. Daniel Oronje
Project Coordinator

Annex2 - Variance explanations - Comparative Budget and Actual amounts for FY 2023-2024

	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance (below 90% and over 100%)
	a	B	c=a-b	d=b/a %	
Receipts					
Transfer from Government entities	-	-	-	0%	The Supplementary I Budget did not provide for the project
Total Receipts	-	-	-	0%	
Payments					
Acquisition of non-financial assets (Construction in Keroka & Isebania Towns)	-	-	-	0%	
Total payments	-	-	-	0%	

LAKE VICTORIA WATER SUPPLY AND SANITATION PHASE II (LVWATSAN II)
Annual Report and Financial Statements for the financial year ended June 30, 2024

Annex 3 - Analysis of Pending Bills

Supplier of Goods or Services	Date Contracted/ invoiced.	Original Amount	Amount Paid To-Date	Outstanding Balance Current FY	Outstanding Balance Previous FY	Comments
		a	b	c=a-b		
Construction of civil works						
1. Construction in Keroka & Isebania Towns	2013	769,362,348	579,758,909	140,187,852	140,187,852	
2. Construction works in Kericho town	2016	189,603,439	189,603,439	-	-	
Sub-Total		958,965,787	769,362,348	140,187,852	140,187,852	
Grand Total		958,965,787	769,362,348	140,187,852	140,187,852	

Annex 4– Summary of Fixed Assets Register

Asset class	Opening Cost	Donations in form of assets	*Purchases/ Additions in the Year	**Disposals in the Year (KShs) 2023/2024	Transfers in/(out) KShs 2023/2024	Closing Cost (KShs) 2023/2024
	(KShs)	(KShs)	(KShs)			
	2023/2024	2023/2024	2023/2024			
	(a)	(b)	(c)	(d)	(d)	(e)= (a)+ (b)+c)- (d)+(-)d
Motor Cycles	2,250,000	-	-	-	-	2,250,000
Double Cab Pickups	6,000,000	-	-	-	-	6,000,000
SUV Vehicle	3,580,000	-	-	-	-	3,580,000
Sludge Exhausters Vehicles	38,267,770	-	-	-	-	38,267,770
Laptops & Copiers	909,480	-	-	-	-	909,480
Furniture	501,180	-	-	-	-	501,180
Tractors	27,930,000	-	-	-	-	27,930,000
Skips & Skip Loaders	24,423,000	-	-	-	-	24,423,000
Total	103,861,430	-	-	-	-	103,861,430

LAKE VICTORIA WATER SUPPLY AND SANITATION PHASE II (LVWATSAN II)
Reports and Financial Statements for the financial year ended June 30, 2024

Annex 5: Reporting of Climate Relevant Expenditures

Since the project activities had ended and only pending bills payments ongoing, there are no direct expenditures climate relevant.

Annex 6: Reporting Disaster Management Expenditure

Since the project activities had ended and only pending bills payments ongoing, there are no direct expenditures on disaster management.