

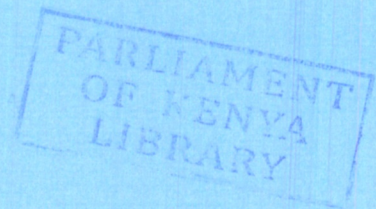
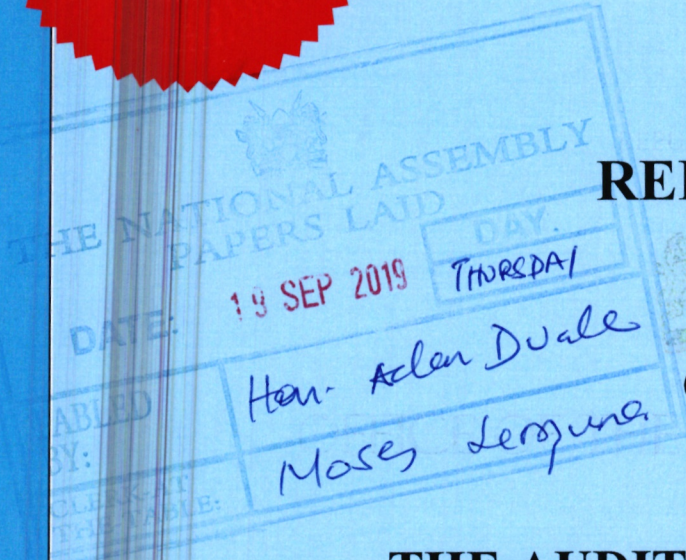
REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



REPORT



OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
LAKE VICTORIA NORTH WATER  
SERVICES BOARD

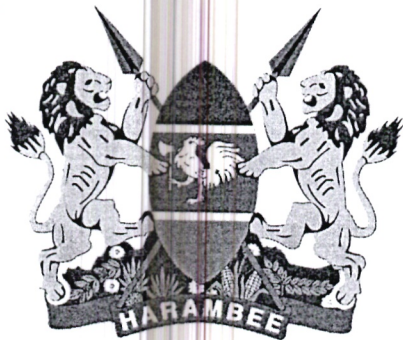
FOR THE YEAR ENDED  
30 JUNE 2018

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LAKE VICTORIA NORTH WATER SERVICES BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2018

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

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## **KEY BOARD INFORMATION AND MANAGEMENT**

### **(a) Background information**

Lake Victoria North Water Services Board (LVNWSB) is one of the eight Water Services Boards established under the Water Act 2002, as part of the reforms in the water sector. The Board was established vide gazette notice No. 1717 dated 12<sup>th</sup> March 2004. The mandate of the Board is to contract, monitor and enforce agreements between the Board and Water Service Providers in accordance with regulations set by the Water Services Regulatory Board; ensure effective and economical provision of water services; monitor and acquire assets; plan, manage and develop water and sewerage services; and take custody of water services provision assets. The Board became fully operational in January 2005.

Lake Victoria North Water Services Board covers the entire Bungoma county, Busia County, Vihiga County, Kakamega county, Trans Nzoia County, Uasin Gishu County, part of Elgeyo Marakwet county and Nandi county. The total Boards' coverage area is approximately 24,420 sq. kms, with population of 6,629,888 (2009 National Population Census).

### **(b) Principal Activities**

The core businesses as set out in its strategic plan are:

- (a) Plan, develop and manage water supply and sanitation assets.
- (b) Entering into service provision agreements with WSPs and monitoring their performance;
- (c) Supporting communities in the Board's area of responsibility, in the provision of water and sanitation.

#### **Vision**

To be an Agency of excellence in provision of water and sanitation services for all in our area of jurisdiction

#### **Mission**

To develop, maintain and manage Water and Sanitation Infrastructure for increased provision of adequate, safe, affordable and accessible services in our area of jurisdiction

#### **Core Values**

- (a) Good quality services; the board will endeavour to provide services that meet the expectations of its customers.
- (b) Good governance: the board will conduct its affairs in a transparent and accountable manner; and seek stakeholder participation in decision making process.

- (c) Transparency in staff employment: the board will at all times endeavour to appoint, reward and engage staff on merit basis.
- (d) Affirmative Gender Policy: the board will be an equal opportunity employer and will be sensitive to gender parity.
- (e) Teamwork and disciplined staff: the board will seek to have an organisation built on team work and high level of discipline.
- (f) Continuous learning: The board will be committed to continuous learning
- (g) Environmental Protection: The Board will remain a committed advocate of sustainable environment in all its dealings.

### (c) Key Management

The LVNWSB'S management is under the following key organs:

- Board of Directors
- Finance and Administration committee
- Audit Committee
- Technical and Environment committee
- The management

### (d) Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2018 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Ag CEO	Eng. Boniface L. Mulama
2.	Ag Chief Manager Technical Services	Eng. Christopher Bwire
3.	Corporation Secretary	Elizabeth Ngala
4.	Chief Manager Finance Strategy	CPA Anthony Kisaka

### (e) Fiduciary Oversight Arrangements

Ministry of Water & Sanitation- Reviews the budget approved by the board in order to ensure that the Government strategic objectives and policies are adhered to.

Public Investment Committee- The Committee ensures that there is value for money for all projects undertaken by the Board.

State Corporations Advisory Committee (SCAC)- The Committee is charged with the responsibility of advising the board on the general administration issues.

Inspectorate of State Corporations- Evaluates the results of the board based on the agreed performance targets.

Board of Directors; - Overall oversight and direction of all the board activities, the following are committees of the Board;

Finance and Administration Committee, whose main duties are: - to review financial statements and annual budgets; periodic review of staff remuneration and terms of service;

- *Lake Victoria North Water Services Board*
- *Annual Report & Financial Statements 2017-2018*

- appointments and disciplinary actions for senior staff; and general welfare of the Board's employees.

Audit Committee, whose main duty is to ensure that the systems of internal control are effective and complied with.

Technical Committee, whose focus is on issues arising from LVNWSB stewardship of essential water infrastructure and has a duty of reviewing the conditions and performance of technical assets including projects. The committee is also tasked with ensuring safeguarding the environment.

### **Development partner oversight activities**

For projects funded by external development partners, quarterly reports are submitted. The funds are audited by external auditors appointed by the donors on an annual basis.

#### **(f) Board Headquarters**

Kenfinco Complex  
Kakamega-Kisumu Road  
P.O Box 673 - 50100

#### **KAKAMEGA**

Tel: 254- 56-30795

Fax: 254-056-31506

E-mail: [info@lvnwsb.go.ke](mailto:info@lvnwsb.go.ke)

Website: [www.lvnwsb.go.ke](http://www.lvnwsb.go.ke)

#### **(g) Bankers**

Kenya Commercial Bank  
Kakamega Branch  
P.O Box 152 - 50100

#### **KAKAMEGA**

Cooperative Bank  
Kakamega Branch  
P.O Box 595- 50100

#### **KAKAMEGA**

Standard chartered bank  
Kakamega Branch  
PO BOX 292-50100

#### **KAKAMEGA**

#### **(h) Independent Auditors**

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

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**(i) Principal Legal Adviser**

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

**THE BOARD OF DIRECTORS**

**1. Hon. Joseph Kipchumba Lagat- (Born 1967) - Chairman, LVNWSB.**

The Board's chairman was appointed by the president on 17th April, 2015 as Non-Executive Board Chair, Former MP Eldoret East Constituency, Uasin Gishu County. He is an economist, a holder of BA in Economics from Egerton University and MBA, Marketing Option from the University of Nairobi. His Term expired on 16<sup>th</sup> April 2018.



**2. Peter Kitelo Chongeywo (Born 1973) -Chairman, Technical & Environmental Committee and also a member of Finance & Administration Committee.**

He was appointed on 14th June 2016 by the Cabinet Secretary Water & Irrigation as a Non- Executive Board member. He is an Electrical Engineer and a holder of Bachelor of Science in Electrical/Electronic Engineering.



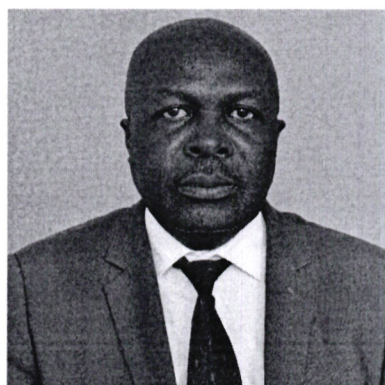
**3. Isaac Kipyego Maiyo (Born 1962)- Member of the Board.**

He was appointed on 14<sup>th</sup> June 2016 by the Cabinet Secretary Water & Irrigation as a Non-Executive director. He sits in Finance and Administration Committee as well as Technical and Environmental Committee. He served previously as a director at National Irrigation Board. He is an administrator being a holder of Bachelor's degree in Public Administration and Diploma in Public Administration. He has Certificate in County Governance.



**4. Robert Namunyu Wawire (Born 1965) - Chairman, Audit & Risk Committee Chairman and also a member of Finance & Administration Committee.**

He was appointed on 14<sup>th</sup> June 2016 by the Cabinet Secretary Water & Irrigation as a Non-Executive Board member. He is a social worker and a holder of MA, Rural Sociology and Community Development from University of Nairobi and Postgraduate Diploma in Education from Kenyatta University. He also holds Bachelor of Science in Agriculture from University of Eastern Africa. He has worked as a lecturer at



<p>Kibabii University.</p>	
<p><b>5. Hezron Ripko-(Born 1975) Chairman, Finance &amp; Administration Committee and also a member of Audit &amp; Risk Committee.</b> He was appointed on 17<sup>th</sup> April 2015 by the Cabinet Secretary Water &amp; Irrigation as a Non-Executive Board member. He is a social worker having been awarded MSc. Organisational Development from USIU and Bachelors Degree in Community Development at Daystar University. He runs career related consultancy business in Nairobi. His Term expired on 16<sup>th</sup> April 2018.</p>	
<p><b>6. Jacinta Aluoch Odhiambo (Born 1969) - A member of the Board of Directors.</b> She was appointed on 14<sup>th</sup> June 2016 by the Cabinet Secretary Water &amp; Irrigation as a Non-Executive director. She sits in Audit and Risk Committee as well as Technical and Environmental Committee. She is a development practitioner. A graduate of Brandeis University in Massachusetts USA (MA-Sustainable International Development), Kenyatta University in Nairobi Kenya (BA-Ed. French and Business Studies and active alumni of the Ford Foundation International Fellowship Program.</p>	
<p><b>7. Abdi Sheikh Mohamed (Born 1950)- A member of the Board of Directors.</b> He was appointed on 14<sup>th</sup> June 2016 by Cabinet Secretary Water &amp; Irrigation as a Non- Executive director. He sits in Audit and Risk Committee as well as Finance and Administration Committee. He is a politician/HR/Peace Advocate. He holds Bachelor of Arts, Political Science - International Relations and Diploma in Human Resource Management.</p>	

**8. Robert Masika Watangwa (Born 1962) - A member of the Board of Directors.**

He was appointed on 22<sup>nd</sup> January 2016 by the Cabinet Secretary Water & Irrigation as a Non-Executive director. He sits in Audit and Risk Committee as well as Technical and Environmental Committee. He holds a BA in Government/Literature, Diploma in Personnel Management, Diploma in Business Administration, an advanced Certificate in Education and also a holder of Certificate in Business Management.



**9. Ms. Rose A. O. Nyakwana (Born 1970) - Alt. member of the Board of Directors.**

She was appointed on 28<sup>th</sup> June 2018 as a Non-Executive director to represent Principal Secretary, Ministry of Water and Sanitation. She sits in Audit and Risk Committee as well as Technical and Environmental Committee. She is a Senior Principal State Counsel and holds LLB degree and Currently pursuing LLM, at the University of Nairobi.



**10. David Mbugua Gichuhi (Born 1960) - Rep, Inspectorate of State Corporations**

He was appointed on 8<sup>th</sup> February 2017 as a Non-Executive Director to represent Inspector General, Inspectorate of State Corporations. He holds a BEd (Business Studies/Mathematics) from the University of Nairobi and an Executive MBA from Kenyatta University. He has undertaken courses in corporate governance and Strategic Leadership Development Program, KSG.



**11. Daniel Mutua (Born 1967)- Alt. member of the Board of Directors.**

He was appointed on 23<sup>rd</sup> February 2016 as a Non-Executive director to represent PS, National Treasury. He sits in Audit and Risk Committee, Technical and Environmental Committee and Finance and Administration committee. He is an economist and holds B. Ed. (Eco/Buss) from Kenyatta University and MBA-ESAMI from Maastricht.



**12. Eng Boniface Mulama (Born 1969)-Ag. Chief Executive Officer.**

He was appointed on 19<sup>th</sup> April 2018 by the Board of birth Directors as the acting Chief Executive officer. He holds a BSc degree in Civil Engineering from the University of Nairobi and he was previously an Engineer at the Ministry of Water and Sanitation.



**13. CPA Anthony Kisaka (Born 1979)**

He served as the acting Chief Executive officer until 18<sup>th</sup> April 2018. He is a Certified Public accountant and he holds a B.com and an MBA from University of Nairobi. He is a financial management and accounting professional with over 15 years extensive experience in financial planning, analysis, reporting, resource mobilization and Strategic planning.



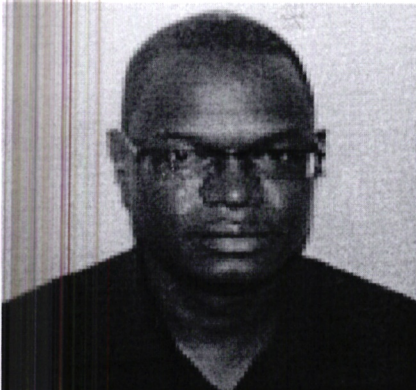


**14. Eng John Mugo Muiruri (Born 1961) - Alt. member of the Board of Directors.**




He was appointed on 23<sup>rd</sup> February 2016 as a Non- Executive director to represent Principal Secretary, State Department of Water - Ministry of Water & Irrigation. He is an Engineer and holds MBA, Esami BSc and Civil Engineering from the University of Nairobi.






**MANAGEMENT TEAM**

<p>1. Eng Boniface Mulama - Born 1969</p> 	<p><b>Ag. Chief Executive Officer)</b> He has over 20 years' professional experience in designs, supervision and management of water and sanitation systems. He has handled large donor funded projects as well as mobilization of funds through bankable proposals. BSc Civil Engineering from the University of Nairobi. Registered with Engineers Board of Kenya and Corporate member of the Institution of Engineers of Kenya. Appointed on 19<sup>th</sup> April 2018 as the Acting Chief Executive Officer.</p>
<p>2. CPA Anthony Kisaka - Born 1979</p> 	<p><b>Chief Manager Finance and Strategy</b> He is a Certified Public accountant and he holds a B.com and an MBA from University of Nairobi. He is a financial management and accounting professional with over 15 years extensive experience in financial planning, analysis, reporting, resource mobilization and Strategic planning. He was the Acting Chief Executive officer up to 18<sup>th</sup> April 2018. He heads the Finance and strategy department.</p>
<p>3. Eng Peter Ouma – Born 1975</p> 	<p><b>Chief Manager Technical Services</b> Eng. Peter Ouma holds Bachelors of Science in civil engineering. He is a registered member with Engineers Board of Kenya and Corporate member of the Institution of Engineers of Kenya. He has 17 years experience in civil engineering works. He is well versed with development of funding proposals and software engineering skills. During the year he was the head of Technical Services he resigned on 27<sup>th</sup> December 2017.</p>

<p>4. Eng. Christopher Bwire- Born 1980</p> 	<p><b>Ag. Chief Manager Technical Services</b> He holds an MSc Water Resources Engineering and BSc Civil Engineering from the University of Nairobi. He has knowledge in latest Engineering software. Registered with Engineers Board of Kenya and Corporate member of the Institution of Engineers of Kenya. Eng Christopher Bwire has 13 years professional experience in designs, supervision and management of water and sanitation systems. He has handled large donor funded projects as well as mobilization of funds through bankable proposals. He is the head of technical services since 27<sup>th</sup> December 2017 in an acting capacity.</p>
<p>5. Ms Elizabeth Ngala – Born 1977</p> 	<p><b>Corporation Secretary</b> Elizabeth Kiasyo holds a Bachelor’s of Laws (LLB) Hons. Degree, a Post Graduate Diploma in Law, and CPA Graduate. Elizabeth is an advocate of the High Court of Kenya. She is a Certified Public Secretary registered with the Institute of Certified Public Secretaries of Kenya. She is a Member of Kenya Institute of Management. Elizabeth has wide experience in Legal, company secretarial and corporate governance having served in both private and public sectors. She is responsible for providing guidance and support to the Board and driving the corporate governance agenda.</p>
<p>6. CPA Fredrick T Musungu – Born 1977</p> 	<p><b>Manager Finance</b> CPA Fredrick holds a Bachelor of Commerce (Accounting) Degree from Kenyatta University. He is full member of the Institute of certified public accountants of Kenya. He is a financial management and accounting professional with 16 years extensive experience in financial planning, analysis, reporting, general accounting operations and business process improvement. He is the head of finance section. During the year</p>

	<p>he was heading the Finance and strategy department till 18<sup>th</sup> April 2018 in an acting Capacity.</p>
<p>7. Mr Mark Kanda - Born 1978</p> 	<p><b>Manager Procurement</b> He holds a Masters of science in procurement and logistics, Bachelor of business management -purchasing and supplies' and a Diploma in business management. He has over 15 years working experience in procurement and administration. He joined the team during the financial year. He heads the procurement section.</p>
<p>7. Ms Naomi Jelimo - Born 1976</p> 	<p><b>Chief Manager Human Capital, and Administration</b> She holds Masters in Business Administration, Bachelors in Agribusiness and a postgraduate diploma in human resource management. She is a member of Institute of Human Resource Management (IHRM). Naomi Jelimo has 14 years of extensive experience in public sector and 10 years' experience in management and human resource practise. She is the head of Human capital and administration Department.</p>
<p>8. Ms Nelly Mkoko - Born 1971</p> 	<p><b>Technical Manager Community Development</b> She has a Bachelor Degree (BA) Economics and Sociology, Masters (MBA) Strategic Management and a holder of professional certificate in Monitoring and Evaluation. Has over 24 years experience in project planning, management and resource mobilization and proposal development. She heads the Community Development Section which has the mandate of ensuring rural communities have sustainable access to portable water</p>

<p>9. Mr Daniel Owino- Born 1976</p> 	<p><b>Manager Corporate Affairs</b> Holds a Masters of Arts Degree in Media, Communication and Public Relations from Leicester University, UK, MA in Linguistics from Maseno University, Postgraduate Diploma in Public Relations from Kenyatta University and Bachelors of Education, Arts (Linguistics and Literature) from Kenyatta University. He is full member of the Public Relations Society of Kenya. He is a Communications Expert with several years of experience in Corporate Affairs Management and Communications gained mainly in the Public Service. Prior to joining LVNWSB he worked with the Teachers Service Commission and Egerton University. He heads the corporate affairs section.</p>
<p>10. Mr Julius Nyang'or - Born 1972</p> 	<p><b>Manager ICT</b> He is a Kenya and South Africa-trained ICT professional who holds MSc in Information Systems, Hons BSc in Information Systems and a BSc in Computer Science. He has over 21 years experience in different areas of ICT having worked in the government sector in both Kenya and Botswana. He heads the Information and Communication Technology (ICT) section that has a mandate to support ICT functions within the Board.</p>
<p>11. CPA Yussuf Alhaji - Born 1970</p> 	<p><b>Manager Internal Audit</b> He holds MSC in Commerce (Finance and Investments) Bachelor of Commerce (Finance) Degrees. He is a full member of both the Institute of certified public accountants of Kenya (ICPAK) and Institute of Internal Auditors (IIA). He has a vast experience in Accounting, Financial management, Internal Auditing and Risk management. Prior to joining LVNWSB he worked with Oil City Limited and Telkom Kenya Limited as Finance manager and Internal Auditor respectively. He headed Internal audit and Risk Management section till 16<sup>th</sup> March 2018.</p>

12. CPA Sarah Amisi – Born 1980



**Ag. Manager Internal Audit & Risk Management**

She holds Masters of Business Administration Degree, Bachelor of science in mathematics. She is full member of the Institute of certified public accountants of Kenya. She has over 10 years work experience in banking and Audits.

She has been the head of Internal audit and Risk Management section since 6<sup>th</sup> April 2018.

13. Mr Dickson Opiyo – Born 1968



**Technical Manager Water Services**

He has Bachelor of Technology in civil Engineering from Egerton University, Higher Diploma in Structural Engineering and Diploma in Water Engineering from Kenya Polytechnic. He is a member of Institution of Engineering Technologist of Kenya (MIET) and registered with Kenya Engineering Technologist Registration Board (KETRB) as Professional Engineering Technologist (P.Eng. Tech). He has been in water sector since 1991.

He is the head of Water services Provision section.

## **CHAIRMAN'S STATEMENT**



I am pleased to present to you the Lake Victoria North Water Services Board Financial Report for the year ended 30<sup>th</sup> June 2018. This was indeed a very good year for the Board as is reflected in the ongoing infrastructural growth momentum, and progress made towards establishing Lake Victoria North Water Services Board as a critical player in the water and sanitation services infrastructure development in its jurisdiction area.

Lake Victoria North Water Services Board is one of the eight Water Services Boards established in March 2004, under the Water Act 2002, as part of the reforms in the water sector. The Board is responsible for the efficient and economical provision of water and sewerage services within eight counties in Western Kenya and North Rift including: Bungoma, Kakamega, Vihiga, Busia, Uasin Gishu, Trans-Nzoia, and parts of Nandi and Elgeyo Marakwet counties.

In undertaking our activities as per our mandate, we are guided by a five-year Strategic Plan, the Water Act 2016 and the Constitution of Kenya 2010. The Constitution places water services provision function under the county governments, leaving Major infrastructural developments within the purview of the national government.

During the period under review, the Board continued with its infrastructural investments programmes geared towards expanding service provision to our people in order to keep up with the growing demand for our services.

In the financial year, Lake Victoria North Water Services Board concluded construction of several new water supplies and also rehabilitation of a number of old ones. These completed works were operationalised and handed over to the respective Water Services Company for management in accordance with the Water Act 2016. The majority of the completed projects were implemented under the Water and Sanitation Services improvement programme – Additional Financing WaSSIP financed by the World Bank and the Government of Kenya. In addition, there were a number of small water supplies, boreholes, shallow wells and dams financed by the national government which were also operationalised during the period. The bulk of these small water supply projects funded by the national government majorly target the rural population which apparently form the bulk of our stakeholders.

The enormous success as is depicted in this statement is attributable to the sound corporate governance and management infrastructure at the Board. I thank the Government of Kenya through the Ministry of Water and Sanitation, our development partners and other stakeholders for their support and co-operation during the period. Finally, I also thank the Board of Directors for their continued commitment and support for providing the necessary oversight that has steered Lake Victoria North Water Services Board in the right direction and the Management and staff for their dedication and hard work without which this exemplary performance could not have been realised. I look forward to continued support as we embark on even a more robust process of expanding greater access to adequate, quality and affordable water and sanitation services within our area of service.

**Robert Namunyu Wawire**  
**For: Chairman of the Board**  
**Lake Victoria North Water Services Board**

*Lake Victoria North Water Services Board*  
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**REPORT OF THE CHIEF EXECUTIVE OFFICER**

The financial year ending 30<sup>th</sup> June 2018 was one of the most successful periods in the history of Lake Victoria North Water Services Board, as can be seen in the Financial Report.

This year saw the completion of a number of major water supply projects in various locations within the Board area with financial support from our various development partners including the KIDDP (Italy), World Bank, KOICA (Korea), Belgium Government, African Development Bank (AfDB) and the Republic of Kenya through the Ministry of Water and Sanitation. Under the World Bank funded WASSIP Additional Financing, the Board undertook Expansion of Kapsoya Treatment Works and Ellegerini pipeline, Improvement of Water and Sanitation Services in informal settlements of Eldoret, Construction of Upstream Water Supply for Kapcherop and the Rehabilitation of Kwanza Water Supply System in addition to construction of several Drought Mitigation boreholes.

In the same period, the Sirisia - Chesikaki Water Supply was rehabilitated with financial support from the Government of the Republic of Kenya and the Italian Government under the KIDDP programme. In Bungoma County, the Board rolled out the Chwele Water Project funded by a grant from KOICA at a cost of over Kshs 500 Million. Other notable projects completed in the period also include Namwela Pipeline and Associated Works and Extension of Sewer lines within Milimani estate of Kitale among a host of small water supply projects financed mainly the National Government of Kenya targeted at increasing access in the rural areas and small and upcoming towns and growth centers.

During the period, the Board commencement of the long awaited Greater Vihiga Gravity Project which is being financed with by the Belgium Government through Commercial Contract with the CMI Industry Balteau. This programme aimed at rehabilitating and expanding Kaimosi, Mbale and Maseno Water Supply systems.

In the coming financial period, the Board has in place four major projects for roll out to be financed by the African Development Bank (AfDB) under the Kenya Small Towns Water and Sanitation Programme-Phase II. The Projects proposed for implementation under the

programme include Malaba Water and Sanitation Project (Bungoma and Busia Counties) estimated to cost KShs. 1.1 Billion, Kiptogot-Kolongolo Water Supply Project estimated to cost Kshs 1.2 Billion and the Kipkarren Dam Treatment Works and Associated Pipelines estimated to cost Kshs 1.3 Billion.

In order to fast track expansion of the infrastructural investments and increase water and sanitation coverage, the Board has recently adopted a novel approach for sourcing for project financing under the Funding, Design and Build model. The two major projects earmarked to be financed under this arrangement in the next financial year include Keben Dam Water Supply Project estimated to cost Ksh 6 Billion, the Proposed Nzoia Multipurpose Water Project (Kakamega-Bungoma Bulk Water Supply Project) expected to cost over Kshs. 20 billion and the Kitale Cluster Water and Sanitation Project.

Looking ahead and in laying the foundation for greater water and sanitation infrastructural developments, the Board has planned to undertake designs and feasibility studies for a number of projects in the coming financial year. Some of the projects earmarked for this include the Mt-Elgon - Bungoma-Busia Gravity Water Project, Moi's Bridge-Matunda Water and Sewerage Works and Malava Gravity Scheme. Others are The Two Rivers Dam Water Supply project in Uasin Gishu County, Studies for Keben Dam and Water Supply in Nandi County, Studies for Kitale Sewerage for Kitale Sewerage Project in Trans Nzoia County, Studies for Kapsabet, Busia, Nambale and Webuye Towns Sewerage Projects and Studies for Mumias and Kimilili Sewerage Project.

During the reporting period and in line with our strategic plan, the Board undertook consultancy services for the baseline information necessary for future planning. These services include development of the Eldoret and Satellite Towns Water Master Plan, Eldoret and Satellite Towns Sanitation Master Plan Consultancy, Non Revenue Water (NRW), Geographical and Information Systems (GIS) and Block Mapping for Kimilili and Mumias Water Supply Schemes Consultancy, Preparation of Investment Plan for the Board Area and Drought Mitigation Studies. All these will be major contributors to the development of the 2018 - 2022 Strategic Plan which we intend to conclude its preparation in the course of the next financial year.

*Lake Victoria North Water Services Board  
Annual Report & Financial Statements 2017-2018*

We will continue to work in partnership with all our stakeholders to ensure that the goals and aspirations set out in the Strategic Plan are achieved in an efficient and prudent manner.



**Eng. Boniface L. Mulama**

**Ag. Chief Executive Officer**

**Lake Victoria North Water Services Board**

## CORPORATE GOVERNANCE STATEMENT

The Lake Victoria North Water Services Board is committed to the values and principles of good corporate governance. The Board of Directors and Management of the Board regard corporate governance as pivotal to the success of the Board and are committed to ensuring that the Board adheres to the highest standards of conduct and accountability in accordance with the best practice and principles of corporate governance. These principles are applied throughout all levels of the corporation.

### The Roles and functions of the Board

The role of the Board of Directors is to collectively determine the Board's mission, vision, purpose, core values, set strategy, approve organization structure and policies, monitor the attainment of board's objectives to meets its obligations to stakeholders, enhance its corporate image. Directors are also responsible for overseeing the Board's assets and ensure reliability of financial information, guarantee adequate internal control systems designed to safeguard the Board's assets, appointment of senior management and ensure effective communication with stakeholders.

### Board Committees

In line with guidelines issued by the Government, the board has delegated its authority to committees to deal with specific aspects of its responsibilities. These committees have specific terms of reference and reports to the full Board meeting. LVNWSB has the following Board committees: -

1. Finance and Administration Committee, whose main duties are: - to review financial statements and annual budgets; periodic review of staff remuneration and terms of service; appointments and disciplinary actions for senior staff; and general welfare of the Board's employees.

S/NO	NAME OF DIRECTOR	TOTAL NUMBER OF MEETINGS	MEETINGS ATTENDED
1.	Robert N. Wawire	4	4
2.	Daniel M. Mutua	4	4
3.	David M. Gichuhi	4	3
4.	Peter Kitelo	4	4
5.	Isaac K. Maiyo	4	4
6.	Hezron Ripko	4	4
7.	Abdi Sheikh	4	4

2. Audit and Risk Management Committee, whose main duty is, risk management and to ensure that the systems of internal control are effective and complied with.

S/NO	NAME OF DIRECTOR	TOTAL NUMBER OF MEETINGS	MEETINGS ATTENDED
1.	Robert N. Wawire	4	4
2.	Daniel M. Mutua	4	3
3.	David M. Gichuhi	4	2
4.	Jacinta Odhiambo	4	3
5.	Robert Watang'wa	4	4
6.	Hezron Ripko	4	4
7.	Abdi Sheikh	4	4
8.	Eng. John. M. Muiruri	4	2

3. Technical and Environment Committee, whose focus is on issues arising from LVNWSB stewardship of essential water infrastructure and has a duty of reviewing the conditions and performance of technical assets including projects. The committee is also tasked with ensuring safeguarding the environment.

S/NO	NAME OF DIRECTOR	TOTAL NUMBER OF MEETINGS	MEETINGS ATTENDED
1.	Eng. John. M. Muiruri	4	2
2.	Daniel M. Mutua	4	4
3.	David M. Gichuhi	4	2
4.	Jacinta Odhiambo	4	4
5.	Robert Watang'wa	4	3
6.	Isaac Maiyo	4	4
7.	Peter Kitelo	4	4

### Meetings of the Board

The Board of Directors and Board committees held Four (4) statutory meetings attended by the directors in strict compliance with Mwongozo and applicable Laws. The meetings of the Board are tabulated in the tables below.

S/NO	NAME OF DIRECTOR	NO. OF STATUTORY MEETINGS	STATUTORY MEETINGS ATTENDED	NO. OF SPECIAL MEETINGS	SPECIAL MEETINGS ATTENDED
1.	Joseph Lagat	4	4	6	4
2.	Robert N. Wawire	4	3	6	6
3.	Daniel M. Mutua	4	3	6	6

4.	David M. Gichuhi	4	2	6	6
5.	Jacinta Odhiambo	4	4	6	6
6.	Robert Watang'wa	4	4	6	5
7.	Hezron Ripko	4	4	6	3
8.	Abdi Sheikh	4	4	6	6
9.	Eng. John. M. Muiruri	4	3	6	2
10.	Peter Kitelo	4	4	6	3
11.	Isaac Maiyo	4	4	6	6
12.	Joseph K. Keter	4	0	6	2

### Conflict of Interest

There is a conflict of interest register in place and members of the Board/committee declare interest on the agenda items at every meeting/sitting prior to commencement of the business of the committee and full Board.

### Board's Charter

There is in place an approved board's charter detailing among others Board composition, size, appointment of members of the Board and CEO, vacation of office, Independence of board members, term limit, resignation, roles of the chairperson, relationship between the board and management, committees of the Board, procedures of Board meetings, chairing of meetings, notices and agenda of the meetings.

### Organisation Structure

Lake Victoria North Water Services Board has a clearly defined organisation structure within which individual responsibilities are identified in relation to internal financial controls. The structure is complemented by policies and management operates the business in compliance with these policies.

### Appointment and removal of directors

The appointments of the Board members are subject to competitive recruitment as provided for under the law. The Board's Chairman is appointed by the president while other board members are appointed by the Cabinet Secretary. Every appointment is by name and through notice in the Kenya gazette.

One may cease to be a member of the Board where he/she;

- (a) Serves the appointing authority with a written notice of resignation; or
- (b) Is absent without the permission of the Chairperson, from three consecutive meetings; or
- (c) Is convicted of an offence and sentenced to imprisonment for a term exceeding six months or to a fine exceeding twenty thousand shillings; or
- (d) Is incapacitated by prolonged physical or mental illness from performing his duties as a member of the Board; or
- (e) Conducts himself in a manner deemed by the appointing authority to be inconsistent with membership of the Board.

Any removal of a Board member above shall be through formal revocation.

The Corporation Secretary ensures that a record of the appointment letter, gazette notice and written acceptance by the Board member are kept in the personal file of the Board member

### **Ethics and conduct**

On acceptance of an appointment as the Board's chairperson or Board member, every director/member of the board signs the Code of Conduct and Ethics confirming that he/she will uphold ethical standards and integrity at the work place and will promote highest standards of behaviour so as to contribute to the achievement of the national development goals.

### **Governance audit**

The Board conducts governance audit annually to ensure that the organization conforms to the highest standards of good governance. The annual governance audit covers among others; Leadership and strategic management, transparency and disclosure, Compliance with Laws and Regulations, Communication with stakeholders, Board independence and governance, Board systems and procedures, Consistent shareholder and stakeholders' value enhancement and Corporate social responsibility and investment.

In the last financial year, the Board participated in annual Champions of Governance Award where it emerged the best in Water Sector category while the Board's Chairperson emerged 2<sup>nd</sup> runners up in the competition across the country.

### **Succession plan**

The Cabinet Secretary, Ministry of Water and Sanitation following the advice from State Corporation Advisory Committee (SCAC) is responsible for ensuring there is a succession plan in appointment and renewal of term of members of the Board. An update on the composition of the Board of Directors, expiry of their respective terms appointments is send

to the Ministry of Water and Sanitation and SCAC quarterly and/or annually to ensure timely replacement of Board members.

### **Induction and training**

During the last financial year all Board members were inducted and trained as follows;

1. From 27<sup>th</sup> to 29<sup>th</sup> November 2017 training of all directors on strategic thinking at Panorama Hotel, Naivasha.
2. From 19/08/18 to 23/08/18 training of the Board Audit and Risk Committee members at Reef Hotel Mombasa.
3. From 26<sup>th</sup> to 30<sup>th</sup> May, 2018 training of the Board Technical and Environment Committee at Vittoria Hotel, Kisumu.

### **Board and Member Performance**

The Board of Directors undertakes an annual Board evaluation facilitated by the State Corporation Advisory Committee (SCAC).

### **Board remuneration**

Remuneration of Board members is guided by relevant government circulars which recommend payment of attendance allowances and bonuses. The Board's chairman is paid monthly Honoraria in addition to allowable allowances and bonuses.

### **Management Team**

The Chief Executive Officer chairs the Management team which comprises heads of department and other senior staff. The team deals with operational matters and coordinates activities across the Board's various departments/divisions, water schemes and water services providers.

## REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30<sup>th</sup> June, 2018, shows the state of affairs of the Board.

### Principal activities

The principal activity of the Board is to develop, manage and maintain water and sewerage infrastructure.

### Results

The results of the Board for the year ended 30<sup>th</sup> June, 2018 are set out on page 1.

	<b>Kshs</b>
Surplus/(Deficit) before depreciation and finance costs	(38,191,374)
Less: Depreciation	<u>(220,444,076)</u>
Surplus/(Deficit) before finance costs	<b>(258,635,450)</b>

### Net deficit for the period

The Board registered a Deficit of **Ksh. 258,635,450** during the year.

### Directors

The members of the Board of Directors who served during the year are shown on page V. During the year the following directors' term expired;

1. Joseph K. Lagat-Chairman
2. Hezron Ripko- Independent Director

### Surplus Remission

The Board did not make any surplus during the period and hence no remittance to the Consolidated Fund.

### Auditors

The Auditor General is responsible for the statutory audit of the *Board* in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board

**Ms Elizabeth Ngala**  
Corporation Secretary

Date: 15<sup>th</sup> August, 2018

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act 446, require the Directors to prepare financial statements in respect of the LVNWSB, which give a true and fair view of the state of affairs of the LVNWSB at the end of the financial year/period and the operating results of the LVNWSB for that year/period. The Directors are also required to ensure that the LVNWSB keeps proper accounting records which disclose with reasonable accuracy the financial position of the LVNWSB. The Directors are also responsible for safeguarding the assets of the LVNWSB.

The Directors are responsible for the preparation and presentation of the LVNWSB's financial statements, which give a true and fair view of the state of affairs of the LVNWSB for and as at the end of the financial year (period) ended on June 30, 2018. 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 Board; (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 LVNWSB; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the LVNWSB's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act 2012 and the State Corporations Act. The Directors are of the opinion that the LVNWSB's financial statements give a true and fair view of the state of LVNWSB's transactions during the financial year ended June 30, 2018, and of the LVNWSB's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the LVNWSB, which have been relied upon in the preparation of the LVNWSB's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the LVNWSB 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 Board's financial statements were approved by the Board on 15<sup>th</sup> August, 2018 and signed on its behalf by:

\_\_\_\_\_  
Robert Namunyu Wawire  
For: Chairman of the Board

\_\_\_\_\_  
Director

# REPUBLIC OF KENYA

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON LAKE VICTORIA NORTH WATER SERVICES BOARD FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Adverse Opinion

I have audited the accompanying financial statements of Lake Victoria North Water Services Board set out on pages 1 to 30, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Lake Victoria North Water Services Board as at 30 June 2018 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the State Corporations Act, Cap 446.

#### Basis for Adverse Opinion

##### 1. Presentation, Disclosure and Accuracy of the Financial Statements

The financial statements submitted for audit do not conform to International Public Sector Accounting Standards (Accrual Basis) as prescribed by the Public Sector Accounting Standards Board due to the following:

##### 1.1 Presentation of Board Information

The Board Chairman has not signed the financial statements presented for audit and no explanation has been provided for the failure by the Board to adopt the financial statements.

In addition, the report of the Chief Executive Officer includes a disclosure of grant from Korea International Cooperation Agency (KOICA) of Kshs.500,000,000 for Chwele Water Project in Bungoma County which has not been disclosed in the financial statements.

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*Report of the Auditor-General on the Financial Statements of Lake Victoria North Water Services Board for the Year Ended 30 June 2018*

Further, the financial statements do not include management discussion and analysis and the Corporate social responsibility statement as required.

## **1.2 Statement of Financial Performance**

The transfers from other governments- gifts and services in kinds figure of Kshs.572,132,005 includes development grants of Kshs.510,232,005 as disclosed under note 5 to the financial statements which however differs with Kshs.578,108,750 as per the records availed for audit and disclosed in Appendix 1, resulting to an unreconciled variance of Kshs.67,876,745.

Management has explained that the development grants figure reported in the statement of financial performance and Note 5 is based on the expenditure of Kshs.590,932,012 incurred from deferred income in Note 25. However, the note shows additional grants received of Kshs.330,701,250 as opposed to the figure of Kshs.578,108,750 reported in appendix 1. No explanation has been provided for the arising variance of Kshs.247,407,500.

## **1.3 Statement of Financial Position**

### **1.3.1 Property, Plant and Equipment**

The property, plant and equipment balance of Kshs.6,009,935,929 excludes the value of land and buildings where the Board offices are housed at KEFINCO estates and no explanation is provided for such omission.

### **1.3.2 Borrowings**

The borrowings balance reflects Kshs.11,415,311,249 as per supporting note 28 to the financial statements. However, the details about the terms of the loans, nature, rates of interest, repayment status and applied securities have not been provided for audit review.

### **1.3.3 Capital Works in Progress**

The capital works in progress balance reflects Kshs.7,160,640,226 as at 30 June 2018 as disclosed under note 22 which in turn includes additional loan of Kshs.729,128,503 to Water Services and Sanitation Improvement Program (WASSIP) project as disclosed in note 22 to the financial statements which however differs with the total expenditure figure of Kshs.586,400,441 together with the pending bills of Kshs.2,018,750 reported in the project financial statements for the year ended 30 June 2018 leading to an unreconciled and unexplained variance of Kshs.140,709,312 arising between the two sets of records.

## **1.4 The Statement of Cash Flows**

The statement of cash flows reflects a non-cash adjustment figure of Kshs.1,799,330. However, the reconciliation explaining how this figure was derived has not been provided for audit review. A similar figure is indicated in the statement of changes in net assets as transfers to/from accumulated surplus but also without a corresponding

explanation as to what the transfer relates to and how the figure has affected the two statements. In addition, the statement reflects purchase of property, plant, equipment and intangible assets of Kshs.1,436,127,528; proceeds from borrowing of Kshs.124,390,557 and increase in deposits figure of Kshs.1,361,145,402, which have however not been indicated on how they have been derived as cash flow items.

### 1.5 The Statement of Comparison of Budget and Actual Amounts

The statement shows total budgeted revenue of Kshs.814,741,005 while the approved budget shows an amount of Kshs.14,528,609,000 to result to variance of Kshs.13,713,867,995. The statement also shows budgeted expenditure of Kshs.1,043,327,201 as compared to the approved budget figure of Kshs.14,827,012,000 to result to a variance of Kshs.13,778,684,799 which has not been explained or reconciled as below:

Description	Approved Budget (Kshs)	Financial Statements (Kshs)	Variance (Kshs)
Total budgeted recurrent revenue	322,609,000	814,741,005	(492,132,005)
Total budgeted development revenue	14,206,000,000	0	14,206,000,000
<b>Total</b>	<b>14,528,609,000</b>	<b>814,741,005</b>	<b>13,713,867,995</b>
Total budgeted recurrent expenditure	621,012,000	1,048,327,201	(427,315,201)
Total budgeted development expenditure	14,206,000,000	0	14,206,000,000
<b>Total</b>	<b>14,827,012,000</b>	<b>1,048,327,201</b>	<b>13,778,684,799</b>

In addition, Korea International Cooperation Agency (KOICA) had a budgetary provision of Kshs.59 million but no expenditure was incurred for this item. No works were also reported on the ADB loan funding notwithstanding the available budget provision of Kshs.10.85 billion for the year under review.

### 1.6 Other Notes to the Financial Statements

The statement of compliance and basis of preparation is not in line with the financial report. In addition, it does not conform to the revised format recommended by the Public Sector Accounting Standard Board. There is no note on adoption of new and revised standards and disclosure on subsequent events.

The disclosures on credit risk and liquidity risk are incomplete and do not reflect the information in the financial statements. Further, note 30 to the financial statements discloses contingent liability of Kshs.15,000,000. However, the details of the liability have not been provided or disclosed in the financial statements as required. In addition, there is no disclosure on capital commitments, ultimate and holding entity information, and progress on follow-up of auditor recommendations is incomplete.

Further, there is no report on projects implemented by the Board during the year under review.

## 1.7 Accounts of Water Services and Sanitation Improvement Project

The audit of the financial statements of the Water Services and Sanitation Improvement Project indicated that the Project received a total of Kshs.577,421,000 from IDA as disbursements towards implementation of the Project while the special account statement showed that there was no withdrawal from the account for the year under review and no reconciliation was provided to explain the variation in the two sets of records.

In view of the non-conformance to the prescribed format, the variances observed and non-disclosures of material items/activities, the accuracy and completeness of the financial statements for the year ended 30 June 2018 cannot be confirmed.

## 2. Long Term Borrowings - Non-Servicing of Loans

The statement of financial position reflects borrowings figure of Kshs.11,415,311,249 under non-current liabilities being principal loan balances of Kshs.4,854,726,700 from German Financial Cooperation (KfW), Kshs.5,910,862,190 from International Development Association (IDA) and Kshs.603,105,047 from the Belgian Government as disclosed in note 26 to the financial statements.

The loan agreements for KfW showed that three (3) loans signed on 23 September 2004, 27 November 2006 and 04 June 2009 of EURO9,500,000, EURO9,500,000 and SDR96,600,000 respectively have never been serviced and repayment instalments are in arrears as detailed below:

No.	Date of Signing Agreement	Lending Agency	Amount Borrowed EUR/SDR	Date of 1 <sup>st</sup> Instalment	Total Principal Instalments Due in EUR/SDR	Total Principal Instalments in (Kshs)
1	23 Sept 2004	KfW	EUR 9,500,000	Dec. 2014	1,422,000	163,819,567
2	27 Nov 2006	KfW	EUR 9,500,000	Dec.2016	775,000	91,876,452
3	4 June 2008	KfW	SDR 96,600,000	Dec. 2018	466,000	652,400
	<b>Total</b>					<b>256,348,419</b>

The principal amounts due had accumulated to Kshs.256,348419 by 31 December 2018 but have not been recognised under current liabilities. In addition, the accrued interest and penalties have not been calculated and accounted for in the financial statements as required.

In addition, the loans are denominated in foreign currency (EUR, SDR and USD) but the management has not disclosed the exchange rate used in the conversion in the financial statements.

Further, the Belgian Government loan agreement was not availed for audit verification hence the terms and conditions of the loan could not be ascertained.

Consequently, the expenditure for the year under review has been understated by the accrued interest and penalties. Further, the current liabilities have been understated by the same amount of accrued interest and penalties.

### 3. Classification and Disclosure of Capital Works in Progress

The statement of financial position reflects non-current assets balance of Kshs.13,170,576,155 as at 30 June 2018 which includes capital works in progress amount of Kshs.7,160,640,225 as analysed under note 22 and shown below:

<b>Category</b>	<b>2016/17 (Kshs)</b>	<b>2017/18 (Kshs)</b>	<b>Total (Kshs)</b>
Water and Sanitation Services Improvement Project (WASSIP)	5,515,799,571	729,128,503	6,244,928,074
Kenya Italy Debt Development Programme (KIDDP)	223,398,762	(223,398,762)	0
Pans and Dams	444,949,947	(133,112,543)	311,837,404
Chebara Institutions	0	330,800	330,800
Vihiga Cluster	0	603,543,947	603,543,947
<b>Total</b>	<b>6,184,148,280</b>	<b>976,491,945</b>	<b>7,160,640,225</b>

However, apart from the Chebara institutions and Vihiga cluster projects, the detailed schedules for the specific projects which are said to be on-going under Water and Sanitation Services Improvement Project (WASSIP) and Kenya Italy Debt Development Programme (KIDDP) were not availed for audit review.

In the circumstances the capital works in progress figure of Kshs.7,160,640,225 as at 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Lake Victoria North Water Services Board in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

#### Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

#### Other Matter

#### Water Services and Sanitation Improvement Project - Implementation Status

As at 30 June 2018, the Water Services and Sanitation Improvement Project had received USD31,746,678 (Kshs.3,130,426,998) which is 86% of the envisioned funding of USD35,912,500 (Kshs.3,630,832,758). However, the management did not provide project implementation status to confirm the implementation level.

Consequently, it has not been possible to confirm that the project is on course.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

### Basis for Conclusion

#### 1. Avoidable Expenditure

The Board appointed an officer on 22 August 2012 to the position of Water Services Provision Manager through a competitive recruitment process and was engaged on probationary terms for a period of six (6) months after which the Board was expected to communicate to the officer its decision on his suitability for the job. However, no communication was made until 19 May 2014, about twenty (20) months later, when he was informed vide letter reference LVNWSB, that his engagement had been terminated on suspicion that he did not disclose all material facts about himself and was likely to continue drawing two salaries if confirmed which was contrary to Employment Act, Cap 226 section 42 (2 & 3) and section B.16 (4&5) of the Public Service Commission Human Resource Policy.

The officer consequently filed a case against the Board on 09 June 2014 at the Employment & Labour Relations Court in Kisumu contesting the termination of employment. On 2 March 2016, the Court ruled in favour of the officer and ordered his reinstatement and compensation for the period he should have been in employment. The Board filed an appeal in the Court of Appeal but later withdrew the case opting for an out of court settlement.

The Board Management therefore committed and paid an amount of Kshs.2,170,842 being salary and allowances for the affected officer for the period he was out of office of Kshs.1,271,242, his legal fees of Kshs.200,000 and the board's legal fees of Kshs.699,600. The expenditure of Kshs.2,170,842 was avoidable and amounts to nugatory payment.

#### 2. Irregular Payment for Consultancy Services

The statement of financial performance reflects an expenditure of Kshs.18,551,809 under repairs and maintenance which includes Kshs.1,785,000 incurred on consultancy services to assess the current position of the Board Club House at Kefinco Estate in Kakamega, prepare bid documents and supervise the rehabilitation works of the Club House. The consultancy was awarded vide contract reference No. LVNWSB/ICS/KEFINCO/2016/01 at a contract price of Kshs.3,570,000. The contract was signed on 8 January 2016 and was to take a total of nine (9) months or two hundred and seventy (270) days with a completion date of October 2016. However,

by the time of audit in January 2019, the consultancy report had not been submitted, including the inception report which was expected to have been submitted by 16 May 2016. According to the consultancy agreement, the consultant was to be paid ten percent (10%) of contract sum on submission of inception report; twenty percent (20%) on each of four (4) phases, namely presentation of report on the status of ownership/title of the Club House; completion of report on the condition of the facility and reinstatement/rehabilitation needs assessment; submission of report on approved design of the proposed facility, bid document for rehabilitation works and a confidential engineer's estimate and submission of a supervision report on the rehabilitation works; further ten percent (10%) on submission of as-built drawings and works completing report.

During the year, the Board received and processed claims from the consultant amounting to Kshs.2,499,000 which is 75% of the contract sum; out of which Kshs.1,785,000 was paid and Kshs.714,000 accrued worth. However, no reason has been provided for processing the claims without evidence of delivery of the consultancy service in line with the contract agreement. In addition, no reason has been provided for the delay in delivering of the consultancy by 27 months or 300% of the contract period.

Further, it was noted that this Club House as an asset of the Board had not been recorded in the assets register nor included in the property, plant and equipment figure of Kshs.5,617,314,642 reflected in the statement of financial position as at 30 June 2018.

In addition, the management did not explain nor provide evidence of ownership of the Club House that was previously the property of Kenya Finland Cooperation (KEFINCO).

Consequently, the propriety of the repairs and maintenance expenditure of Kshs.2,499,000 incurred on consultancy for the Club House could not be ascertained.

### 3. Rural Water Supply Development - Project Implementation Status

The statement of financial performance reflects expenditure on rural water supply development of Kshs.480,015,632 during the year under review. However, a sample verification of these projects revealed that they were not being implemented as per the terms of the contracts in regard to designs, contract periods, costs and good workmanship.

Procurement of contractors for the projects was not competitively done. The works were not monitored, leading to delays in project implementation and wastage through poor workmanship. The communities intended to benefit from the projects had also not been adequately sensitized and guided appropriately, hence many projects had operational challenges. A summary of the sampled projects is provided:

<b>Project Name and Value (Kshs.)</b>	<b>Expenditure in 2017/2018 (Kshs.)</b>	<b>Observations</b>
Sirare Mayu Community Water	11,328,212	The project was not operational due to low levels of water in the borehole that was commissioned in

Project Name and Value (Kshs.)	Expenditure in 2017/2018 (Kshs.)	Observations
Project - Kshs.14,397,571		March 2018. when the yielded was indicated to be 7.2m <sup>3</sup> /hr at test pumping although no report has been provided to confirm the current water levels.
Tachasis-Cheplaskei Community Water Project - Kshs.25,572,376	0	<p>The contract was awarded on 23 September 2016. As at the time of audit in Jan 2019, the project was still not operational having delayed for more than one year six months.</p> <p>The bills of quantities provided for fencing of the three spring areas using precast concrete poles, but this was done using wooden poles.</p> <p>It was also noted that one of the masonry tanks had cracks and leakages which is a sign of poor workmanship. Further the innovative low cost tank is not being supplied with water since it is located at a higher altitude from the intake thus it needs pumping in order to supply water to the tank for distribution. This appears to be as a result of lack of provision of a pump to lift the water from the spring to the tank.</p> <p>One tank completed by the contractor was condemned but no information to confirm how much had been incurred on the tank. A solar panel for the project had also been vandalised, before the project is operationalized.</p>
Leseru Community Water project - Kshs.56,351,411 (KIDDIP)	34,296,478	<p>The project was awarded on 20 June 2016 and was to be completed on 20 June 2017. As at the time of audit in January 2019, the project was still not operational having delayed for more than one and half years.</p> <p>Management reported that the project also had a condemned tank, now being constructed by the Board.</p> <p>It was also noted that the spillway has not been done as provided for in the bills of quantities and also no fencing of the intake and water treatment plant had been done.</p>
Lumakanda - Kipkaren community water supply - Kshs.34,728,435	13,229,710	<p>A contract for rehabilitation and extension of this water project was awarded to local contractor on 11 October 2017 for a contract period of eight months and be completed on 11 June 2018.</p> <p>At the time of audit in January 2019, the works were ongoing. However, there were major cracks</p>

Project Name and Value (Kshs.)	Expenditure in 2017/2018 (Kshs.)	Observations
		and leakages in the two composite filtration units (CFU) serving the water supply system. The leakages is a sign of poor workmanship.
Masaba-Wabukhonyi Community Water supply Kshs.17,758,293	0	The contract was awarded on 18 April 2016. Most of the works such as spring protection, construction of masonry tank, construction of elevated steel tank, pipping work and installation of pump and electrification of the system had been done. However, the water distribution lines from the distribution tank had not been done thus rendering the project none operational since October 2016 which was the expected completion date. Even though the Board has indicated that a new contractor has been engaged to complete the works at a cost of Kshs.1,997,814, there is no evidence of how much of the previous works had been certified and paid for. Further, there is no evidence of termination of the previous contractor.
Lunakwe Community Water Supply - Kshs. 23,608,121	9,781,070	The contract for construction was awarded on 15 Sep 2017 with the expected completion date being 15 March 2018. A physical verification of the project revealed the following; <ul style="list-style-type: none"> <li>• Elevated steel tank was still under construction</li> <li>• 3no. water kiosks were partially complete with painting work yet to be done</li> <li>• Pipe laying was not yet complete</li> <li>• Installation of submersible pump not yet done</li> <li>• Solar panels fitted but other accessories were yet to be installed.</li> </ul> Notice to terminate the contract had subsequently been issued.
Shianda - Community Water project - Kshs.7,616,290	3,939,574	The contract was awarded for construction of the project on 8 Nov 2017 with expected completion date being 8 May 2018. A physical verification of the project revealed the following; <ul style="list-style-type: none"> <li>• 50m<sup>3</sup> steel tank not yet done</li> <li>• 1no. water kiosk partially complete with painting work yet to be done</li> <li>• Pipe laying complete</li> <li>• New contractor hired to move on site.</li> </ul> The contract has subsequently been terminated and two new contracts awarded for the remaining

Project Name and Value (Kshs.)	Expenditure in 2017/2018 (Kshs.)	Observations
		works. One of the new contracts for construction of 50m <sup>3</sup> elevated steel tank at a cost of Kshs.2,895,000 while the other contract has not been disclosed.
Sokoyot Community Water Project, Turbo Sub County, Uasin Gishu County – Kshs.15,480,256	10,303,593	The project was expected to be completed by 28 February 2018. Verification revealed that the 100 cubic meters elevated steel tank was leaking; fencing not fully done; connection to the distribution line not done; no pump manual; client equipment purchased not seen. The community, (about 118,000 people) have not been supplied with water.
Sambut Community Water Project, Turbo Sub County, Uasin Gishu County – Kshs.8,911,815	3,993,975	100 cubic meters elevated steel tank supplied but raising main not connected to the tank; fencing only concrete posts done; distribution line not done and therefore the community has no water. Expected completion date was 10 October 2018
Samoei Community Water Project, Turbo Sub County, Uasin Gishu County – Kshs.7,528,994	103,800	100 cubic meters elevated steel tank supplied but panels are not properly locked; chambers not complete, have no gate valves; All pipes laying done but not connected to the tank; Community has no water. Expected completion date was 10 October 2018
Illula Community Water Project, Ainabkoi Sub County, Uasin Gishu County – Kshs.13,464,000	3,402,000	Community committee had not been formed by the time the project started; pump house constructed; solar powered pump installed; upraising connected; piping laid for 4.3 km out of 5 km; water noted to be muddy and brown and may not be suitable for human consumption. The project was to be complete by 10 March 2018
Kipture Community Water Project, Mosop Sub County, Nandi County	6,836,135	Spring protected; polythene cover allows silting; no community water drawing point on site; pump manual not availed to the community; 1 out of 4 kiosks not working due to failure of gravity to deliver water upstream; no sanitation facilities at the site; return valve not installed in the uptake line; main tank 100 cubic meters masonry has minor leakages.
Chemaluk Community Water Project, Moiben Sub County, Uasin Gishu County – Kshs.8,385,828	5,600,200	Community has piped water from ELDOWAS; Solar powered project pumping to a 100 cubic meter tank; Water said to be salty and therefore not confirmed for human consumption; Kiosks are not popular; only 5 connections. Project completion date was 5 September 2018

<b>Project Name and Value (Kshs.)</b>	<b>Expenditure in 2017/2018 (Kshs.)</b>	<b>Observations</b>
Tebeswet Community Water Project – Kshs.9,868,320	1,586,600	Tank 24 cubic meters elevated steel tank delivered; Solar powered pump installed; kiosk not operational; training not done; low water levels; Water slightly saline. Completion date was 28 September 2018
Cheburbur Community Water Project – Kshs.8,987,000	5,504,225	Pump house constructed; solar powered pump installed; upraising connected; Piping laid for 3 km; Water noted to be brown hence not suitable for consumption. Completion expected to have been 16 October 2018
Kapseret Community Water Project	1,040,600	Borehole sank in 2017 still capped; foundation for steel tank elevation started and abandoned; Variations proposed to drop the kiosk.
Jabali Community Water Supply Project	5,784,748	Poor workmanship
<b>Total</b>	<b>116,730,920</b>	

Non-completion of the community water projects is an indication that the Board failed to develop, maintain and manage water and sanitation infrastructure for increased provision of adequate, safe and affordable water services to the affected communities as stated in its mission statement. The beneficiary communities did therefore not obtain value for Kshs.116,730,920 incurred on the above water projects for the year ended 30 June 2018.

#### **4. Procurement of Enterprise Resource Planner (ERP) System**

The Board entered into a contract on 1 July 2015 with a business systems supplier for supply, delivery, installation, configuration and commissioning of an Enterprise Resource Planner (ERP) system (both software and professional charges) at a contract sum of Kshs.6,900,000. The supplier offered Sage 300 software which, according to the technical specifications included capability for HR administration, general ledger, report writing and system audit management. The system implementation should have been completed and handed over to the management by 30 June 2016. However, a review of the ERP System in December 2018 revealed the following:

- (i) The system was formally taken over by the Board in June 2017 about 52 weeks after the expiry of the contract period.
- (ii) The contractor had not fully delivered on contract obligations as components of the system on workflow and integration of payroll to the financial module had not been implemented.

- (iii) The system could not generate backdated payroll data, consolidated general ledger or other analytical data summaries.
- (iv) The contract included support to four (4) service providers Nzoia Water Services Company (NZOWASCO), Kakamega Water Services Company (KACWASCO), Kapsabet-Nandi Water Services Company (KANAWASCO) and Amatsi Water Services Company (AWASCO) whose project implementation status reports were not provided for audit verification.
- (v) The professional fee charged in the contract of Kshs.3,200,000 could not be ascertained as there were no details of the methodology used to determine the cost or how performance of the service would be evaluated/regulated before payment.
- (vi) The contract did not specify any required periodic health checks or audit reports to be generated under the audit management module.
- (vii) The Board maintained three (3) standalone systems as listed below:

<b>Application Name</b>	<b>Description and Purpose of the Application</b>	<b>Modules/subsystems of Application Used</b>
Docuware	For digitalization of documents	For documenting all the whole organization documents
Fleet Management system	To manage the board fleet-fuel consumption and tracking of motor vehicles and analysis of trips	Fleet Management
Leave management system	For managing staff leave	Staff leave

The use of these standalone systems is due to the Sage 300 ERP System not having been fully integrated and suffers from operational and design deficiencies contrary to what was envisioned at procurement. It was anticipated that the ERP was to improve management and administration by phasing out these standalone systems by housing all the system activities in the new ERP.

- (viii) Further, it was also noted that the performance bond issued by Chase Bank (Kenya) Limited expired in December 2015, six (6) months into the contract period thereby leaving the Board exposed to risks of non-performance without recourse.

In the circumstances, the propriety of the expenditure of Kshs.5,327,920 or approximately 77% out of the contract price incurred on the acquisition of the ERP system for the year ended 30 June 2018 cannot be confirmed. Further, the acquired ERP was not suitable for all the needs of the Board and therefore the Board did not get value for money spent on it.

## 5. Work in Progress

### 5.1 Vihiga Cluster Water Project

The Government of the Republic of Kenya and a Belgian company negotiated for a mixed credit facility from the Government of the Kingdom of Belgium amounting to EURO.15,500,000 which was to be utilized for the purpose of financing Vihiga Cluster Water Supply Project. The contract for the construction was signed on 09 February 2016 and was to take 30 months from the effective date of commencement. The project was to be implemented on the “design, fund and build model” and consisted of three main parts namely Maseno Water Supply System, Kaimosi Water Supply System and Mbale Water Supply System. A review of the project implementation status as at the time of audit revealed the following:

- (i) The capital works in progress figure of Kshs.7,160,640,226 includes additions during 2017/2018 amount of Kshs.603,543,947 as disclosed in note 22 to the financial statements paid to the contractor during the year. However, there was no evidence/documentation of the direct payment of Kshs.603,543,947, an indication that the payment was processed outside the payment processing system stipulated by the National Treasury and communicated to the Board vide Circular Ref No. MOF/ERD/11/149/78/01(36) of 07 June 2017.
- (ii) Part of the expenditure journalized in Kshs.603,543,947 of Kshs.107,370,113 (Euro 853,647) described as project management and logistics was not supported with any documentary evidence and therefore not verified.
- (iii) Further examination of the records including the initial project design and contract agreement indicates that the project was conceived sometimes during the 2012/2013 financial year but did not materialize until 2015/2016 when the funding was secured and the contractor identified and eventually a contract agreement signed on 09 February 2016 at a contract sum of Euro 15.5 million or Kshs.1,755,619,900 at the ruling then exchange rate of Kshs.113.27 to the Euro. This project was two-fold according to the procurement manual for works, as it was a lump-sum contract with bills of quantities as described under Chapter 6.1 (Lump Sum or Fixed Sum Contracts) and 6.2 (Bill of Quantities Contracts).
- (iv) As required under the Kenya law, the contractor was to provide a performance bond but it was noted that the performance warranty provided from the Commerzbank Brussels for Euro 775,000 was to be governed by laws of Belgium although Article 14 of the contract states that the law governing the contract shall be the laws of Kenya.
- (v) The project entailed construction of water treatment plants in Maseno and Mbale with a daily treatment capacity of 5,000 cubic meters; and another one of half capacity at Kaimosi. However, during the course of the implementation, the project was significantly changed but the Board did not avail the revised bills of quantities for each of these works together with the relevant approvals. The basis of evaluation of performance for the project could not therefore be

ascertained. Although the Board explained that under the 'design build contract' the client only provides the requirements of the works in summarised form and then the contractor designs the works with detailed bills of quantities, the client should retain the right of final approval of the designs before the works are implemented.

- (vi) Based on the bills of quantities contained in the original project design document, the contractor was to supply 2,659 water meters valued at Kshs.23,290,000. It was however noted that the contractor was allowed to provide non-branded water meters without boxes, which would be difficult to verify the supplies. Although the Board has averred that the meters are yet to be approved and supplied, no reason has been provided for the decision to procure non-branded meters.
- (vii) Included in the approved master list ref. DFN 415/232/011 of 17 January 2018, were 2No. 4 WD station wagon vehicles valued at Euro 300,000 or Kshs.37,733,430 which were not in the original project design. According to the contract agreement, only three (3) project vehicles were provided for i.e. 2No. 4WD double cabins and 1No. 10-ton truck at a total cost of Euros 220,000 or Kshs.27,671,182. However, management did not provided justification for the additional two vehicles after considering that Treasury had already approved their importation duty free. Although the three vehicles ought to have been delivered at the commencement of the contract, only one double cabin pick-up 4WD had been delivered but registered in the name of the site manager- an employee of the contractor and not the Board.
- (viii) The project allowed for a provision in the contract at Kshs.30,631,188.12 for land wayleaves for pipeline routes including cadastral surveys and title deeds. No details were however provided in respect to the Resettlement Action Plan (RAP) or the associated expenditure disclosed anywhere in the financial records. It was also noted that no RAP Policy had been developed to guide the process. The Board indicated that they were in the process of developing a RAP policy, but this is unlikely to benefit the implementation of the project that ought to have been completed had it been run as per the project schedule.
- (ix) Verification of the project implementation revealed that a number of changes qualifying as variations were made but no detailed recording of these variations were made or any orders prepared for the omissions or additions and their associated costs so that evaluation can be objectively undertaken and the financial implications on the project clearly identified. Some of the changes included;
  - Omission of two Hydro Electric Power Stations of 1.0 megawatts each initially valued at Kshs.520,000,000 at Maseno and Kaimosi plants,
  - New lay out of the water treatment plants; Maseno treatment plant lagoons were reduced in size,

- Land acquisition at Mbale treatment plant,
- National Construction Authority project fees estimated at 0.05% of the project cost,
- Omission of general clearance of 12,500 square meters to a depth of 4 meters at Kaimosi Dam initially estimated to cost Kshs.100,000,000,
- Contingencies were revised from Kshs.205,655,718 or 15% to Kshs.92,836,187 equivalent to 5% of the contract sum,
- Ground breaking ceremony expenses charged against contingencies,
- Allowance for project meetings charged at Kshs.210,000 monthly for 36 months,
- Increase in piping by 4 kilometers,
- Refurbishment of elevated steel tank at Mbale Hospital at Euro 41,071.03 or Kshs.4,585,327.

From the foregoing, it is evident that the feasibility and designs were not collaborated well with the mechanical, electrical and plumbing works. Further, the bulk of these changes were omissions and no particulars were provided on how the planned expenditure was utilized and no variation orders were availed for audit review.

- (x) The project site supervisor was noted to be an electro-mechanical engineer instead of qualified civil engineer thus without capacity to handle civil works and is therefore not clear who was technically supervising the engaged sub-contractor or why the client has not enforced the staffing requirement of having a civil engineer.
- (xi) The contractor's staff levels showed that there were only two members of staff, a manager based in Nairobi and a specialist electro-mechanical engineer who was also the site supervisor. With this type of arrangement and given the value of the contract, the contractor is more of a consultant supervising implementation of the works, having delegated all the works through sub-contracting, yet he was awarded due to the capacity which has not been matched on the ground. This is despite an indication that due diligence was undertaken to assess the capacity.

Under the circumstances, the objectives of the project may not be achieved and the propriety of Kshs.603,543,947 so far incurred on the project for the year under ended 30 June 2019 cannot be confirmed.

## 5.2 Chebara Institutions Project

Included under work in progress balance in respect to Kenya Italy Debt for Development Programme (KIDDP) is an expenditure of Kshs.330,800 during the year under review in preparation of bids for the completion of Chebara Institutions works that stalled. The stalled works were noted to have been outstanding and were a carry-over since 2012/2013 when the idea of the institutions was conceptualized. The projects had received funding totalling Kshs.631,513,966 from the National Government through various ministries and channelled directly to Chebara Boys High School. The contracts for the projects execution commenced from January 2012 and were expected to be completed in August 2013. However, the implementation of the projects was abandoned at different levels of completion due to lack of funding. The Board placed an advert inviting bids to tender for 3 main works in two local dailies on 05 June 2018 for;

- (i) Proposed completion of Chebara Boys' High School classrooms, administration block, laboratory, library, and the roofing of Chebara Chapel and associated works under tender No. LVNWSB/GoK/EMC/01/2017-18;
- (ii) Proposed completion of Chebara Girls' High School dormitory, ablution block, roofing of dining hall, Chebara Youth Polytechnic fence, gate house, and guard house and associated works under tender No. LVNWSB/GoK/EMC/02/2017-18;
- (iii) Construction of Chebara institutions water supply and associated works under tender No. LVNWSB/GoK/EMC/03/2017-18.

The tenders were opened and evaluated but were later cancelled on grounds of pending cases in court from former contractors. It was particularly noted that the status of these institutions projects were known and details were with the Board from whose records the bids were generated. It was not therefore clear why the Board advertised and later terminated the process. Information available indicates that the Board received funding of Kshs.77,500,000 from the Ministry of Water and Irrigation to complete the stalled Chebara Institutions projects during the 2015/2016 financial year. According to the correspondence between the Ministry and the Board Ref No.WD/3/3/1294/VOL.IV (18) dated 25 January 2017, the funds were to be retained in the bank account until some pending issues involving beneficiaries/stakeholders be resolved before implementation can continue.

However, the management went ahead with the procurement process to complete the projects without taking into consideration of the findings and recommendations of the Auditor-General on the status of the projects which was communicated vide letter reference No. LVNWSB/CORPS/INSP/1/ (53) dated 26 August 2016.

The expenditure of Kshs.330,800 incurred on advertising therefore was avoidable and amounts a nugatory payment. In addition, the cancellation of the procurement process, will result to delayed implementation of the projects thus denying the citizens of Elgeyo Marakwet County benefits that would have accrued from the projects if completed and may also lead to projects' cost escalation.

## **5.3 WASSIP Projects Report**

### **5.3.1 Kishermuruak Water Project**

Contrary to provisions of Section 5 of the Water Act, 2016, which requires that every resource be vested in and held by the National Government in trust for the people of Kenya, the Rift Valley Water Services Board and the project accounting officer are yet to secure the site of Kishermuruak water resource. Even though a consent (Deed of Gift) was signed between the land owner and the Kishermuruak Community, the Project Manager has not followed up and acquired ownership of the site on which the project is located. Further, It was also noted that item No.3.5.4 in the bills of quantities (supply and installation of reverse osmosis treatment plant) costing Kshs.4,000,000 has not been implemented to date, more than one and half years after the end of the expected completion date which is indicated in the project contract document as 24 March 2017 .

### **5.3.2 Kongelai and Kasepa Boreholes**

Kongelai borehole was sunk to a depth of 140 meters deep and capped on 27 November 2014 with a tested yield of one (1) cubic meter per hour as indicated in the test pumping report. The borehole works were completed and handed over on 18 September 2017 or about 3 years after sinking. However, the borehole completion report indicated that the yield rate of 1 cubic meters per hour was not achieved and instead the borehole returned a lower rate of 0.4 cubic meters per hour. The Project Management have attributed the reduction in the rate to the long period taken before equipping the borehole thus casting doubt on the long-term viability of the borehole. In addition, Kasepa borehole that was sunk to a depth of 120 meters and capped on 12 December 2014 with a tested yield of 3 cubic meters per hour as indicated in the test pumping report was noted to be 98m instead of 120m as indicated in the borehole completion report resulting to a shortfall of 22 metres. Further the yield rate was found to be 0.29 cubic meters per hour which is too low to allow any motorized pumping. The variation between the test pumping reports and the boreholes completion reports means the projects did not achieve the intended objectives leading to loss of public funds.

### **5.3.3 Liter Water Project**

Liter Water Supply Project was undertaken within the compound of Liter Girls High School in Elgeyo Marakwet County. The drilling of the borehole, equipping and civil works were done during the year under review and previous financial years. As at time of audit, all the structures as per the bills of quantities were complete. However, the water supply was not in use since the water was said to be too saline and unfit for human consumption as per the testimonies of the school administration who were the intended beneficiaries of the project. The school principal indicated that they would have preferred the development at another source of water preferably a spring where they get their current supply of water, had their views been sought. The supervision and implementation of the project may have been poor as the salinity of the water should have been detected at the time of test pumping before the equipping of the

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borehole begun which could have seen the project save Kshs.7,961,200 which was applied towards equipping of the borehole whose water cannot be used.

#### **5.3.4 Kapcherop Water Supply**

Kapcherop Water Supply was undertaken at a contract price of Kshs.114,586,833 with Kshs.14,254,490 having been paid during the year under review and a final completion certificate issued on 6 June 2018. During an audit visit to the project site in October 2018, it was observed that the project was not operational for more than three months as a result of clogging of the intake caused by siltation. The siltation has been occasioned by soil erosion around the intake area, which would have been avoided had a proper feasibility study of the location of the intake been done and the project designs considered the risks of the topography of the site. This view is corroborated by a report of the project technical team which reviewed the status of substantial completion on 19 October 2017. The audit report noted that environmental and water quality issues were not taken into account during feasibility study, preliminary and detailed design and implementation process to ensure issues pertaining to water quality, health and safety are well captured and implemented. The report concluded that in its current state the water project cannot meet the intended purpose of provision of adequate, quality and affordable water as per the Board's mandate and community expectation.

The contractor was subsequently discharged from site by issue of a final completion certificate on 6 June 2018 without having further evaluation of the project to ensure that the issues raised in the report had been attended to.

In view of the unsatisfactory matters noted above, it has not been possible to confirm that the projects achieved the intended objectives of providing clean and affordable drinking water.

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

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

As required by Section 7 (1) (a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Report on Effectiveness of Internal Controls, Risk Management and Governance and Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

## **Basis for Conclusion**

### **Irregular Deployment on Acting Capacity**

Audit review of the human resource records and Board minutes revealed that since 12 January 2017 when the Board of Directors suspended the then Chief Executive Officer, the Board has not filled the position but has successively appointed two serving officers in acting capacity to date. One officer served from the time of suspension of the CEO in January 2017 to April 2018 (approximately 14 months) while the second has served from April 2018 to the time of audit (May 2019) (approximately 13 months). This is contrary to Section 34 (3) of the Public Service Commission Act, 2017 which stipulates that an officer may be appointed in an acting capacity for a period of at least thirty days but not exceeding a period of six months. The appointment of the officers to such key position of the Board on acting terms for long periods of time has an effect of compromising the decision-making capacity of the officers and consequently the internal control environment in the Board.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and Those Charged with Governance**

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

In preparing the financial statements, management is responsible for assessing the Board'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 the management either intends to liquidate the Board or to cease operations, or have no realistic alternative but to do so.

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

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

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

### **Auditor-General's Responsibilities for the Audit**

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

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

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

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

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

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

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

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



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

**Nairobi**

**26 August 2019**

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*Report of the Auditor-General on the Financial Statements of Lake Victoria North Water Services Board for the Year Ended 30 June 2018*

**STATEMENT OF FINANCIAL PERFORMANCE**

**For the year ended 30 June 2018**

	Note	2017-2018 Kshs	2016-2017 Kshs
<b>Revenue from non-exchange transactions</b>			
Transfers from other Governments-gifts and services-in-kind	5	572,132,005	322,039,288
Levy Income from WSPs	6	86,244,081	81,776,759
		658,376,086	403,816,047
<b>Revenue from exchange transactions</b>			
Other Income	7	5,005,993	9,708,455
Finance Income	8	9,632,461	17,673,483
		14,638,454	27,381,937
<b>Total revenue</b>		<b>673,014,540</b>	<b>431,197,984</b>
<b>Expenses</b>			
Employee costs	9	105,741,412	101,417,295
Remuneration of Directors	10	25,603,958	17,400,784
Depreciation and amortization expense	11	220,444,076	188,841,647
Repairs and maintenance	12	18,551,809	14,171,095
Supply and services	13	20,403,213	17,081,363
Transport Costs	14	9,606,105	10,009,444
General expenses	15	51,283,787	59,684,835
Rural water supply Development	16	480,015,632	204,461,803
<b>Total expenses</b>		<b>931,649,991</b>	<b>613,068,264</b>
<b>Other gains/(losses)</b>			
<b>Surplus/(deficit) before tax</b>		<b>(258,635,450)</b>	<b>(181,870,280)</b>
Taxation		-	-
<b>Surplus /(deficit) for the period</b>		<b>(258,635,450)</b>	<b>(181,870,280)</b>

The notes set out on pages 6 to 32 form an integral part of the Financial Statements

**STATEMENT OF FINANCIAL POSITION**

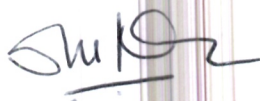
As at 30 June 2018

	Note	2017-2018 Kshs	2016-2017 Kshs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	17	629,937,615	1,047,049,584
Receivables from exchange transactions	18	469,630,121	424,176,317
Receivables from non-exchange transactions	19	397,317,555	179,772,587
Inventories	20	<u>1,633,664</u>	<u>411,091</u>
		<b>1,498,518,955</b>	<b>1,651,409,579</b>
<b>Non-current assets</b>			
Property, plant and equipment	21	6,009,935,929	5,770,744,424
Capital Works In Progress	22	7,160,640,226	6,184,148,280
		<b>13,170,576,155</b>	<b>11,954,892,704</b>
<b>Total assets</b>		<b>14,669,095,110</b>	<b>13,606,302,283</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	23	222,231,963	130,576,673
Provisions	24	5,112,802	15,446,006
Deferred income	25	79,980,661	340,211,423
Employee benefit obligation	26	5,981,772	3,809,948
Taxation	27	<u>18,844,884</u>	<u>8,015,043</u>
		<b>332,152,083</b>	<b>498,059,093</b>
<b>Non-current liabilities</b>			
Borrowings	28	11,415,311,249	11,290,920,692
		<b>11,415,311,249</b>	<b>11,290,920,692</b>
<b>Total liabilities</b>		<b>11,747,463,333</b>	<b>11,788,979,785</b>
<b>Net assets</b>		<b>2,921,631,778</b>	<b>1,817,322,498</b>
Reserves		4,256,127,537	2,894,982,137
Accumulated surplus/ deficit		<u>(1,334,495,760)</u>	<u>(1,077,659,639)</u>
<b>Total net assets and liabilities</b>		<b>2,921,631,777</b>	<b>1,817,322,498</b>

The Financial Statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:

Ag. Chief Executive Officer

Eng. Boniface L. Muluma



Head of Finance & Strategy

CPA Anthony Kisaka

ICPAK No. 7014



For Chairman of the Board

Robert Namunyu Wawire

Date.....

Date.....

Date.....

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**STATEMENT OF CHANGES IN NET ASSETS**  
**For the year ended 30 June 2018**

	Note	Total Kshs
<b>Balance as at 30 JUNE 2016</b>	<b>29</b>	<b>1,361,071,252</b>
Transfers to/from during the period		638,121,524
Surplus for the period		(181,870,280)
<b>Balance as at 30 JUNE 2017</b>	<b>29</b>	<b>1,817,322,496</b>
Transfers to/from during the period		1,361,145,402
Surplus for the period		(258,635,450)
Transfers to/from accumulated surplus		1,799,330
<b>Balance as at 30 JUNE 2018</b>	<b>29</b>	<b>2,921,631,777</b>

**STATEMENT OF CASH FLOWS**

As at 30 June 2018

	Note	2017-2018 Kshs	2016-2017 Kshs
Cash flows from operating activities			
Excess of income over Expenditure		(258,635,450)	(181,870,280)
Adjustment Provision/Depreciation		220,444,076	188,841,646
Other non –cash adjustments		1,799,330	0
<b>Operating Surplus</b>		<b>(36,392,045)</b>	<b>6,971,366</b>
Increase in debtors		(262,998,773)	(192,515,445)
Increase in stores		(1,222,573)	308,722
Decrease in Creditors		(165,907,011)	102,129,686
<b>Net working capital</b>		<b>(430,275,757)</b>	<b>(90,077,037)</b>
<b>Net Cash flows from operating activities</b>		<b>(466,520,402)</b>	<b>(83,105,671)</b>
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		(1,436,127,528)	(723,588,979)
Proceeds from sale of property, plant and equipment		0	0
Decrease in non-current receivables		0	0
Increase in investments		0	0
<b>Net cash flows used in investing activities</b>		<b>(1,436,127,528)</b>	<b>(723,588,979)</b>
Cash flows from financing activities			
Proceeds from borrowings	28	124,390,557	741,499,000
Repayment of borrowings		-	-
Increase in deposits	29	1,361,145,402	638,121,524
Net cash flows used in financing activities		1,485,535,959	1,379,620,524
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(417,111,970)</b>	<b>572,925,874</b>
Cash and cash equivalents at 1 July	17	1,047,049,585	474,123,712
<b>Cash and cash equivalents at 30 June</b>	<b>17</b>	<b><u>629,937,615</u></b>	<b><u>1,047,049,585</u></b>

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	Jun-18 Kshs	2017-2018 Kshs	Jun-18 Kshs	Jun-18 Kshs	Jun-18 Kshs
<b>Revenue</b>					
Government Grants	90,000,000	482,132,005	572,132,005	572,132,005	-
WSTF Grants	-	-	-	-	-
UNICEF Grants	-	-	-	-	-
Other Revenues	100,000,000	-	100,000,000	5,005,993	(94,994,007)
Levy Income from WSPs	142,609,000	-	142,609,000	86,244,081	(56,364,919)
Interest Income	-	-	-	9,632,461	9,632,461
<b>Total income</b>	<b>332,609,000</b>	<b>482,132,005</b>	<b>814,741,005</b>	<b>673,014,540</b>	<b>(141,726,465)</b>
<b>Expenses</b>					
Employee costs	124,953,183	-	124,953,183	105,741,412	19,211,771
Remuneration of Directors	20,287,600	6,000,000	26,287,600	25,603,958	683,642
Depreciation and amortization expense	315,213,622	-	315,213,622	220,444,076	94,769,546
Repairs and maintenance	13,607,273	5,000,000	18,607,273	148,551,809	55,464
Supply and services	10,925,461	9,500,000	20,425,461	20,403,213	22,248
Transport Costs	11,098,135	-	11,098,135	9,606,105	1,492,030
General expenses	47,726,295	4,000,000	51,726,295	51,283,787	442,508
Rural water supply Development	79,200,000	400,815,632	480,015,632	480,015,632	0
<b>Total expenditure</b>	<b>623,011,569</b>	<b>425,315,632</b>	<b>1,048,327,201</b>	<b>931,649,991</b>	<b>116,677,210</b>
<b>Surplus for the period</b>	<b>(290,402,569)</b>		<b>(233,586,196)</b>	<b>(258,635,450)</b>	<b>(258,403,675)</b>

### **1. General information**

The Board is established by and derives its authority and accountability from Water Act 2002. The Board is wholly owned by the Government of Kenya and is domiciled in Kenya. The Board's principal activity is to develop, manage and maintain water and sewerage infrastructure.

### **2. Statement of compliance and basis of preparation**

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the *Board's* accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Notes

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *Board*.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, Water Act 2002, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

### **3. Adoption of new and revised standards**

The board did not adopt any new or revised standards in year ending 30<sup>th</sup> June 2018.

### **4. Summary of significant accounting policies**

#### **a) Revenue recognition**

##### **i) Revenue from non-exchange transactions - IPSAS 23**

##### **Fees, taxes and fines**

The Board recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Board and the fair value of the asset can be measured reliably.

##### **Transfers from other government entities**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Board and can be measured reliably.

Recurrent grants are recognized in the statement of comprehensive income.

Development/capital grants are recognized in the statement of financial position and realized in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds

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ii) **Revenue from exchange transactions**

*Rendering of services*

The Board recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

*Sale of goods*

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Board.

*Interest income*

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

*Rental income*

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

**b) Budget information**

The original budget for FY 2017-2018 was approved by the Board on 7<sup>th</sup> October 2016. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded additional appropriations of 5<sup>th</sup> October 2017 on the 2017-2018 budgets following the governing body's approval.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented in these financial statements.

**d) Property, plant and equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Board recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Furniture, office equipment & fittings	12.5%
Computers & Accessories	33.3%
Motor vehicle	25 %
Plant, machinery & equipment	20%
Water Supply infrastructure	2.5%
Buildings	10%

**e) Leases - IPSAS 13**

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Board. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Board also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Board will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Board. Operating lease payments are

recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

**f) Intangible assets – IPSAS 31**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

**g) Research and development costs**

The Board expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Board can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

**h) Financial instruments**

*Financial assets*

*Initial recognition and measurement*

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Board determines the classification of its financial assets at initial recognition.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less

impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Financial assets are valued at the lower of cost or net realizable value. Management estimates the amount of accounts receivable that will not be collectible and provides an allowance for doubtful accounts. Estimates are based upon such factors as an aging of outstanding balances, collection experience, legal advice and known factors such as customers in bankruptcy.

#### *Held-to-maturity*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Board has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

#### *Impairment of financial assets*

The Board assesses at each reporting date whether there is objective evidence that a financial asset or a Board of financial assets is impaired. A financial asset or a Board of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Board of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a Board of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

#### *i) Financial liabilities*

##### *Initial recognition and measurement*

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Board determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

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**Loans and borrowing**

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

**i) Inventories**

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Board.

**j) Provisions**

Provisions are recognized when the Board has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Board expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

***Contingent liabilities***

The Board 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.

***Contingent assets***

The Board does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Board in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**k) Nature and purpose of reserves**

The Board creates and maintains reserves in terms of specific requirements. Board to state the reserves maintained and appropriate policies adopted.

**l) Changes in accounting policies and estimates - IPSAS 3**

The Board recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

**m) Employee benefits**

**Retirement benefit plans**

The Board provides retirement benefits for its employees. Defined contribution plans are post employment benefit plans under which an Board pays fixed contributions into a separate Board (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

**n) Foreign currency transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

**o) Borrowing costs**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

**p) Related parties – IPSAS 20**

The Board regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Board, or vice versa. Members of key management are regarded as related parties and comprise the Board of Directors, CEO, Chief Managers.

**q) Service concession arrangements – IPSAS 32**

The Board analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Board recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Board also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

**r) 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.

**s) Comparative figures**

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

**t) Significant judgments and sources of estimation uncertainty**

The preparation of the Board's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

State all judgements, estimates and assumptions made: e.g

*Estimates and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Board based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Board. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

***Useful lives and residual values***

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Board
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

***Provisions***

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

**u) Grants and deferred income**

Grants are recognized when:

- i) The board will comply with the conditions attaching to them
- ii) The grants has been received

Grants are recognized in the statement of financial performance in the same periods that the related expenses are recognized.

Grants exclude assistance that cannot reasonably be valued, and transactions between the government and the board that are in the normal course of business.

**5. Transfers from other Governments-gifts and services-in-kind  
Unconditional Grants  
Government Grants**

	<b>Jun-18</b>	<b>Jun-17</b>
<b>Actual</b>	<b>Shs</b>	<b>Shs</b>
Recurrent	61,900,000	42,000,000
Development	510,232,005	280,039,288
<b>Total Government Grants</b>	<b><u>572,132,005</u></b>	<b><u>322,039,288</u></b>

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**6. Levy Income from WSPs**

	<b>Jun-18</b>	<b>Jun-17</b>
	<b>Shs</b>	<b>Shs</b>
Billed revenue from WSPs	86,244,081	81,776,759
<b>Total Levy Income from WSPs</b>	<b><u>86,244,081</u></b>	<b><u>81,776,759</u></b>

**7. Other Income**

	<b>Jun-18</b>	<b>Jun-17</b>
	<b>Shs</b>	<b>Shs</b>
Sale of tenders, Water bowsers services & Other income	5,005,993	9,708,455
<b>Total</b>	<b><u>5,005,993</u></b>	<b><u>9,708,455</u></b>

**8. Finance Income**

	<b>Jun-18</b>	<b>Jun-17</b>
	<b>Shs</b>	<b>Shs</b>
Interest from WaSSIP funds	9,632,461	17,673,483
<b>Total revenue from the sale of goods</b>	<b><u>9,632,461</u></b>	<b><u>17,673,483</u></b>

**9. Employee costs**

	<b>Jun-18</b>	<b>Jun-17</b>
	<b>Shs</b>	<b>Shs</b>
Basic salary and house allowance	70,845,669	70,872,864
Other allowances	3,437,500	3,923,705
Staff recruitment expenses	1,038,819	316,449
Staff welfare expenses	1,128,880	1,070,078
Commuter allowance	6,490,824	5,985,176
Medical allowance/expenses	10,609,281	6,793,234
Contributions to pensions/NSSF	10,852,338	10,696,348
Leave allowance & Accrued leave expense	1,338,101	1,759,441
<b>Total employee costs</b>	<b><u>105,741,412</u></b>	<b><u>101,417,295</u></b>

**10. Remuneration of directors**

	<b>Jun-18</b>	<b>Jun-17</b>
	<b>Shs</b>	<b>Shs</b>
Board committee & conference	24,842,053	16,440,784
Honoraria for chairman	761,905	960,000
<b>Total Board remuneration</b>	<b><u>25,603,958</u></b>	<b><u>17,400,784</u></b>

**11. Depreciation and amortization expense**

	<b>Jun-18</b>	<b>Jun-17</b>
	<b>Shs</b>	<b>Shs</b>
Furniture, Office equipment and fittings	87,039	80,070
Computers and related equipments	2,282,836	1,177,508
Motor Vehicles	-	120,000
Plant, Machinery and equipments	-	-
Water supply infrastructure	218,074,201	187,464,067
<b>Total depreciation and amortization</b>	<b><u>220,444,076</u></b>	<b><u>188,841,645</u></b>

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**12. Repairs and maintenance**

	<b>Jun-18</b>	<b>Jun-17</b>
	<b>Shs</b>	<b>Shs</b>
Laboratory/quality control expenses	1,080,343	400,250
Maintenance of equipments	847,658	392,047
Minor alteration to building	5,775,844	2,215,150
Maintenance of computers	364,654	-
Electricity expenses-Interim WSPs	-	-
Monitoring and evaluation	6,477,610	9,247,088
Support to water service providers	<u>4,005,700</u>	<u>1,916,560</u>
<b>Total repairs and maintenance</b>	<b><u>18,551,809</u></b>	<b><u>14,171,095</u></b>

**13. Supplies and Services**

	<b>Jun-18</b>	<b>Jun-17</b>
	<b>Shs</b>	<b>Shs</b>
Advertisement and publicity	823,608	1,739,888
Computers stationery and accessories	857,557	622,593
Courier and postal services	576,702	607,792
General office supplies	1,511,542	2,672,356
Internet connections/ICT Expenses	1,842,153	1,544,070
Legal and professional services	8,903,170	4,424,650
Publishing & printing services	97,099	354,660
Professional subscriptions	366,366	289,820
Purchase of uniforms	225,000	8,500
Sanitary and cleaning materials	197,305	29,916
Subscription to newspapers	614,235	566,319
Telephone, Fax and mobile phones	167,902	241,985
Tender/Seek quotations	<u>3,013,514</u>	<u>3,883,204</u>
Hospitality supplies and services and national celeb	<u>1,207,060</u>	<u>95,610</u>
<b>Total contracted services</b>	<b><u>20,403,213</u></b>	<b><u>17,081,363</u></b>

**14. Transport Costs**

	<b>Jun-18</b>	<b>Jun-17</b>
	<b>Shs</b>	<b>Shs</b>
Transport operating costs-MV Maintenance	1,855,470	866,659
Motor vehicle insurance	3,594,027	1,563,966
Fuels and oils for motor vehicle	<u>4,156,609</u>	<u>4,932,829</u>
<b>Total grants and subsidies</b>	<b><u>9,606,105</u></b>	<b><u>4,322,633</u></b>

**15. General Expenses**

	<b>Jun-18</b>	<b>Jun-17</b>
	<b>Shs</b>	<b>Shs</b>
Electricity Water	2,402,291	852,179
Trade shows & exhibitions	1,528,230	946,520
National Celebrations	-	1,764,555
Training expenses	11,329,781	11,180,544
Workshops and meeting expenses	6,439,041	6,309,929
Contracted guards & cleaning services	3,577,211	2,996,988

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Corporate social responsibility, publicity	1,531,000	-
Staff travel and accommodations	11,245,080	8,286,753
Audit & accountancy	-	2,320,000
Board establishment costs	-	5,915,760
Board Capacity Development	4,737,676	5,874,259
Research and development	1,272,165	762,300
ISO Preparation and acquisition expenses	764,644	4,591,736
Work environment survey/safety	781,008	675,936
Adjustment on provisions of debtors	5,050,423	6,662,676
Bank Charges	<u>625,237</u>	<u>544,690</u>
<b>Total general expenses</b>	<b><u>51,283,787</u></b>	<b><u>59,684,825</u></b>

**16. Rural water supply Development**

	<b>Jun-18</b>	<b>Jun-17</b>
	<b>Shs</b>	<b>Shs</b>
Rehabilitation of water supplies-UNICEF Funded	194,690	325,695
Rural water supply development -Design & Construction	<u>479,820,942</u>	<u>204,136,108</u>
<b>Total</b>	<b><u>480,015,632</u></b>	<b><u>204,461,803</u></b>

**17. Cash and cash equivalents**

	<b>Jun-18</b>	<b>Jun-17</b>
	<b>Shs</b>	<b>Shs</b>
KCB Revenue account 1103686909	144,664,745	369,305,449
KCB Recurrent account 1103686550	40,099,152	3,616,304
KCB Development account 1103686313	10,022,002	16,815,835
KCB KISIP Account 1130930009	9,668,860	13,555,023
Cooperative bank Development 0113609835501	134,025,333	373,455,740
Cooperative bank gratuity 01100098355500	7,328,247	4,532,169
Standard Chartered- KIDDP 0102002530000	4,678,652	10,182,500
Standard Chartered- WaSSIP 0102002530002	277,048,217	251,395,196
Standard Chartered- UNICEF 0102002530001	2,218,807	3,764,618
MPESA 909318	183,600	<u>426,750</u>
<b>Total cash and cash equivalents</b>	<b><u>629,937,615</u></b>	<b><u>1,047,049,584</u></b>

**18. Receivables from exchange transactions**

	<b>Jun-18</b>	<b>Jun-17</b>
	<b>Shs</b>	<b>Shs</b>
<b>Current receivables</b>		
WSP Debtors	<u>469,630,121</u>	<u>424,176,317</u>
<b>Total current receivables</b>	<b><u>469,630,121</u></b>	<b><u>424,176,317</u></b>
<b>Non-current receivables</b>	-	-
<b>Total non-current receivables</b>	-	-
<b>Total receivables</b>	<b><u>469,630,121</u></b>	<b><u>424,176,317</u></b>

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**19. Receivables from non-exchange contracts**

<b>Current receivables</b>	<b>Jun-18</b>	<b>Jun-17</b>
	<b>Shs</b>	<b>Shs</b>
Imprest due from staff	4,744,276	1,052,261
Salary Advances	460,498	113,511
Contractor Debtors -WaSSIP-Account	63,189,542	171,378,083
Contractor Debtors - KIDDP and Unicef	20,064,490	7,228,731
Grants from Government	<u>308,858,750</u>	0
<b>Total current receivables</b>	<b><u>397,317,555</u></b>	<b><u>179,772,586</u></b>

**20. Inventories**

	<b>Jun-18</b>	<b>Jun-17</b>
	<b>Shs</b>	<b>Shs</b>
Consumable stores	<u>1,633,664</u>	<u>411,091</u>
<b>Total inventories at the lower of cost and net realizable value</b>	<b><u>1,633,664</u></b>	<b><u>411,091</u></b>

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**21 Property, Plant and Equipment's**

<b>Cost or Valuation</b>	<b>Furniture office equipment fittings 12.5%</b>	<b>Computer &amp; Accessories 33.3%</b>	<b>Motor Vehicle 25%</b>	<b>Plant, Machinery &amp; Equipment 20%</b>	<b>Water Supply Infrastructure 2.5%</b>	<b>Land and Buildings</b>	<b>Total</b>
As at July 1,2016	4,563,151	10,178,470	67,752,821	161,135,116	6,668,548,067	225,695,323	7,137,872,948
Additions at cost	357,320	2,726,960	0		715,000	-	3,799,280
Revaluations							0
Disposals		0	0				0
<b>As at June 30, 2017</b>	<b>4,920,471</b>	<b>12,905,430</b>	<b>67,752,821</b>	<b>161,135,116</b>	<b>6,669,263,067</b>	<b>225,695,323</b>	<b>7,141,672,228</b>
<b>Depreciation</b>							
Balance as at July 1,2016	4,398,213	9,753,109	67,632,822	161,135,116	835,504,445	103,662,455	1,182,086,159
Charge for the period	80,070	1,177,508	120,000	0	166,731,577	20,732,491	188,841,645
Disposals	0	0	0				0
Balance as at June 30, 2017	<b>4,478,283</b>	<b>10,930,617</b>	<b>67,752,822</b>	<b>161,135,116</b>	<b>1,002,236,022</b>	<b>124,394,946</b>	<b>1,370,927,805</b>
<b>Net book Values</b>							
As at June 30,2016	164,938	425,361	120,000	-	5,833,043,622	122,032,868	5,955,786,789
<b>As at June 30, 2017</b>	<b>442,188</b>	<b>1,974,813</b>	<b>(1)</b>	<b>-</b>	<b>5,667,027,045</b>	<b>101,300,377</b>	<b>5,770,744,424</b>
<b>Cost or Valuation</b>							
As at July 1,2017	4,920,471	12,905,430	67,752,821	161,135,116	6,669,263,067	225,695,323	7,141,672,228
Additions at cost	55,755	3,666,804	0		427,191,419	28,721,604	254,416,927
Revaluations							0
Disposals		0	(1,097,198)				(1,097,198)
<b>As at June 30, 2018</b>	<b>4,976,226</b>	<b>16,572,234</b>	<b>66,655,623</b>	<b>161,135,116</b>	<b>7,096,454,486</b>	<b>258,816,927</b>	<b>7,600,210,612</b>
<b>Depreciation</b>							
Balance as at July 1,2017	4,478,283	10,930,617	67,752,822	161,135,116	1,002,236,021	124,394,946	1,370,927,805
Charge for the period	87,039	2,282,836	0	0	197,341,710	20,732,491	190,273,943
Disposals	0	0	(1,097,198)				(1,097,198)
Balance as at June 30, 2018	<b>4,565,322</b>	<b>13,213,453</b>	<b>66,655,624</b>	<b>161,135,116</b>	<b>1,199,577,731</b>	<b>145,127,437</b>	<b>1,560,104,551</b>
<b>Net book Values</b>							
As at June 30,2017	442,188	1,974,812	(1)	-	5,667,027,046	101,300,377	5,770,744,422
<b>As at June 30, 2018</b>	<b>410,904</b>	<b>3,358,780</b>	<b>(1)</b>	<b>-</b>	<b>5,896,876,755</b>	<b>109,289,490</b>	<b>6,009,935,929</b>

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During the year motor vehicle KAT 618X which was acquired in 2005 at a cost of Kshs 1,097,198 was disposed at a cost of Kshs 431,000. The motor vehicle was fully depreciated at the time of sale.

<b>22. Capital Works in Progress</b>	<b>June 18</b>	<b>June 17</b>
<b>WaSSIP</b>	<b>Shs</b>	<b>Shs</b>
Balance at the beginning of the year	5,515,799,571	4,877,148,875
Additional during the year	<u>729,128,503</u>	<u>638,650,694</u>
<b>Balance as at 30 Jun 2018</b>	<b><u>6,244,928,075</u></b>	<b><u>5,515,799,569</u></b>
<b>KIDDP</b>		
Balance at the beginning of the year	223,398,762	218,362,142
Additional during the year	0	5,036,622
Transfers to property plant & equipment	(223,398,762)	0
<b>Balance as at 30 Jun 2018</b>	<b><u>0</u></b>	<b><u>223,398,764</u></b>
<b>Pans , Dams &amp; other rehabilitation works</b>		
Balance at the beginning of the year	444,949,947	368,847,563
Additional during the year	70,680,114	76,102,384
Transfers to property plant & equipment	<u>(203,792,657)</u>	0
<b>Balance as at 30 Jun 2018</b>	<b><u>311,837,404</u></b>	<b><u>444,949,947</u></b>
<b>Chebara Institutions</b>		
Balance at the beginning of the year	0	0
Additional during the year	330,800	0
<b>Balance as at 30 Jun 2018</b>	<b><u>330,800</u></b>	<b><u>0</u></b>
<b>Vihiga Cluster</b>		
Balance at the beginning of the year	0	0
Additional during the year	<u>603,543,947</u>	<u>0</u>
<b>Balance as at 30 Jun 2018</b>	<b><u>603,543,947</u></b>	
<b>Total Capital Works In Progress</b>	<b><u>7,160,640,226</u></b>	<b><u>6,184,148,280</u></b>
	<b>Jun-18</b>	<b>Jun-17</b>
<b>23.Trade and Other payables</b>	<b>Shs</b>	<b>Shs</b>
WaSSIP payables	111,279,570	69,866,122
General Suppliers	104,825,378	56,662,448
Other payables	<u>6,127,014</u>	<u>4,048,102</u>
<b>Total trade and other payables</b>	<b><u>222,231,963</u></b>	<b><u>130,576,673</u></b>

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	<b>Jun-18</b>	<b>Jun-17</b>
<b>24. Current provisions</b>		
	<b>Shs</b>	<b>Shs</b>
Balance at the beginning of the year	15,446,006	13,612,802
Additional provisions raised		1,833,204
Provision utilized	(10,333,204)	-
Change in provision due to change in discount factor and time value of money	-	-
Transferred from non-current provisions	-	-
<b>Balance as at 31 December 2017</b>	<b><u>5,112,802</u></b>	<b><u>15,446,006</u></b>

**25. Deferred income**

	<b>Jun-18</b>	<b>Jun-17</b>
		<b>Shs</b>
Balance at the beginning of the year (National government)	340,211,423	170,496,710
Addition during the year	330,701,250	449,754,000
Deferred Income utilized	<u>(590,932,012)</u>	<u>(280,039,288)</u>
<b>Total deferred income</b>	<b><u>79,980,661</u></b>	<b><u>340,211,423</u></b>

**26. Pensions and other post-employment benefit plans**

	<b>Jun-18</b>	<b>Jun-17</b>
	<b>Shs</b>	<b>Shs</b>
Balance at the beginning of the year	3,809,947	3,428,763
Current benefit obligation	3,411,853	3,548,723
Gratuity released in the year	<u>(1,240,029)</u>	<u>(3,167,539)</u>
<b>Total employee benefit liability</b>	<b><u>5,981,772</u></b>	<b><u>3,809,947</u></b>

**27. Taxation**

	<b>Jun-18</b>	<b>Jun-17</b>
	<b>Shs</b>	<b>Shs</b>
VAT	12,439,579	4,848,482
WHT	<u>6,405,305</u>	<u>3,166,561</u>
<b>Total</b>	<b><u>18,844,884</u></b>	<b><u>8,015,043</u></b>

The board is an appointed agent of Kenya Revenue Authority with mandate of recovering withholding tax and withholding VAT from suppliers of goods and services as per the prescribed rates. The withheld taxes are submitted to Kenya Revenue Authority by 20<sup>th</sup> of every month.

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**28. Borrowings**

	<b>Jun-18</b>	<b>Jun-17</b>
<b>KFW LOAN</b>	Shs	Shs
Balance at the beginning of the year	5,957,479,502	5,957,479,502
During the year	-	-
Less: total current portion of bank loans	-	-
	<b>5,957,479,502</b>	<b>5,957,479,502</b>
<b>IDA LOAN</b>		
Balance at the beginning of the year	5,333,441,190	4,591,942,190
During the year	577,421,000	741,499,000
Less: total current portion of bank loans	0	0
Transfers to grant - Adjustment	(1,056,135,490)	
	<b>4,854,726,700</b>	<b>5,333,441,190</b>
<b>BELGIUM LOAN</b>		
Balance at the beginning of the year	-	
During the year	603,105,047	
Less: total current portion of bank loans	0	0
	<b>603,105,047</b>	<b>0</b>
<b>Total non-current borrowings</b>	<b>11,415,311,249</b>	<b>11,290,920,692</b>

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**29 Detailed statement of changes in net assets**

	Grants Kshs	Grants KIDDP Kshs	Grants KFW Kshs	Grants - Worldbank Kshs	Accumulated surplus Kshs	Grants GOK Kshs	Total Kshs
<b>Balance as at 30 JUNE 2016</b>	<b>25,924,938</b>	<b>237,048,424</b>	<b>221,783,948</b>		<b>(895,789,359)</b>	<b>1,772,103,302</b>	<b>1,361,071,252</b>
Transfers to/from during the period		<b>57,850,524</b>		0		580,271,000	638,121,524
Surplus for the period	-		-		(181,870,280)		(181,870,280)
<b>Balance as at 30 JUNE 2017</b>	<b>25,924,938</b>	<b>294,898,947</b>	<b>221,783,948</b>	0	<b>(1,077,659,639)</b>	<b>2,352,374,302</b>	<b>1,817,322,496</b>
Transfers to/from during the period		57,602,412		1,056,135,490		247,407,500	1,361,145,402
Surplus for the period	-		-		(258,635,450)		(258,635,450)
Transfers to/from accumulated surplus					1,799,330		1,799,330
<b>Balance as at 31 June 2018</b>	<b>25,924,938</b>	<b>352,501,359</b>	<b>221,783,948</b>	<b>1,056,135,490</b>	<b>(1,334,495,760)</b>	<b>2,599,781,802</b>	<b>2,921,631,177</b>

Grants from KIDDP (Kenya Italy Debt Development Project) relates to projects funded by the Italy Government for water projects within the Board area.

Grants from KFW (German Development Bank) relates to development of water projects in Trans Nzoia, Bungoma, Kakamega & Busia counties.

**30. RELATED PARTY DISCLOSURE**

Companies and other parties related to the LVNWSB include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

The following have significant influence over the boards operating and financial decisions

- i) County Governments within the boards area of Jurisdiction
- ii) Water Sector Trust Fund
- iii) WASREB
- iv) WARMA
- v) Water Service Providers
- vi) Development partners
- vii) Key management
- viii) Board of directors
- ix) PIC
- x) SCAC
- xi) Ministry of Water & Sanitation
- xii) Inspectorate of State Corporations

	<b>Cumulative to date Jun 18</b>	<b>Jun-17</b>
	<b>KES</b>	<b>KES</b>
<b>a) Related party transactions</b>		
Grants received from related parties' GOK	640,008,750	1,072,025,000
Grants received from related parties' Others	57,602,412	57,850,524
Loans received from related parties' IDA	500,000,000	741,499,000
	<u><b>1,197,611,162</b></u>	<u><b>1,871,374,524</b></u>
<b>b) Key management remuneration</b>		
Directors	25,603,958	17,400,784
Key management compensation	15,437,910	13,817,159
	<u><b>41,041,868</b></u>	<u><b>31,217,943</b></u>
<b>c) Due from related parties</b>		
Due from Water Services Companies	469,630,120.88	424,176,317
	<u><b>469,630,120.88</b></u>	<u><b>424,176,317</b></u>
<b>d) Due to related parties</b>		
Due to GOK	-	10,333,204
Due to county Busia	1,552,801.80	1,552,802
	<u><b>1,552,801.80</b></u>	<u><b>11,886,006</b></u>

### **31. Financial Risk Management**

The Board's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Board'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. The Board does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

#### **(j) Credit risk**

The company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Board's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Board's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	<b>Fully performing</b>	<b>Past due</b>	<b>Impaired</b>
	<b>Ksh</b>	<b>Ksh</b>	<b>Ksh</b>
<b>At 30 June 2018</b>			
Trade receivables	397,317,555	469,630,121	-
Bank balances	629,937,615	-	-
<b>At 30 June 2017</b>			
Trade receivables	179,772,586	424,176,317	-
Bank balances	1,047,049,584	-	-

The customers under the fully performing category are paying their debts as they continue operating. The credit risk associated with past due receivables is minimal and the allowance for uncollectible amounts that the Board has recognized in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The bank balance consists of funds held in savings and current accounts.

The Board has significant concentration of credit risk on amounts due from Water Service providers. The board of directors sets the Board's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

**(ii) Liquidity risk management**

Responsibility for liquidity risk management rests with the Board directors, who have built an appropriate liquidity risk management framework for the management of the Board's short, medium and long-term funding and liquidity management requirements. The Board manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Board under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant. The liability will however be disposed of when funding is received or the defects liability period for projects is complete.

	Less than 1 month	Between 3-12 months	Over 12 Months	Total
<b>Trade Payables At 30 June 2018</b>	38,191,187	25,427,565	158,613,211	222,231,963
<b>Trade Payables At 30 June 2018</b>	9,368,163	39,335,116	81,873,394	130,576,673

**(iii) Market Risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the LVNWSB on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate and foreign exchange rates which will affect the Board's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Board's Finance and Strategy department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the Board's exposure to market risks or the manner in which it manages and measures the risk.

**(a) Foreign Currency Risk**

The Board has transactional currency exposures. Such exposure arises through purchases of works, goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid within 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

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As at the end of the reporting period the board did not have any assets or liabilities denominated in foreign currency.

**(b) Interest Rate Risk**

Interest rate risk is the risk that the Board's financial condition may be adversely affected as a result of changes in interest rate levels. The Board's interest rate risk arises from bank deposits. The interest rate risk exposure arises mainly from interest rate movements on the Board's deposits.

**Management of interest rate risk**

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

**(iv) Capital management**

Capital managed by the Board is the equity attributable to the equity holders (GOK). The primary objective of the Board's capital management is to ensure that it maintains healthy capital ratio in order to support its business.

The Water business is currently in the growth phase driven by a rise in demand and Government policy. The funding of Water capacity is obtained from exchequer funding, donor funding from international institutions and cash generated from water asset lease fees. The adequacy of water tariffs allowed by the regulator and the level of Government support are key factors in the sustainability of the Board.

**32. Contingent Liabilities**

	2018	2017
	Ksh	Ksh
Legal Contingent Liabilities	<u>15,000,000</u>	<u>3,600,000</u>

The likely outcome of these suits cannot be determined as at the date of signing these financial statements.

Based on the information currently available, the Directors believe that the ultimate resolution of these legal proceedings would most likely not have a material effect on the results of the Board's operations, financial position or liquidity.

The following cases were outstanding at year end:

No	Case number	Parties
1	NRB NET 113/2013	Maraba sewerage project case
2	KAKAMEGA ELC 594/2010	Judith Asamba Lishamba vs. Spencon & LVNWSB
3	Busia Environment & Land Court Petition number 5 of 2015	Wilson Ogola -vs. LVNWSB & 2 OTHERS
4	Busia CMCC No. 389 of 2014	Mary Auma Mayende vs. Benson Omina & LVNWSB
5	Kakamega ELC 161/2014	Charles Alemba Lisamula & Ano. Vs. LVNWSB
6	Civil Appeal No. 278 of 2016	Amatsi Water Services Company Ltd -VS- Francis Shire Chachi & LVNWSB
7	Bungoma CMCC 269/2014	Ryan Bunyasi Vs. LVNWSB
8	Bungoma ELC Case No. 3 of 2015	Solomon Kipchoke Kipsigei and Alex Kipsigei Vs. LVNWSB, County Government of Bungoma & Others

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9	KSM CIVIL APPEAL NO. 78 OF 2018	Eng. Alfred O. Amombo vs LVNWSB & Hon. Joseph K. Lagat
10	KSM ELRC NO 337/2017	Kenneth Indusa -vs- LVNWSB.
11	NRB HCCC PETITION NO. 277 OF 2017	Council of County Governors -vs- LVNWSB & 15 Others
12	KSM ELRC NO. 59 of 2018	Peter Kiplangat Bett -vs- LVNWSB & Hon. Joseph Lagat
13	ELDORET HCC NO. 59 of 2018	M/s Kishan Co. Ltd -vs- LVNWSB & Another
14	SIRISIA SPMCC NO. 5 OF 2018	Wellingtone Walekhwa Wambulwa -vs- Lake Victoria North Water Services Board
15	KSM ELRC CAUSE NO. 63 OF 2015	National Union of Water and Sewerage Employees - vs- Lake Victoria North Water Services Board, Kakamega - Busia Water Supply

**33. Events after the reporting period**

The board received Kshs 308,858,750.00 (Three hundred and eight million eight hundred and fifty-eight thousand seven hundred and fifty) on 3<sup>rd</sup> July 2018 for carrying out boards activities for the financial year 2017-2018.

**PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

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

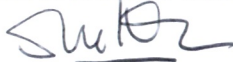
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1. Non-current assets	Assets previously owned by National Water Conservation and pipeline and Ministry of Water and irrigation have not been incorporated in the accounts	The board is pursuing the transfer of ownership of the assets from National Water Conservation and Pipeline and the Ministry of Water and Irrigation	Corporation Secretary	Not resolved	One year
3. Rehabilitation and Augmentation of Chesikaki-Cheptais Sirisia Water Supply	M/s Zhonghao Overseas Construction Engineering was awarded a tender for rehabilitation and augmentation of Chesikaki- Cheptais Sirisia Water Supply project at a contract sum of Kshs 117,209,380. According to International Federation of Consulting		Chief Manager Technical Services		



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	<p>Engineers(FIDIC) general terms and conditions of contract clause 13.5 payments of provisional sums should be based on actual amount incurred or due to be paid by a contractor.</p> <p>However, the Board made initial payment to the contractor of Kshs 1,146,160 for insurances and Kshs 1,500,000 for land to put up a site camp at a time when the contractor had only incurred Kshs 149,887 on the project</p>				
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Chief Executive Officer



Date.....

Chairman of the Board

Date.....

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APPENDIX 1: INTER-ENTITY TRANSFERS

ENTITY NAME:		Lake Victoria North Water Services Board		
Break down of Transfers from the Ministry of Water & Sanitation				
FY 17/18				
a	Recurrent Grants	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		09-Aug-17	2,241,667.00	2017-2018
		07-Sep-17	2,241,667.00	2017-2018
		11-Oct-17	2,241,666.00	2017-2018
		06-Nov-17	2,241,667.00	2017-2018
		08-Dec-17	2,241,667.00	2017-2018
		29-Dec-17	2,241,666.00	2017-2018
		28-Mar-18	2,241,667.00	2017-2018
		30-May-18	6,725,000.00	2017-2018
		22-Jun-18	2,241,667.00	2017-2018
		22-Jun-18	37,241,666.00	2017-2018
		<b>Total</b>	<b>61,900,000</b>	
b	Development Grants	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		19-Oct-17	63,750,000.00	2017-2018
		28-Feb-18	98,000,000.00	2017-2018
		09-Apr-18	5,000,000.00	2017-2018
		09-Apr-18	53,750,000.00	2017-2018
		24-Apr-18	48,750,000.00	2017-2018
		03-Jul-18	308,858,750.00	2017-2018
		<b>Total</b>	<b>578,108,750.00</b>	
c	Direct payments	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		06-June -17	99,091,923.77	2016-2017
		17-Nov-2017	108,138,395.50	2017-2018
		31- May- 2018	395,874,728.01	2017-2018
		<b>Total</b>	<b>603,105,047.28</b>	
d	Donor receipts	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	KIDDP	26-Sep-17	5,123,260.00	2017-2018
	KIDDP	01-Nov-17	2,192,653.00	2017-2018
	KIDDP	20-Dec-17	6,198,417.00	2017-2018

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KIDDP	26-Feb-18	11,310,745.00	2017-2018
KIDDP	26-Feb-18	27,581,854.00	2017-2018
KIDDP	23-Apr-18	5,195,483.00	2017-2018
IDA	28-Feb-18	375,000,000.00	2017-2018
IDA	11-May-18	125,000,000.00	2017-2018
<b>Total</b>		<b>557,602,412</b>	

Lake Victoria North Water Services Board  
 Chief Manager Finance & Strategy

Sign  -----

The above amounts have been communicated to and reconciled with the parent Ministry

Lake Victoria North Water  
 Services Board  
 Head of Accounting Unit

Sign  -----

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