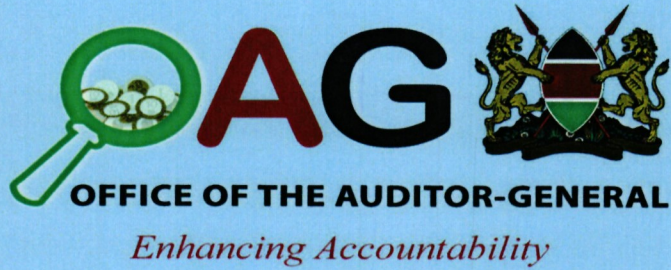


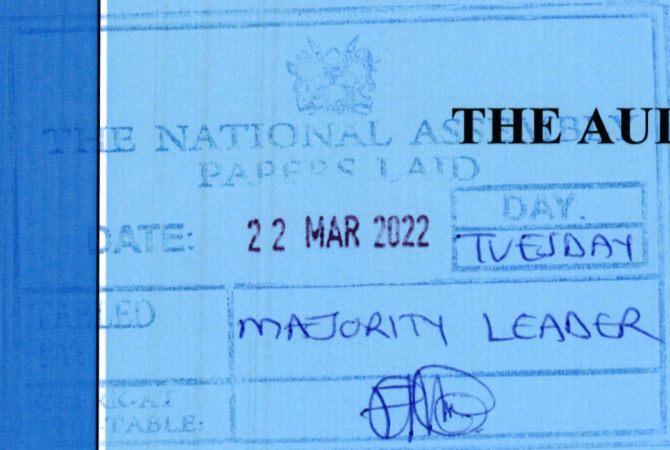
REPUBLIC OF KENYA



# REPORT

OF

**THE AUDITOR-GENERAL**



ON

**LAKE VICTORIA NORTH WATER  
WORKS DEVELOPMENT AGENCY**

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





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**LAKE VICTORIA NORTH WATER WORKS DEVELOPMENT AGENCY**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

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

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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 AGENCY INFORMATION AND MANAGEMENT**

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

Lake Victoria North Water Works Development Agency (LVNWWDA) is one of the eight Agencies established through a gazette notice no. 28 dated 26<sup>th</sup> April 2019 under the Water Act 2016, as part of the reforms in the water sector. The repealed Water Act 2002 was replaced by the Water Act 2016, which in compliance with the Constitution, devolved Water Provision function to the County Governments.

Lake Victoria North Water Works Development Agency serves the counties of Bungoma, Kakamega, Vihiga, Busia, Uasin Gishu, Trans-Nzoia, and Nandi. The total coverage area of the Agency's mandate is 15,356 sq. km, with an estimated population of about 7.5 million. Currently, the Agency serves an average of 57% of this population.

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

LVNWWDA draws its mandate from the Water Act of 2016. As per the Act, the Agency's mandate include:

- undertake the development, maintenance and management of the national public water works within its area of jurisdiction;
- operate the waterworks and provide water services as a water service provider, until such a time as responsibility for the operation and management of the water works are handed over to a county government, joint committee, authority of county governments or water services provider within whose area of jurisdiction or supply the waterworks is located;
- Provide reserve capacity for purposes of providing water services where pursuant to section 103 of the Act, the Regulatory Agency orders the transfer of water services functions from a defaulting water services provider to another licensee;
- Provide technical services and capacity building to such county governments and water services providers within its area as may be requested; and;
- Provide to the Cabinet Secretary technical support in the discharge of his or her functions under the Constitution and the Water Act 2016.

### **Vision**

Universal Access to Water and Sanitation Services.

### **Mission**

To develop, maintain and manage infrastructure for sustainable water and sanitation services.

### Core Values

- **Integrity:** The organization will endeavour to operate above board in all its operations
- **Quality Services:** The organization will endeavour to provide services that meet the expectations of its customers.
- **Good Governance:** The organization will conduct its affairs in a transparent and accountable manner; and seek stakeholder participation in decision-making process.
- **Team Spirit:** The organization will seek to have an organization built on teamwork and high level of discipline.
- **Environmental Protection:** The organization will remain a committed advocate of sustainable environment in all its dealings

### (c) Key Management

The LVNWWDA'S day-to-day management is under the following key organs:

- Chief Executive Officer
- Chief Manager-Finance and Strategy
- Chief Manager-Technical Services
- Chief Manager-Internal Audit and Risk Management
- Chief Manager Human Capital & Administration
- Corporation Secretary

### (d) Fiduciary Management

The key management team who held office during the financial year ended 30<sup>th</sup> June 2020 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
5.	Chief Manager Internal Audit & Risk Management	CPA Charles Tung'a
6.	Chief Manager Human Capital & Administration	Naomi Jelimo
7.	Manager Procurement	Mark Kanda

**(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 incorporated.

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 mandated to advise 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;

- i. Finance and Strategy Committee, whose main duties are: - to review financial statements and annual budgets; Financial performance; Strategic planning and annual performance reviews
- ii. Human resources and General Purpose committee, whose main duties are: periodic review of staff remuneration and terms of service; appointments and disciplinary actions for senior staff; and general welfare of the Board's employees.
- iii. Governance, Risk & Audit Committee, whose main duty is to ensure that the systems of internal control are effected and complied to.
- iv. Technical and Environmental Committee, whose focus is on issues arising from LVNWWDA 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 Development Partners on an annual basis.

**(f) Agency Headquarters**

Kenfinco Complex

Kakemega-Kisumu Road

P.O Box 673 - 50100

**KAKAMEGA**

Tel: 254- 56-30795

Fax: 254-056-31506

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

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

*Lake Victoria North Water Works Development Agency  
Annual Report & Financial Statements 2019 -2020*

**(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

Office of the Auditor-General

Anniversary Towers, University Way

P.O. Box 30084

GPO 00100

Nairobi, Kenya

**(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 FROM JULY 2019 TO JUNE 2020**

**1. Hon. Dr. Julius Kones- (Born 1972 ) -  
Chairman, LVNWWDA.**

The Cabinet Secretary appointed him as the Board's Chairman for Water and Sanitation on 8<sup>th</sup> February 2019 as Non- Executive Board Chair of Lake Victoria North Water Works Development Agency. He holds a PhD in Statistics from the Netherlands institute of Ecology and a Master and Bachelor of Science degrees in Mathematics and Statistics from Moi University. He is served as a MP Konoin Constituency, Bomet County between 2008 to 2013 and a Chairman of National Water Conservation and Pipeline Corporation between 2014 to 2019.



**2. Julius Bakasa Wasike, HSC- Born 1965 -  
Chairman, LVNWWDA.**

The Cabinet Secretary appointed him as the Board's Chairman for Water and Sanitation on 7<sup>th</sup> August 2020 as Non- Executive Board Chair of Lake Victoria North Water Works Development Agency. He holds a BA degree in Public Administration and Political Science. He was previously the Director Special Programmes at the County Government of Bungoma.



**3. 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 is a Senior Principal State Counsel and holds LLB degree and Currently pursuing LLM, at the University of Nairobi. She was a member of Audit and Risk Committee as well as Technical and Environmental Committee before inauguration of Lake Victoria North Water Works Development Agency. She now sits in the Technical and Environmental committee, Human Resource and General Purposes Committee and Finance and Strategy Committee.



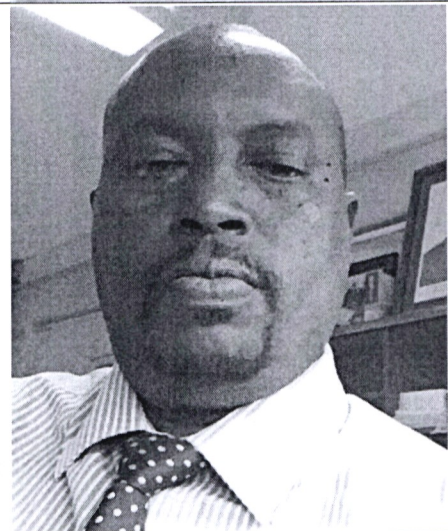
**4. David Mbugua Gichuhi (Born 1960) – Rep,  
Inspectorate of State Corporations**

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.



**4. 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 is an economist and holds B. Ed. (Eco/ Buss) from Kenyatta University and MBA-ESAMI from Maastricht. He was a member of Audit and Risk Committee, Technical and Environmental Committee and Finance and Administration committee before inauguration of Lake Victoria North Water Works Development Agency. He now sits in Governance and Audit Committee and Finance and Strategy committee.



**5. Hon. Manyala Keya (Born 15.12.1952)**

Appointed on 8<sup>th</sup> February 2019, as a Non- Executive director of Lake Victoria North Water Works Development Agency by the Cabinet Secretary for Water and Sanitation. He served as a MP Lurambi Constituency, Kakamega County with an accounting background. He sits in Governance and Audit Committee, Technical and Environmental Committee, Finance and Strategy committee and Human Resources and General Purpose Committee.



<p><b>6. Hon. Alfred Khangati (Born 17.12.1954)</b> He was appointed on 8<sup>th</sup> February 2019, as a Non-Executive director of Lake Victoria North Water Works Development Agency by the Cabinet Secretary for Water and Sanitation. He holds a Masters in Building (Project) Management, BA degree in Land Economics and a diploma in sports mangament. He is a former MP Kanduyi Constituency, Bungoma County and former Assistant Minister in the office of Prime Minister and Office of the President. He is the Chairman of Technical and Environmental Committee and also sits in the Finance and Strategy committee.</p>	 A black and white portrait of a middle-aged man with short hair, wearing a light-colored dress shirt and a patterned tie.
<p><b>7. Mediatrice Wangira (Born 23.11.1971)</b> The Cabinet Secretary appointed her on 8th February 2019 as a Non- Executive director of Lake Victoria North Water Works Development Agency for Water and Sanitation. She holds an MBA in Human Resources Management and Industrial Relations and BA degree in Administration, post graduate diploma in human resource management, post graduate diploma in project management and chartered diploma in personnel skills development. She is the Chairperson of Human Resources and General Purpose Committee and also sits in the Governance and Audit committee.</p>	 A black and white portrait of a woman with long, wavy hair, wearing a dark-colored top.
<p><b>8. Joan Maiyo (Born 21.11.1975)</b> The Cabinet Secretary appointed her on 8th February 2019 as a Non- Executive director of Lake Victoria North Water Works Development Agency for Water and Sanitation. She holds a Bachelor's Degree in Business Administration (Marketing Major) and a diploma in business administration (marketing major). She is the Chairperson of Finance and Strategy Committee and also sits in the Technical and Environmental committee. The term expired upon appointment to the Board of North Rift Valley Water Works Development Agency with effect from 4<sup>th</sup> February 2020.</p>	 A black and white portrait of a woman with long hair, wearing a light-colored top with a necklace.

**9. Douglas Kiplimo Tanui (Born 31.01.1982)**

The Cabinet Secretary appointed him on 8th February 2019 as a Non- Executive director of Lake Victoria North Water Works Development Agency for Water and Sanitation. He holds a diploma in Cargo handling. He is a former MCA Ravine Ward and Deputy speaker Baringo county assembly. He is the Chairperson of Governance and Audit committee and also sits in the Human Resource and General Purposes committee. The term expired upon appointment to the Board of North Rift Valley Water Works Development Agency with effect from 4<sup>th</sup> February 2020.



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

The Board of Directors appointed him as the acting Chief Executive officer on 19th April 2018. 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.



**11. Daniel Koech Bundotich - Born 1961-Ag. Chief Executive Officer**

He was appointed on 14<sup>th</sup> September 2020 as the Acting Chief Executive Officer. He holds a BSc degree in Agricultural Engineering from Egerton University and he was previously an Irrigation Engineer with National Irrigation Board/Authority. He also worked as a Programme Manager with Garissa Rehabilitation Programme under the UN-World Food Programme and the Ministry of Water, Sanitation and Irrigation. Before then he was a Station Manager, Kipkelion Agricultural Machinery Station and Engineer with the Lake Victoria Land Management under ICRAF/SIDA/NALEP Programme.






**12. Ms Elizabeth Ngala - Born 1977-Corporation Secretary**




She was appointed on 2<sup>nd</sup> May 2016 as the Corporation secretary. She 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.



**SENIOR MANAGEMENT TEAM**

<p><b>1. Eng Boniface Mulama - Born 1969</b></p> 	<p><b>Ag. Chief Executive Officer</b></p> <p>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.</p> <p>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><b>2. CPA Anthony Kisaka - Born 1979</b></p> 	<p><b>Chief Manager Finance and Strategy</b></p> <p>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.</p> <p>He was the Acting Chief Executive officer up to 18<sup>th</sup> April 2018. He heads the Finance and strategy department.</p>
<p><b>3. Eng. Christopher Bwire</b></p> 	<p><b>Ag. Chief Manager Technical Services</b></p> <p>He holds an MSc Water Resources Engineering and BSc Civil Engineering from the University of Nairobi.</p> <p>He has knowledge in latest Engineering software. Registered with Engineers Board of Kenya and Corporate member of the Institution of Engineers of Kenya.</p> <p>Eng Christopher Bwire has 15 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 proposal</p>

<p>4. <b>Ms Naomi Jelimo - Born 1976</b></p> 	<p><b>Chief Manager Human Capital, and Administration</b></p> <p>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>5. <b>CPA Charles Tung'a - Born 1979</b></p> 	<p><b>Chief Manager Internal Audit &amp; Risk Management</b></p> <p>He heads the Internal audit and Risk Management Department having joined the Agency on 01/10/2018. He holds an MBA &amp; B-com in Finance from The University of Nairobi and is a CPA(K) and an active member of ICPAK, IIA&amp; KIM.</p> <p>He has over five years' experience from the Public Sector and over fourteen years from the Private sector. He has is a trainer with a bias in governance, internal audit, risk management and public finance management.</p>
<p>6. <b>Mr Mark Kanda</b></p> 	<p><b>Manager Procurement</b></p> <p>He holds a Masters of science in procurement and logistics ,Bachelor of business management -purchasing and supplies' and a in Diploma business management.</p> <p>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>

7. **Ms Elizabeth Ngala - Born 1977**

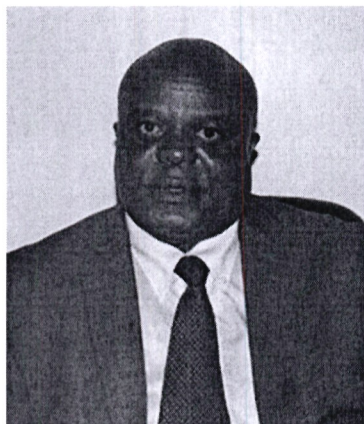


**Corporation Secretary**

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.

## CHAIRMAN'S STATEMENT



### Introduction

Lake Victoria North Water Works Development Agency (LVNWWDA) once again posted yet another year of strong performance in the 2019/2020 financial year.

LVNWWDA continued to demonstrate a positive progress on investments undertaken in an effort to increase access to clean water and sanitation services in its area of jurisdiction, which include the counties of Kakamega, Bungoma, Vihiga, Busia, Nandi and Uasin Gishu.

In spite of the numerous challenges the Agency continued to experience, LVNWWDA has continued to focus on key areas to maintain the momentum of progress necessary to meet the needs of our customers in our area of jurisdiction. These key areas are highlighted below.

### Legal and Regulatory Framework

During the financial year, in line with the Water Act 2016 and through a gazette notice no. 28 dated 26th April, 2019 transformed the Lake Victoria North Water Services Board (LVNWSB) into Lake Victoria North Water Works Development Agency (LVNWWDA) in line with the provision of Water Act, 2016 to serve Kakamega, Bungoma, Vihiga, Busia, Uasin Gishu, Nandi and Trans-Nzoia Counties.

### Corporate Governance

With the establishment of the LVNWWDA, a new team of Board of Directors was ushered in the year, composed of persons with diverse backgrounds each bringing in unique skills and experience to help in providing leadership to the Agency.

In ensuring that the LVNWWDA Board aligns itself with the tools to ensure proper oversight and leadership requirement of an effective board, the Board formed four committees as follows;

- Technical and Environmental Committee
- Governance, Risk and Audit Committee
- Human Resources and General Purposes Committee
- Finance and Strategy Committee

In addition, the board has developed and issued the following governance tools necessary for the board and management to use as they as they execute their mandates.

- Board Charter

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- Conflict of Interest policy
- Board of Directors Code of Conduct and Ethics
- Whistle Blower Policy

The above tools clearly define roles, responsibilities and powers, values and principles as the board guides management in setting direction and control of LVNWWDA.

### **Strategic Focus**

LVNWWDA strategic focus has been reviewed with a key goal of ensuring continued growth, sustainability, efficiency and above all value for money for the investment towards increased access to water and sanitation by application of right technology, research, innovation, leadership and governance.

### **Accelerating access to Water**

LVNWWDA has set its targets on accelerating access to water so as to conform to the demands and provisions of the Sustainable Development Goals (SDGs), Kenya's Vision 2030 and the country's Big Four Agenda. Water coverage in the Agency's area of jurisdiction is approximately 57% and the Agency intends to increase the average water coverage to 80% in the next five years.

During the financial year 2019/2020, we continued to implement water works comprising of development of new water sources to increase production, development of water transmission infrastructure, water treatment plants and distribution network all over our coverage area.

### **Accelerating access to Sanitation**

Access to sewerage sanitation in LVNWWDA's area jurisdiction averages at 33% and we target to increase the average sanitation coverage to 60% in the next 5 years.

The Agency will do this by addressing the aging networks and upgrading the sewerage systems amongst other measures. We continue to mobilize resources with a targeted interest in addressing the low sanitation coverage within our area of jurisdiction.

In the year 2019/20, the Agency mobilized resources from the development partners for the implementation of last mile connectivity to utilize the already laid trunk mains and optimize the rehabilitated waste water treatment plants.

The programs under the second phase will involve rehabilitation and expansion of sewerage infrastructure, construction of reticulation sewers and household connections. In enhancing increased sanitation coverage, special attention continues to be given to our informal settlements where coverage is particularly low against high population intensity.

### **Resource mobilization**

In order to fill the water and sanitation coverage gaps, there is need to mobilize adequate financial and human resources. These resources will be mobilized from internal financing, government grants, development partner grants and loans. This will be enabled by the already good relationship made between the Agency and the Government of Kenya and the trust and confidence bestowed upon the Agency by numerous development partners.

### **Alignment to the Big Four Agenda and vision 2030**

In the period under review, serious considerations were made to ensure LVNWWDA aligns its development programs to the needs of the Big Four Agenda and Vision 2030.

Among the key projects to improve the water supply in the Agency's coverage area to support the manufacturing, affordable housing, food and nutrition, security and universal health coverage is Kakamega Bulk Water Supply Project, the Keben Dam Water Project, Vihiga Cluster Water Project, Malaba Cluster Water Supply Project among many others.

### **Research and Innovation**

Research and Development in Water and Sanitation infrastructure development, management and maintenance continues to be an integral role in achieving the Agency's goals.

Innovation in sanitation will be emphasized to bring in new technologies that are safe, efficient and cost effective in managing faecal sludge across the sanitation service chain bringing commercial by-products such as clean water, heating materials, fertilizer etc.

Collaboration with stakeholders, Institutions of Higher Learning, Research Institutions and County and National Governments will be encouraged to lay a solid foundation to combat special challenges in informal settlement.

### **Stakeholders Relations**

In the spirit of leaving no one behind, the Agency will continue to consult regularly with all stakeholders including consumers, community leaders, the public, water service providers, development partners, sister water agencies, experts, national and county governments, with regard to major issues of concern such as on non-revenue water, loan repayments on investments among others.

We recognize our stakeholders as integral participants in the long-term planning and implementation of solution-oriented initiatives. We commit to continue with rigorous stakeholder engagement processes based on principles of inclusivity, accessibility, transparency and positive contribution.

I believe that each interaction is an opportunity to rebuild trust, improve business results, and transform people's lives. We strive to be a positive corporate partner to the communities and the stakeholders we serve.

### **Going Forward**

Our business is to ensure provision of adequate and quality water and sanitation services within our coverage area, maintain the integrity of our systems, manage a strong water and sanitation supply asset portfolio, and effectively deal with water scarcity and low sanitation coverage issues. 2019/20 financial year amounted to another strong year in a new era and we shall continue creating value in every aspect. It inspires us to adhere to our proven strategy with the aim of building on our success, year after year.

### **Appreciation**

On behalf of the Board of Directors, I wish to acknowledge the priceless support in policy guidance and resources by the National Government through the Ministry of Water, Sanitation and Irrigation and other government Agencies, the County Governments of Kakamega, Bungoma, Vihiga, Busia, Uasin Gishu, Nandi and Trans-Nzoia for their cooperation as we work towards serving people in the region.

I wish also to sincerely thank our development partners for their continued support and confidence in us, and to our various water services providers for embracing our values and understanding the immense responsibility bestowed on us to have value for money for our undertakings, and to the management and the staff of LVNWWDA; through whom we continue to achieve new targets and hope to grow LVNWWDA to be the epitome of integrity, efficiency and dedication to public service.

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While the future is bright, the task ahead is enormous and challenges numerous. I must, however, say that each day offers us a chance to work together, pursue new opportunities and improve upon the past.

Thank You.



**Hon. Julius B Wasike**  
**Chairman of the Board of Directors**  
**Lake Victoria North Water Works Development Agency**

**REPORT OF THE CHIEF EXECUTIVE OFFICER**



The financial year ending 30th June 2020 is a very significant period for the Lake Victoria North Water Works Development Agency. This is the year that Lake Victoria North Water Works Development Agency was established under the Water Act 2016 section 65(1), through gazette notice no. 28 by the Cabinet Secretary, the Ministry of Water and Sanitation as a successor of Lake Victoria North Water Services Board. During the Same year, the first Board of Directors were appointed via a gazette notice no. 1242 dated 8th February, 2019 by the CS Ministry of Water and Sanitation in accordance with the Water Act 2016. The main mandate of the Agency is development of water and sanitation infrastructure projects within our areas of jurisdiction on behalf of the national government.

The government has highlighted the need to fast track economic recovery by identifying four key priorities of manufacturing, affordable housing, affordable healthcare and food security under the “Big Four” Agenda. As an important enabler, investment in water and sanitation infrastructure will significantly contribute towards the achievement of this government agenda. In order to address the national development agenda, such as the constitutional requirement, the Kenya’s Vision 2030, MTP III, the “Big Four” Agenda, SDGs, Agenda 2063 as well as other national and international priorities, LVNWWDA will institutionalize its new roles and accelerate the development, maintenance and management of the National Public Waterworks in line with national and international priorities and the Water Act 2016.

**Project Implementation**

The Portfolio of the projects under implementation increased in the financial year 2019/20. This year saw the completion of a number of major water supply projects in various locations within the Agency’s 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 Agency 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 Agency rolled out the Chwele Water Supply 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 centres.

During the period, the Agency made significant progress in the implementation of the Greater Vihiga Gravity Water Supply Project being financed by the Belgium Government through Commercial Contract with the CMI Industry Balteau. This programme aims to rehabilitate and expand Kaimosi, Mbale and Maseno Water Supply systems.

### **Sustainability and Corporate Social responsibility statement**

As we implement our programs, we are focused on reducing the inequalities in water service access by taking a more sustainable approach to business and strengthening our commitment to meeting the environmental and stakeholder's needs. We aim to transform our society through Corporate Social Investment focusing mainly on environmental protection and conservation in the projects development.

In order to address the gap of inequality, LVNWWDA has ensured increased allocation of procurement of goods and services to Kenyan residents and giving more emphasis to gender mainstreaming and marginalized groups. Our direct contribution to the latter is through the rollout of GoK Policy of allocating 30% of tenders to the youth, women and persons with disability. LVNWWDA continues to undertake Strategic Environmental Assessments (SEA) to protect the environment and promote sustainable development. At LVNWWDA, we have zero tolerance to unethical behaviour, we provide equal opportunities to all, encourage diversity and an inclusive culture in our operations.

### **Our People**

We recognize that talent, commitment and hard work of our people is the foundation of our success. As a responsible employer we are focused on employee wellbeing, retention, training and development, productivity and, above all, an unwavering commitment to health and safety. The Staff of LVNWWDA have immensely contributed to the achievements of this great organization. During the 2019/2020 financial year, the Human Resource instruments were approved by the Board of Directors to guide the institution to greater heights. I would like to personally thank all the staff of the LVNWWDA for their enthusiasm and commitment to deliver on the Agency's mandate.

### **Our commitment**

At LVNWWDA we aim to deliver a safe, reliable and value-for-money services to our stakeholders. We do so by ensuring that we provide adequate returns and Value for Money to the public, to our Government and Development Partners who provide us with the capital that we require to fund continued investment and maintenance of the infrastructure network.

### **Outlook**

In the upcoming financial period, the Agency 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 Agency 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 near future include Keben Dam Water Supply Project, the Proposed Nzoia Multipurpose Water Project (Kakamega-Bungoma Bulk Water Supply Project) and the Kitale Cluster Water and Sanitation Project.

Looking ahead and in laying the foundation for greater water and sanitation infrastructural developments, the Agency 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.

### **Appreciation**

Finally, I want to say thank you to the Board of Directors, the Management and Staff of LVNWWDA, the Ministry of Water, Sanitation and Irrigation, the National Treasury, Development Partners, County Governments, our contracted Water Service Providers (WSPs) and all our stakeholders for their good work and support in the 2019/2020 Financial Year. I very much look forward to working with you all in 2020/2021 Financial Year and beyond in the delivery of LVNWWDA's long-term priorities.



**Eng. Daniel K. Bundotich**  
**Ag. Chief Executive Officer**  
**Lake Victoria North Water Works Development Agency**

## **CORPORATE GOVERNANCE STATEMENT**

The Lake Victoria North Water Works Development Agency Board is committed to the values and principles of good corporate governance. The Board of Directors and Management of the Agency 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.

In the financial year under review, we continued to achieve high levels of corporate governance by focusing on the following areas:

- I. Continuing to implement our strategy for the long-term prosperity of the agency;
- II. Timely and relevant disclosures and financial reporting to our stakeholder for a clear understanding of our operations and performance;
- III. Ensuring execution of strong audit procedures, audit independence and continuously enforcing strong internationally recognised accounting principles;
- IV. Focus on clearly defined board and management duties and responsibilities;
- V. Enhancing directors' competencies through induction for directors and on-going trainings for all directors;
- VI. Focusing on compliance with relevant laws and upholding the highest levels of integrity in the organization's culture and practices.

### **Board charter**

The Board Charter is critical to the agency's governance framework, and offers guidance on matters including but not limited to the following;

The separation of the roles, functions, responsibilities and powers of the Board and its individual members; Powers delegated to the Board committees; Matters reserved for final decision-making and approval by the Board;

Policies and practices of the Board on matters of corporate governance, directors' declarations and conflict of interest, conduct of Board and Board committee meetings; and induction, ongoing training and performance evaluation of the Board and its committees.

The Charter is not a substitute or a replacement of any laws and regulations that govern the running of the company.

### **The role and responsibilities of the Board**

The primary role of the Board remains to guide the agency towards sustainable long-term success through the exercise of objective and informed judgement in determining the strategy of the company, having the best team in place to execute that strategy, monitoring business performance and maintaining an effective framework of controls to mitigate risks facing the business.

The Board of Directors collectively determine the Agency's mission, vision, purpose, core values, set strategy, approve organization structure and policies, monitor the attainment of Agency's objectives to meet its obligations to stakeholders and enhance its corporate image.

Directors are also responsible for overseeing the agency's assets and ensure reliability of financial information, guarantee adequate internal control systems designed to safeguard the Agency's assets, appointment of senior management and ensuring effective communication with stakeholders.

### **Separation of powers and duties of the chairman and the chief executive officer (CEO)**

The separation of the functions of the chairman (a non-executive director) and the CEO (executive director) supports and ensures the independence of the board and management. The balance of power, increased accountability, clear definition of responsibilities and improved decision-making are attained through a clear distinction between the non-executive and executive roles. The chairman's responsibilities include the operation, leadership and governance of the Board. The chief executive officer's roles and responsibilities remains the day-to-day management of the company's business and overseeing the implementation of strategy and policies approved by the Board.

### **How the Board works**

The Board is solely responsible for its agenda. However, it is the responsibility of the chairman and the corporation secretary, working closely with the chief executive officer, to come up with the annual Board work plan and an agenda for the board meetings.

The Board meets at least four times a year and the meetings are structured in a way that allows for open discussions.

Comprehensive Board papers are prepared and circulated to all directors for all substantive agenda items at least ten days prior to the meeting. This allows time for the directors to undertake an appropriate review of the Board papers to facilitate full and effective discussions at the meetings. The submissions and notification period may be waived should any urgent and critical matters arise within the ten-day period to the date of the meeting.

Members of the senior management team may be invited to attend the Board meetings if deemed necessary to make presentations on their areas of responsibility. This serves as an opportunity to give the directors greater insights into their business areas.

The directors are responsible for ensuring that the business strategies proposed are fully discussed, critically reviewed and appropriate directive given. This enables the directors to promote the success of the Agency for the benefit of its stakeholders, with consideration of, among other matters, the interests of employees, the fostering of relationships 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. LVNWWDA has the following Board committees: -

1. Finance and Strategy Committee, whose main duties are: - to review financial statements, annual budgets and Procurement Plan

S/NO	NAME OF DIRECTOR	TOTAL NUMBER OF MEETINGS	MEETINGS ATTENDED
1.	Joan Maiyo	4	3
2.	Daniel M. Mutua	4	4
3.	David M. Gichuhi	4	4
4.	Rose Nyakwana	4	4
5.	Hon. Alfred Khangati	4	4

The total cost for Finance and Strategy Committee meetings was **Kshs. 2,061,391.53**

2. Human Resources & General Purpose Committee, whose main duties are: - periodic review of staff remuneration and terms of service; appointments and disciplinary actions for senior staff; and general welfare of the Agency's employees, legal compliance, ICT and corporate affairs.

S/NO	NAME OF DIRECTOR	TOTAL NUMBER OF MEETINGS	MEETINGS ATTENDED
1.	Mediatrice Wangira	3	3
2.	Douglas K. Tanui	3	3
3.	David M. Gichuhi	3	3
4.	Rose Nyakwana	3	3
5.	Hon. Manyala Keya	3	3

The total cost for Human Resources & General Purpose Committee meetings was **Kshs. 2,686,229.49**

3. Governance, Risk and Audit 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.	Douglas K. Tanui	3	3
2.	Daniel M. Mutua	3	3
3.	Hon. Manyala Keya	3	3
4.	David M. Gichuhi	3	3
5.	Wangira Mediatrice	3	3

The total cost for Governance, Risk and Audit Committee meetings was **Kshs. 2,337,504.37**

4. Technical and Environmental Committee, whose focus is on issues arising from the Agency's 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 safeguarding the environment.

S/NO	NAME OF DIRECTOR	TOTAL NUMBER OF MEETINGS	MEETINGS ATTENDED
1.	Hon. Alfred Khangati	3	3
2.	Hon. Manyala Keya	3	3
3.	Joan Maiyo	3	3
4.	Rose Nyakwana	3	3
5.	David M. Gichuhi	3	2

The total cost for Technical and Environmental Committee meetings was **Kshs. 2,877,497.39**

### 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 FULL BOARD MEETINGS	FULL BOARD MEETINGS ATTENDED	NO. OF SPECIAL FULL BOARD MEETINGS	SPECIAL FULL BOARD MEETINGS ATTENDED
1.	Hon. Dr. Julius Kones	6	6	1	1
2.	Hon. Alfred Khangati	6	5	1	1
3.	Joan Maiyo	6	4	1	1
4.	Mediatrice Wangira	6	6	1	1
5.	Hon. Manyala Keya	6	6	1	1
6.	Douglas Kiplimo	6	5	1	1

7.	Rose Nyakwana	6	6	1	1
8.	Daniel Mutua	6	6	1	1
9.	David M. Gichuhi	6	6	1	1

The total cost for full board and special meetings was **Kshs. 5,200,114.17**

#### **Other Meetings**

These included visit to projects, Board retreat and Consultative meetings. The total cost under this expenditure line was **Kshs 6,731,324.36**

#### **Special committees**

The Board is authorized by Mwongozo, code of governance to form ad hoc or special committees to deal with specific matters for a defined term period. The Board retains oversight authority over such committees. The Board during the period constituted two Adhoc committee to review audited financial statements and employee relations.

#### **Role of the Corporation Secretary**

Providing a central source of guidance and advice to the Board, and the agency, on matters of statutory and regulatory compliance and good governance;

Providing the Board and the directors individually with guidance on how their responsibilities should be discharged in the best interests of the Agency;

Facilitating the induction training of new directors and assisting with the directors' professional development as required. This includes identifying and facilitating continuous board education;

In consultation with the CEO and the chairman, ensuring effective flow of information within the Board and its committees and between senior management and non-executive directors. This includes timely compilation and distribution of board papers and minutes.

Guiding the Agency in taking the initiative to not only disclose corporate governance matters as required by law, but also information of material importance to decision-making by stakeholders;

Keeping formal records of Board discussions and following up on the timely execution of agreed actions.

#### **Conflict of Interest**

The directors are obligated to fully disclose to the Board any real or potential conflict of interest, which comes to any director's attention, whether direct or indirect. The statutory duty to avoid situations in which the directors have or may have interests that conflict with those of the Agency has been observed by the Board in the financial year under review.

All business transactions with all parties, directors or their related parties are carried out at arm's length. An acknowledgement that should it come to the attention of a director that a matter concerning the Agency may result in a conflict of interest, obligates the director to declare the same and exclude himself / herself from any discussion or decision over the matter in question.

#### **Appointment and removal of directors**

The appointments of the Board members and removal are as provided for under the Water Act, 2016 Section 66(1) and the First Schedule.

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**

The Agency's directors and employees are expected to act with honesty, integrity and fairness in all their dealings with one another and with stakeholders and to respect the diverse cultures of the Kenyan people. The Agency has a code of conduct that binds both directors and employees. When joining the Agency, every employee is provided with a copy of the code and must commit to abide by its requirements as part of the employment contract.

#### **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 periodically to ensure timely replacement of Board members.

#### **Whistle blowing policy**

The Agency has a whistle blowing policy that provides for reporting of unethical practises without fear of retaliation from the suspected individuals.

The whistleblowing policy provides a platform for employees, suppliers, contractors and other stakeholders to raise concerns regarding any suspected wrong doing, and the policy details how such concerns are addressed.

**Board induction and training**

Board members undergo regular training and education to enable them fulfil their responsibilities. All Board members receive an induction upon joining. This provides an overview of the company, new developments in the environment in which the company operates, accounting and financial reporting developments, as well as any regulatory changes.

**Board Evaluation**

The Board undertakes an annual evaluation of its performance as an entity, its committees, the chairman and each individual director. This is aimed at enabling the Board and its members and the committees to gauge their performance and identify areas of improvement. State Corporation Advisory Committee (SCAC) facilitates the process.

**Board remuneration**

Remuneration of Board members is guided by relevant government circulars, which recommend payment of allowances. The Board's chairman is paid monthly Honorarium.

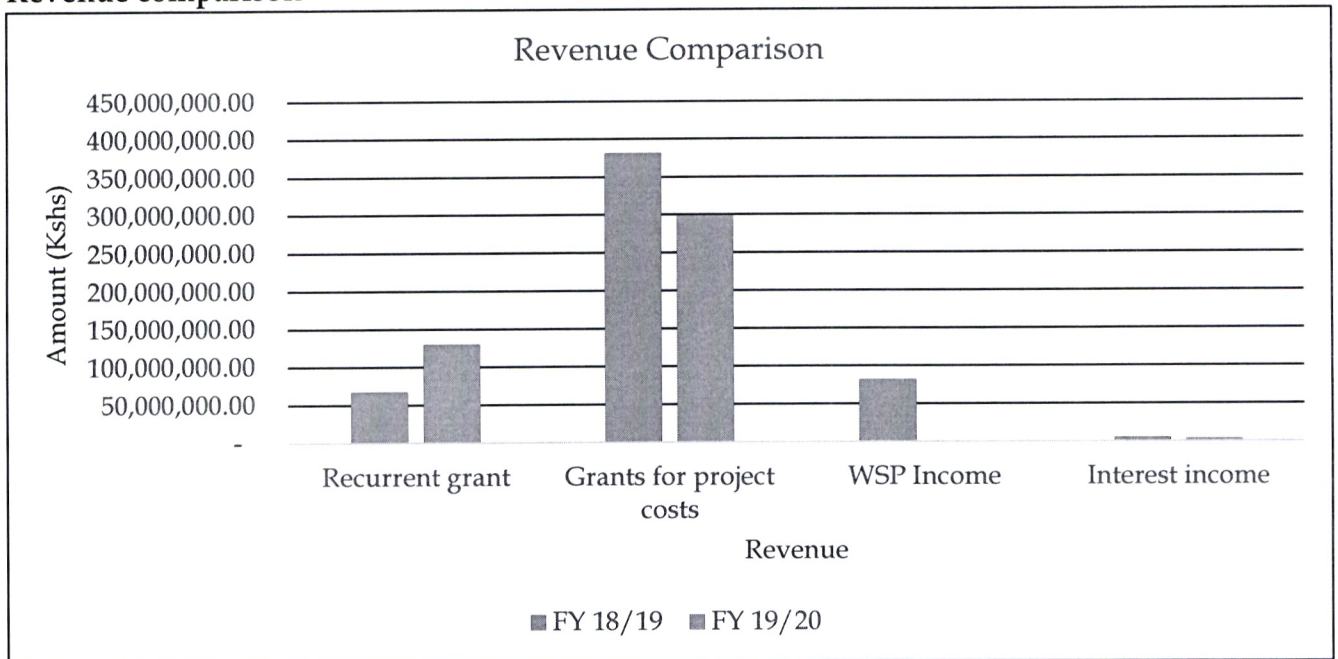
**MANAGEMENT DISCUSSION AND ANALYSIS**

**Financial Performance**

During the 2019/20 FY, LVNWWDA received an allocation of Kshs 1,070,000,000 from the Ministry of Water, Sanitation and Irrigation broken down into Kshs 129,999,998 for salaries and administration purposes and Kshs 3 02,000,000 project costs which are recurrent in nature. The entity also earned Kshs 16,298,109 being interest on deposit and miscellaneous income.

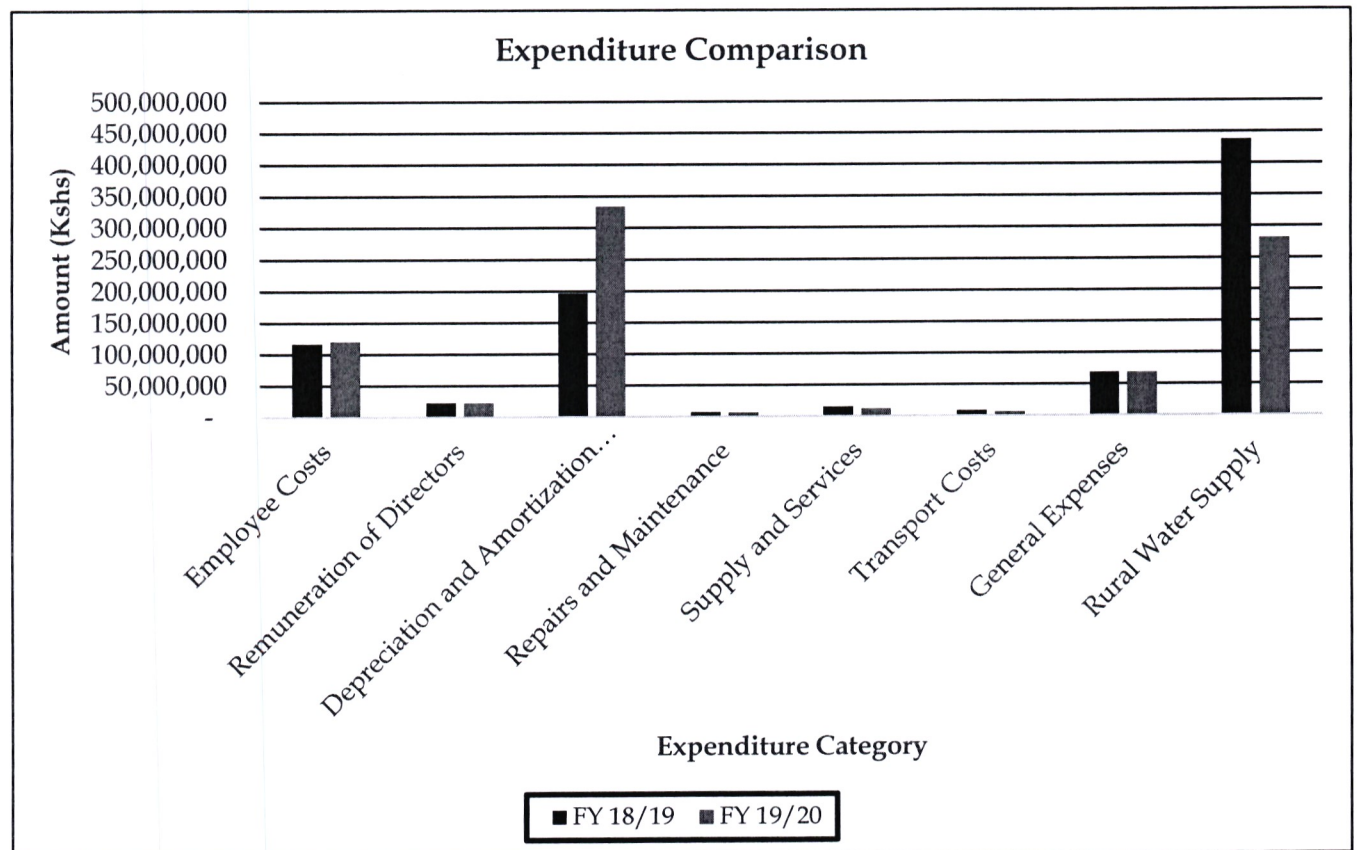
The total income for the year was Kshs 1,042,869,364 against an expenditure of Ksh 519,375,489 before depreciation, interest and provisions. LVNWWDA transferred a total deficit of Kshs 346,939,827 after incorporating depreciation, interest due and provisions.

**Revenue comparison**



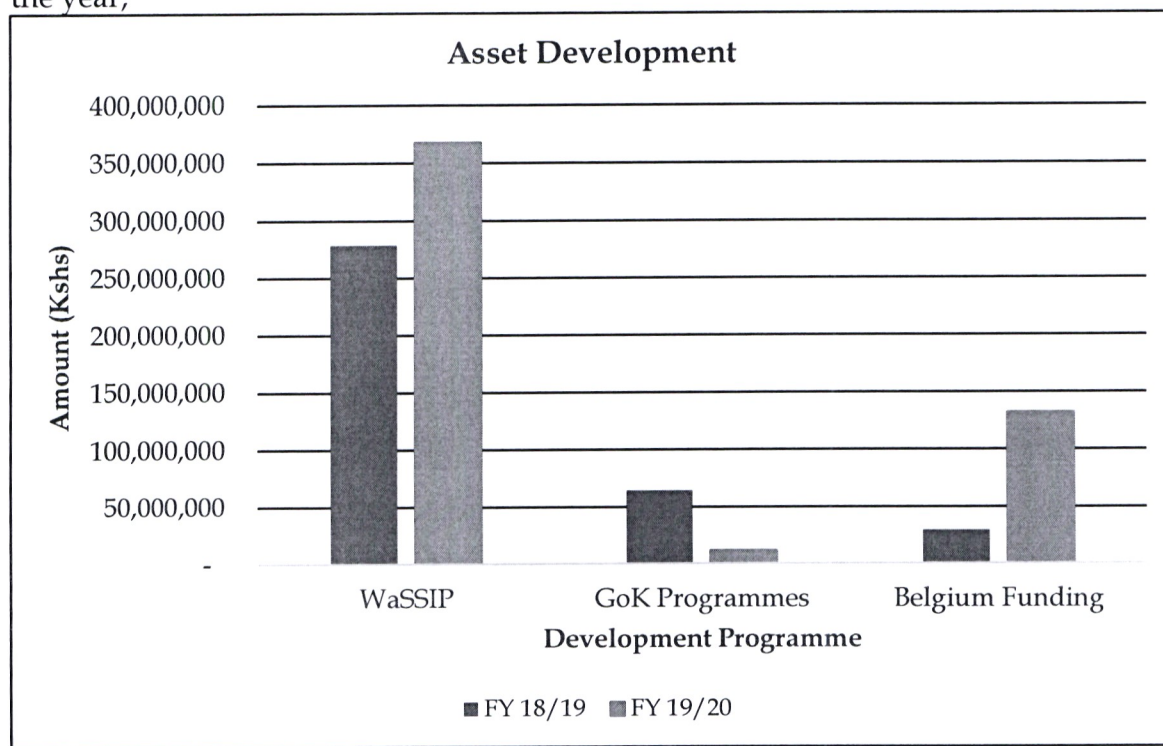
**Expenditure comparison**

The chart below gives a breakdown of the expenditure comparison for the years 2018/19 and 2019/20:



### Asset development

LVNWWDA developed assets worth Kshs 808,324,837 in the 2019/20 FY most of which are in work in progress. The chart below gives a breakdown of capital works in progress during the year;



### Major Risks

LVNWWDA is faced with the following risks:

- i) Liquidity risks due to non-repayments of loans by WSPs.
- ii) Delays in receipt of projected revenues
- iii) Delays in project execution

### Projects implemented or were ongoing in the year

Developing innovative and sustainable water services solutions that transform life and inspire progress underpins our corporate mission. In the period under review, and as part of implementation of our strategic plan, LVNWWDA continued to implement the following key projects, during the 2019/2020 FY:

No.	Project Name	Project status	Projected Timelines		Estimated Cost of Projects	Expected Output
			Start Date	End Date		
1	Water & Sanitation Services & Improvement Project	90 % of the program works have been done	14 <sup>th</sup> December 2012	31 <sup>st</sup> December 2019	KES 3.4 Billion	Additional Water Supply of 30,000 m <sup>3</sup> /day injected into the systems to serve approximately 300,000 people

No.	Project Name	Project status	Projected Timelines		Estimated Cost of Projects	Expected Output
			Start Date	End Date		
2	Vihiga Cluster Water Project	The progress of works was at 53 % by the end of 2018/19FY	August 2018	Dec 2020	KES 1.7 Billion	Additional Water Supply of 12,500 m <sup>3</sup> /day injected into the system
3	Kenya Towns Sustainable Water Supply and Sanitation Program	Design Reviews and Preparation of Tender Documents and Procurement of Works Contractor was ongoing	Dec 2018	Dec 2021	KES 3.3 Billion	New Water Supply system of 8,000m <sup>3</sup> /day for Kiptogot-Kolongolo, 6,000m <sup>3</sup> /day for Malaba and 24,500m <sup>3</sup> /day for Kipkarren Dam Water Supply System
<b>TOTAL</b>					<b>KES 8.4 Billion</b>	

### Compliance with statutory requirements

The regulatory environment remains an area of significance to our operations. LVNWWDA continued to ensure compliance with Constitution of Kenya 2010 (CoK 2010), the PFM Act, the State Corporations Act, the Water Act 2016 and all the relevant government circulars as issued from time to time. All the statutory deductions and other requirements were submitted to the relevant authorities in time.

### Key challenges

LVNWWDA continued the implementation of its running projects amidst of several challenges including:

1. In adequate budgetary allocations and budget cuts without further reference to ourselves which resulted to low disbursement in the year
2. Cash flow challenges owing to delayed remittances from the Ministry of Water and Sanitation
3. Delayed specific tax exemptions by KRA
4. Non-remittance by WSPs of the amounts owed by them

## **SUSTAINABILITY REPORTING**

### **Introduction**

Sustainable development is all about ensuring a better quality of life for everyone, now and for generations to come. This can be achieved through the three strands of social equity which recognizes the needs of everyone, maintenance of stable levels of economic growth and employment, and using natural resources prudently, whilst protecting, and if possible enhancing, the environment. Sustainable or ecological development is a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are made consistent with the future as well as present needs".

Sustainability requires continuous technological, economic and social progress of continuous improvement that respects the limits of the Earth's ecosystems, and meets the needs and aspirations of everyone for a better quality of life, now and for future generations to come. Lake Victoria North Water Works Development Agency commits to meeting our stakeholder's present and future requirements through a collaborative culture, which provides the capability to provide services and knowledge allowing systematic change to take place whilst reinforcing mutually desired social, economic and environmental outcomes. LVNWWDA recognizes the importance of conducting operations in a manner that meets existing needs without compromising the ability of the future generation to meet their needs; therefore, it carries out its operations in a manner that ensures the economic life of the community in which it operates. It is LVNWWDA's policy to ensure that all the activities undertaken meet and exceed the social, economic and environmental expectations of stakeholders. LVNWWDA believes that ethical leadership and corporate citizenship should direct the strategy and operations to build sustainable business.

LVNWWDA executes the objectives through the following:-

- (a) Our people, values and processes;
- (b) Stakeholder engagement;
- (c) Protecting the environment

### **(a) Our People, Values and Processes**

The staff of LVNWWDA are the most critical asset. The Agency recruits, retains and invests in the best talent in the market. Our success will continue to be highly dependent on the performance and accountability of our staff.

### **Diversity and Equal Opportunity**

LVNWWDA endeavours to have gender and cultural diversity in our employee mix and for all qualified persons an equal opportunity employer. This has created an inclusive environment where individuals and teams harness strengths in diversity to maximize potential and excel in performance.

### **Our Culture and Values**

The staff and directors are committed in upholding our core values in fulfilling our mandate. LVNWWDA's leadership has created an enabling environment where board of directors and staff are accountable for their actions based corporate culture of living our values. The LVNWWDA is an open and transparent community, striving for quality services that are

environment friendly, embedded on good governance and has maintained an open and collaborative engagement.

### **Employee Welfare**

At LVNWWDA, staff and directors are a family and each member's welfare is our collective responsibility. LVNWWDA takes every effort to ensure that employees' well-being (physical, emotional and financial) is considered as this affects them both at home and at work. During the year, LVNWWDA undertook a team building exercise, year-end party and paid club membership fees for senior management team. Membership fees and annual subscription for staff members who belong to professional bodies was paid. We continued to implement cross cutting issues during the year with a particular focus on: HIV/AIDs, Persons with Disability and Gender

### **Health Care**

LVNWWDA continued to finance staff with medical care through a comprehensive medical cover for all staff and their nuclear families through a competitively sourced medical cover. Annual health talks and health tests were undertaken in the year. The Agency continued to deduct, and submit National Hospital Insurance Fund dues for staff during the year and therefore they utilized the services entitled therein.

### **Labour Relations**

LVNWWDA continued to encourage open communications with an aim of fostering a positive work environment; all employees were encouraged to participate actively in the free flow of questions, answers and ideas. There are meetings held every Monday for all staff, as well as quarterly meetings for all staff, Appraisal and Counselling interviews and Attitude surveys.

### **Staff Training and Development**

To ensure that LVNWWDA not only attracts but also retains the best talent, the Agency aims to nurture employee's careers by making relevant opportunities accessible and helping them to develop skills, knowledge and experience in different functions or specialization. Through the appraisal, system staff training and development needs were identified and the same formed part of the staff training needs assessment report, which was implemented within the year.

In its Annual Budget, LVNWWDA allocated a budget towards education, training and professional development. Individual staff budget allocation was equitably done based on their training needs and job level. LVNWWDA also supports membership to professional bodies by financing of continuous professional development (CPD) trainings to ensure staff are in good standing with their respective professional bodies. Additionally, LVNWWDDA continued implementing on-the-job training through workplace projects and job enrichment. LVNWWDA supports staff furthering their academic growth through flexible working time and giving them study leave.

### **Employee Engagement**

The staff are committed to the realization of the LVNWWDA's mandate. Focus is on delivering an employee experience where staff feel strongly connected to the realization of Agency's mandate.

### **Occupational Health and Safety**

Good health and safety standards are ideal and remain an individual and corporate responsibility for the staff and the Agency. The Agency is committed to proactively managing all health and safety risks associated with its mandates.

During the year, the Board organized several workshops to sensitize staff and evaluated the work environment to ensure it meets the set standards. An annual health and safety audit was conducted at the Agency's premises. The audit was carried out with the view of evaluating compliance of the work place and the associated operations with the provisions of the Occupational Safety and Health Act, 2007.

Specifically, the following areas were assessed:-

- Information security management
- Work place information;
- Management of Occupational Safety and Health policies;
- Work place safety, Health and Welfare conditions including safety, occupational hygiene conditions as well as general conditions; and
- Emergency response plan.

### **Zero Tolerance to Corruption**

LVNWWDA has a zero tolerance policy towards corruption. During the year LVNWWDA carried out corruption perception risk assessment and mitigation measures. In order to enhance integrity in public procurement, LVNWWDA posted all advertisements and awards to the agencies website and advertised open tenders in the papers for everybody to participate and invited all interested parties to come and witness the opening.

To promote high standards of ethical culture, LVNWWDA continued to have centralised tea breaks to foster teamwork, unity and continuous engagement. Carried out a sensitization to all staff on national values and corporate governance. The Board of Directors were inducted in the year, trained on Mwongozo, and each signed Code of Conduct.

### **Ethics and Integrity**

The Agency has in place Code of Conduct and Ethics and Corruption Prevention Policies. This policy requires employees and members of the Board to conduct business with integrity, in accordance with the Public Officers Ethics Act and ensure the enforcement of corruption prevention plans. Accordingly, corruption prevention, training, risk assessments and surveys form part of the Performance Contract between the Government of the Republic of Kenya (through Ministry of Water & Irrigation, state department for Water) and the Board of Directors.

The Board is cognizant of the financial crime risks that arise from internal and external sources. LVNWWDA conducts business in compliance with high ethical standards of business practice. To this end, LVNWWDA conducted various training courses on anticorruption and financial fraud practices. The agency also has in place various systems and procedures, which are implemented and monitored on regular basis.

## **(b) Stakeholder Engagement**

LVNWWDA is cognizant that there are various people and groups who may be affected by the decisions it makes or can influence the implementation of its decisions and therefore we continued engaging different stakeholders in order to understand their concerns and to respond to them appropriately. These engagements have assisted by providing feedback on the policies, procedures and ways of working.

### **Reporting**

LVNWWDA is committed to transparency in reporting of its activities to its stakeholders. This is done regularly through the print and electronic media, published annual reports and financial statements.

### **Customer Focus**

LVNWWDA is committed to meeting stakeholder requirements to their satisfaction by ensuring effective and efficient use of resources. It encourages continual improvement of its services and processes.

A service charter was rolled out, and cascaded to all departments and staff and they are displayed at various strategic places in the organization. The compliance to the service charter is monitored on a regular basis, and plans are made on how to reduce or eliminate the non-compliances.

### **Grievance Mechanisms and Procedures**

The Agency has put in place a grievance handling mechanisms for both the directors and employees. The employees' issues are dealt with by the Human Resources and Administration Committee of the Board. The Agency has set up a complaints handling mechanism which is handled by the management. The Agency submits quarterly reports on complaints to the Commissioner of Administrative Justice who evaluates the extent of compliance with the procedures and issues a certificate. During FY 2018/19, the Agency achieved 98% compared to an achievement of 92% previous year in the performance contract evaluation on resolution of public complaints.

## **(c) Protecting our environment**

### **Environmental and social sustainability**

#### **Introduction**

#### **Background**

Environmental and Social Sustainability refers to concerted efforts to mitigate against environmental degradation and social impacts. It is the maintenance of the factors and practices that contribute to the quality of environment on a long term basis as well acceptable social norms over the long term. It involves making decisions and taking action that are in the interests of protecting the natural and social environment, with particular emphasis on preserving the capability of the environment to support human life; and social wellbeing of communities.

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

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

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

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

### Approach

LVNWWDA environmental sustainability is guided by the Constitution of Kenya, 2010, Environmental Management and Coordination (Amendment) Act of 2015 which is the principal legislation governing the conduct of environmental management in Kenya. Other legislation related to natural resources such as Water Act, forest Act, Land planning Act, National land policy etc. as well as the Occupational Health and Safety Act, 2010 are also used as guidelines. The Agency has developed International Best Practices to enhance Performance Standards as outlined in the African Development Bank (AfDB) or World Bank Guidelines through

1. Operational Environmental Policy
2. Resettlement Action Policy
3. Public Participation Policy
4. Electronic Waste Policy

LVNWWDA therefore, complies with the environmental requirements of International Development Funding agencies such as World Bank and African Development Bank (AfDB) among others.

Table 1: Environmental and Social Framework (ESF)	Environment Safeguards Instruments	Description of safeguards
World Bank	Environmental and Social Standards (ESS)	<p><b>ESS1:</b> Assessment and Management of Environmental and Social Risks and Impacts</p> <p><b>ESS2:</b> Labor and Working Conditions</p> <p><b>ESS3:</b> Resource Efficiency and Pollution Prevention and Management.</p> <p><b>ESS4:</b> Community Health and Safety</p>

		<p><b>ESS5:</b> Land Acquisition, Restrictions on land use and Involuntary Settlement.</p> <p><b>ESS6:</b> Biodiversity Conservation and Sustainable management of living Natural Resource.</p> <p><b>ESS7:</b> Indigenous peoples / Sub-Saharan African Historically underserved Traditional Local Communities.</p> <p><b>ESS8:</b> Cultural Heritage</p> <p><b>ESS9:</b> Financial Intermediaries</p> <p><b>ESS10:</b> Stakeholders Engagement and Information Disclosure.</p>
	Indigenous Peoples Policy Framework (IPPF)	Provide indigenous people with culturally appropriate benefits that recognize distinct circumstances that expose indigenous people to inability to defend their rights.
	Resettlement Policy Framework (RPF)	Provides guidelines on how projects will avoid, manage or mitigate all related displacements.

## Environmental sustainability activities

### Environmental sustainability planning

LVNWWDA developed and operationalized ISO 14001 standards on Environmental Management System. This standard provides a framework for developing environmental objectives, targets and programs. The organizational service charter also include the environmental considerations such as the enforcement of water quality monitoring.

LVNWWDA subjects all the new water and sanitation infrastructure projects to environmental and social impact assessment process in line with the Environmental Management and Coordination Act, (EMCA), 1999. In order to identify both potential positive and negative impacts. This process allows for provision of enhancement, mitigation, restoration and compensation measures to ensure that the projects are environmentally and socially sustainable. The reports are subjected to stakeholders engagements and finally submitted to NEMA for review and licensing and to funding agencies (where applicable) for approval based on international standards. Some of the environmental and social impact assessment reports licensed by NEMA within the financial year include:

1. Updated ESIA License for Kipkarren Dam Water Supply Project
2. ESIA License for Kiptogot-Kolongolo Water Supply Project
3. Malaba Town Sewerage Treatment Plant Project
4. Malaba Water Supply Project
5. Keben Dam and Water Supply Project

### **Environmental Unit**

Due to crosscutting of environment and social issues in the project cycles, LVNWWDA has operationalized Environmental social safeguards, under the technical department and is responsible for Environmental compliance and management for planning and designing of projects, development, management, operations and maintenance. For effectiveness oversight, the unit reports to Chief Manger Technical Services.

### **Pollution prevention and abatement**

LVNWWDA Complies with various legislation related to prevention and abatement of pollution such as EMCA (waste management) regulations, EMCA (water quality) regulations) EMCA (noise reduction) regulations, Water Act (water rules).

Programmes are in place to ensure that all operations are in compliance with these regulations. For instance, water abstraction permitting, effluent discharge planning and licensing, and workplace certification among others.

The boreholes drilled within this reporting period were authorized and permitted by WRMA.

- All sewerage treatment plants are designed to improve quality of final discharge into the receiving surface waters. These facilities are issued with effluent discharge permits based on effluent discharge and control plan.
- All ongoing construction projects are supervised and monitored to ensure proper implementation of project specific environmental management plans and environmental conservation.
- All motor vehicles are being regularly serviced as per manufacturer's recommendations.

### **Climate change mitigation and adaptation**

LVNWWDA implements projects with measures to adapt and/or mitigate against effects of climate change. LVNWWDA is drilling and equipping boreholes to provide alternative water sources in ASALs to help communities in those areas adapt to water scarcity which is associated with climate change.

LVNWWDA is also implementing medium and small dams to provide water storage thereby providing adaptation measures to water scarcity resulting from climate change. Community projects focusing on rainwater harvesting and development of water pans also provide additional water storage to help communities and schools deal with water scarcity.

The Agency also undertakes tree planting within the area of jurisdiction as a climate change adaption measure to act as carbon sinks. The Agency adopts technologies that mitigate climate change like solar energies, gravity or non-motorized facilities as well as supporting research and development to reduce ozone depletion during the project cycles.

### **Promoting Environmental protection and conservation through partnerships with stakeholders**

LVNWWDA continually work together with partners such as County governments, community members, WRA, NEMA, Water Resource Users Associations, local administrations etc. within its area of jurisdiction to enhance participation of stakeholder and sustainability of projects.

### **Environmental education and awareness**

LVNWWDA through its corporate communication section develop and disseminate information on water conservation and rain water harvesting through fliers, brochures, print media, radio and TV.

### **Social sustainability activities**

#### **Socio-economic impact assessment**

Environment and Social safeguards framework is now conceived as being the tool for identifying and managing the social issues of project development, and includes the effective engagement of affected communities in participatory processes of identification, assessment and management of social impacts. Social Safeguards contributes to the ongoing management of social issues throughout the whole project development cycle, from conception to post-closure. LVNWWDA focuses on social impact assessment to enhance the benefits of projects to impacted communities. This is necessary for the project to earn its 'social license to operate; Enhancing benefits covers a range of issues, including- modifying project infrastructure to ensure it can service local community needs; providing social investment funding to support local social sustainable development and community visioning processes to establish strategic community development plans; a genuine commitment to maximizing opportunities for local content (i.e. jobs for local people and local procurement) by removing barriers to entry to make it possible for local enterprises to supply goods and services; and by providing training and support to local people.

Where people's assets and properties are affected, the LVNWWDA ensures that appropriate Resettlement Action Policy (RAP) is applied hence, there is prior and informed consent from the project affected persons, there is prompt and adequate compensation for any loss; and where people are resettled to enable a project to proceed, the Agency ensures that their post-resettlement livelihoods are restored and enhanced.

#### **Other Social sustainability activities include:**

- i. Stakeholder engagement and public participation plan
- ii. Livelihood and restoration plans
- iii. Environmental Commitment Plan by the Contractor

#### **Environment and social sustainability management systems**

LVNWWDA aims at managing the various environmental and social aspects associated with different projects under implementation by developing and implementing project specific management and monitoring plans. The Unit conducts environment and social monitoring for both development projects and operation projects under the County governments.

### **Environmental and social Management Plans**

An Environmental and Social Management Plan (ESMP) provides the remedial measures to be taken, the responsible person(s) for execution, and the monitoring activities to be undertaken during the construction, operational and decommissioning phases.

An indication of the timing for implementation and the cost involved is also provided. It is a practical and achievable plan of management to ensure that any environmental impacts during the design, planning and construction phase are minimized. All contractors working with LVNWWDA submits an ESMP for their respective projects to LVNWWDA for review and are taken through orientation on ESMP, Policies and regulatory requirements. LVNWWDA ensures that the ESMP is implemented at each phase of the project in order to minimize harmful occurrences to the environment, community members and the employees.

### **Health and safety management plans**

In accordance with the requirements of the Occupational Safety and Health Act 2007, a Health and Safety Management Plan (HESMP) is prepared for each project being implemented by LVNWWDA. The objective of a HESMP is to establish safe working practices and standards, which are employed on site and to detail the organizational requirements and obligations of the contractor.

### **Grievance Redress Mechanism.**

LVNWWDA recognizes the need for a Grievance Redress mechanism (GRM) throughout the project implementation period to identify disputes in good time and allow them to be resolved in a transparent and accountable manner. Compensation based disputes are issues likely to occur during and after project implementation period, hence the need for GRM system. Project financing institutions guidelines and policies also call for appropriate and accessible grievance handling mechanisms for project-affected persons. Appropriate Grievance Redress System is developed and maintained in the entire project cycle.

### **Conclusion**

LVNWWDA is committed to Environmental Conservation and safeguard of the Health and Safety of employees as well as communities affected by the organizations operations. The organization continuously works towards compliance with the ISO and international good practices as well as achieving the environmental sustainability targets.

## REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30<sup>th</sup> June 2020, shows the state of affairs of the Agency.

### Principal activities

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

### Results

The results of the Agency for the year ended 30<sup>th</sup> June, 2020 are set out on page 1.

	<b>Kshs</b>
Surplus/ (Deficit) before depreciation and finance costs	(39,062,352)
Less: Depreciation	<u>(307,877,475)</u>
Surplus/ (Deficit) before finance costs	<u>(346,939,827)</u>

### Net deficit for the period

The Agency registered a Deficit of **Ksh. (346,939,827)** during the year.

### Directors

The members of the Board of Directors who served during the year are shown on page VI to XI.

During the year, the following directors' term expired upon creation and subsequent appointment as directors of North Rift Valley Water Works Development Agency with effect from 4<sup>th</sup> February 2020.

1. Joan Maiyo - Independent Director
2. Douglas Kiplimo Tanui - Independent Director

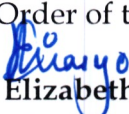
### Surplus Remission

The Agency 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 Agency 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: 23/9/2020

## 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, which give a true and fair view of the state of affairs of the Agency at the end of the financial year/period and the operating results of the Agency for that year/period. The Directors are also required to ensure that the Agency keeps proper accounting records which disclose with reasonable accuracy the financial position of the Agency. The Directors are also responsible for safeguarding the assets of the Agency.


The Directors are responsible for the preparation and presentation of the Agency's financial statements, which give a true and fair view of the state of affairs of the Agency for and as at the end of the financial year (period) ended on June 30, 2020. 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 Agency; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Agency'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 Agency's financial statements give a true and fair view of the state of Agency's transactions during the financial year ended June 30, 2019, and of the Agency's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Agency, which have been relied upon in the preparation of the Agency'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 Agency 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 Agency's financial statements were approved by the Board on 22<sup>nd</sup> September, 2020 and signed on its behalf by:

  
Chairman of the Board

  
Director

# REPUBLIC OF KENYA

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## **REPORT OF THE AUDITOR-GENERAL ON LAKE VICTORIA NORTH WATER WORKS DEVELOPMENT AGENCY FOR THE YEAR ENDED 30 JUNE, 2020**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Lake Victoria North Water Works Development Agency set out on pages 1 to 30, which comprise the statement of financial position as at 30 June, 2020, 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Lake Victoria North Water Works Development Agency as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Water Act, 2016 the Public Finance Management Act, 2012.

#### **Basis for Qualified Opinion**

##### **1. Property, Plant and Equipment**

The statement of financial position reflects property, plant and equipment balance of Kshs.9,180,358,150 as at 30 June, 2020 which is an increase of Kshs.3,366,515,126 compared to a balance of Kshs.5,813,842,024 as at 30 June, 2019. As previously reported, the property, plant and equipment balance exclude the value of land and buildings where the Agency offices are housed at KEFINCO estates in Kakamega Municipality and no disclosure has been provided for such omission.

Further, and as disclosed in Note 20 to the financial statements, the property, plant and equipment balance of Kshs.9,180,358,150 includes additions to water supply infrastructure valued at Kshs.3,461,731,765 being projects that were completed and capitalized but whose details were not provided for audit review. Further, Note 21 on capital works in progress reflect transfers to property, plant and equipment balance of

Kshs.4,244,106,304 which differ with Kshs.3,540,881,060 capitalized in various classes of property, plant and equipment resulting to an unexplained and an unreconciled variance of Kshs.703,225,244.

In addition, information available revealed that the Agency had sixty-nine (69) motor vehicles and sixty-four (64) motorcycles out of which fifty-six (56) motor vehicles and forty (40) motorcycles are operational. The motor vehicles and motorcycles are recorded at nil net book value and no explanation was provided for failure to revalue the assets to recognise their true economic value in the books of account of the Agency.

Further, no detailed workings for depreciation were provided for every class of asset to indicate how the total depreciation balance of Kshs.307,877,475 was arrived at.

Consequently, the accuracy and fair statement of the property, plant and equipment balance of Kshs.9,180,358,150 as at 30 June, 2020 could not be confirmed.

## **2. Capital Works in Progress**

As disclosed in Note 21 to the financial statements, the statement of financial position reflects a capital works in progress balance of Kshs.4,137,074,004 as at 30 June, 2020. However, details of the specific ongoing projects were not provided for audit review.

Consequently, the accuracy and validity of the capital works in progress balance of Kshs.4,137,074,004 as at 30 June, 2020 could not be confirmed.

## **3. Long-Term Loan Repayments Due**

The statement of financial position reflects a balance of Kshs.781,081,029 under long-term loan repayments due which, as disclosed in Note 27 to the financial statements, arose from loan financing by Kreditanstalt für Wiederaufbau (KfW) for Nzoia Phase I and II, and International Development Association (IDA) for Water and Sanitation Services Improvement Project (WaSSIP). However, as previously reported, servicing of the loans is in arrears and although Management reported having paid an amount of Kshs.32,292,194, there was no evidence that any repayment had been done and the Agency may incur additional penalties due to late payments.

Consequently, the accuracy of the long-term loans due balance of Kshs.781,081,029 as at 30 June, 2020 could not be confirmed.

## **4. Levy Income from Water Service Providers**

During the year under review, the Agency did not record any income from the Water Service Providers (WSPs). However, the Agency had billed the Water Service Providers a total of Kshs.81,870,319 during the year ended 30 June, 2019. The revenue from WSPs is expected to help in servicing loans used for the development of the water infrastructure. Although the Management explained that the Water Act, 2016 changed its mandate, a circular Ref. WASREB/FIN/104 VOL. VIX (46) of 27 November, 2018 guides that only a part of the levy was to be reallocated and the remainder to continue to be remitted to the water Agencies.

Under the circumstances, the accuracy of Nil revenue from the Water Service Providers reflected in the statement of financial performance for the year ended 30 June, 2020 could not be confirmed.

## 5. Receivables from Non-Exchange Transactions

The statement of financial position reflects a balance of Kshs.146,922,485 under receivables from non-exchange transactions which, as disclosed in Note 18 to the financial statements, includes an amount of Kshs.114,750,000 in respect of grants from the Government. The treatment is contrary to IPSAS 23 which requires that transfers from other government entities be recognized when control of the asset is obtained and it is probable that the economic benefits or service potential related to the asset will flow to the receiving entity. Further, the breakdown of the projects to be funded by the expected grants was not provided for audit review.

In the circumstances, it was not possible to ascertain the accuracy of the receivables from non-exchange transactions balance of Kshs.146,922,485 as at 30 June, 2020.

## 7.0 Accuracy and Presentation of the Financial Statements

The financial statements submitted for audit had the following anomalies:

### 7.1 Statement of Cashflows

The statement of cash flows has been prepared using the indirect method against the Public Sector Accounting Standards Board directive that the direct method be used. In addition, the statement of cashflows reflect items and balances that have not been explained or supported with a Note as below:

No.	Item	Amount Kshs.
1	Prior Year's Adjustment	7,246,649
2	Purchase of Property, Plant and Equipment	506,811,257
3	Repayment of Borrowings/Transfer to Current Liabilities	297,475,653
4	Increase in Deposits	211,860,309

### 7.2 Statement of Changes in Net Assets

The statement of changes in net assets is not prepared as per the standard and format prescribed by the PSASB in a tabular form, each column representing a class of financing.

Under the circumstances, the accuracy of the financial statements for the year ended 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Lake Victoria North Water Works Development Agency Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance

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

### **Key Audit Matters**

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

### **Other Matter**

#### **Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects an approved revenue budget of Kshs.1,001,053,159 compared to actual revenue of Kshs.480,590,301 resulting to an underfunding of Kshs.520,462,858 or 52% of the budget. Similarly, the Agency spent a total of Kshs.827,530,128 resulting to an under expenditure of Kshs.173,523,031 or 17% of the approved budget. However, explanations for the variances were not provided. The underfunding and under-absorption is an indication that some activities and development projects in the annual plan were not implemented by the Agency which may have affected delivery of clean drinking water to the targeted consumers.

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

### **Conclusion**

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

### **Basis for Conclusion**

#### **1. Unremitted Taxes**

The statement of financial position reflects a balance of Kshs.13,419,612 in respect of taxation which, as disclosed in Note 26 to the financial statements, comprised of Value Added Tax (VAT) of Kshs.7,751,096 and Withholding Tax (WHT) of Kshs.5,668,516. However, no explanation was provided for non-remittance of the taxes to the Kenya Revenue Authority. The Agency is in breach of law and is exposed to the consequences of non-compliance with the income tax laws.

#### **2. Borrowings**

The statement of financial position reflects a balance of Kshs.11,209,756,694 under borrowings which, as disclosed in Note 28 to the financial statements, relates to outstanding non-current loans. However, and as previously reported, servicing of these

loans is in arrears and the Agency may incur additional interest and penalties leading to loss of public funds.

### **3. Rural Water Supply Development**

An audit review of project files and physical verification of projects implemented under Rural Water Supply Development Section revealed the following:

#### **3.1 Irregular Funding of Poi Cluster Water Project**

During the year, the Agency continued implementing Poi Cluster Water Project in Baringo County, an area under the jurisdiction of Rift Valley Water Works Development Agency (RVWWDA). The work commenced in July, 2019 at a cost of Kshs.25,217,505. However, the mandate of the Agency is to undertake development of water and sanitation infrastructure within its area of jurisdiction in the counties of Elgeyo Marakwet, Uasin Gishu, Bungoma, Kakamega, Vihiga, Busia, Trans Nzoia and Nandi.

No reasons were provided for committing the Agency resources to areas outside its jurisdiction when there were many other proposals awaiting funding in the Agency areas of jurisdiction. Further, details of how the Poi Cluster Water Project was identified and planned for implementation were not provided for audit review.

Under the circumstances, the propriety of the expenditure of Kshs.25,217,505 incurred on the project could not be confirmed.

#### **3.2 Rehabilitation of Igukhu Water Project**

This project had earlier been done by the National Government Funding (Ministry of Water). However, the project failed, and the Agency undertook to rehabilitate it at a contract sum of Kshs.5,224,114 which was awarded to a local company. However, the handing over report from the Ministry of Water to the Agency to establish the particulars of the project and its status was not provided for audit review. Further, the Engineer's cost estimates on the project was stated as Kshs.4,928,625 although the estimates included an element of other rehabilitation works costing Kshs.1,180,000 which was not defined. In addition, the estimates omitted a water pump which is an important element in any water project which eventually amounted to Kshs.686,024.

Further, it is not clear why solar energy which has been used in most successful projects was not used as the community complained of high electricity bills which they may not afford in the long run.

As at the time of the audit inspection in February 2021, the project was not working due to the high cost of electricity. In addition, according to the water test report, the water has high turbidity and colour which is not fit for consumption unless treated and the community may not afford.

Under the circumstances, the public may not have obtained value for money from the expenditure incurred on the project.

### **3.3 Rehabilitation of Nyapera Water Pan in Busia**

The project was awarded to a construction company at a contract sum of Kshs.7,482,000 and declared substantially complete effective 18 August, 2020. Any work not satisfactorily completed was to be done within six (6) months during the defect liability period which expired on 18 February, 2021. An audit verification during the month of February, 2021 revealed that although the fencing was done, a section of the fence of nearly 30% had been vandalised. This was attributed by the locals to encroachment on private land by the Agency, an accusation the Agency has not been able to rebut as the Agency has no title documents for the land. No explanation has been provided on measures taken to prevent further vandalism and secure the project.

Consequently, the public may not have obtained value for money on the project.

## **4. Community Water Development Projects**

### **4.1 Masa- Wabukhonyi Community Water Project**

The project was initially awarded to a local construction company in 2016 at a contract sum of Kshs.17,758,293. The project included construction of pump house, spring protection, 100 cubic meter masonry tank (later changed to 100 cubic meter elevated steel water tank), pipe laying and associated works. The contractor executed some works and was later terminated, and the remaining works awarded to a Logistics Contractor at a contract sum of Kshs.1,997,814 who completed the project in May, 2019.

Although Management estimated the works done by the initial contractor at Kshs.10,514,483, details of the measured works as per the Bills of Quantities were not provided for audit verification. The project was completed in May, 2019 but the final account was not provided making it impossible to confirm the cost of the project. As at the time of this audit in February, 2021, eighteen (18) months after completion of the project, the project had not been put to use due to what was said to be failure by KPLC to install a customer meter.

### **4.2 Leseru Integrated Community Water Project**

A Construction Company was contracted to construct Leseru Integrated Community water project at a contract sum of Kshs.56,351,411 and by 30 June, 2020 the total certified works paid was Kshs.50,645,092. However, the two (2) grade 9 houses constructed at a cost of Kshs.4,425,254 were in a poor state and needed repair even before their occupation, an indication of poor workmanship. In addition, a report of the Inspection and Acceptance Committee on status report of the project was not provided for audit review.

### **4.3 Rehabilitation of Plateau and Kerita Dams in Uasin Gishu County**

The contract was entered into between the Agency and a local company for the rehabilitation of Plateau and Kerita Dams in Uasin Gishu County with the objectives to improve water access and supply in Ainabkoi and Kesses Sub-Counties, County of Uasin-Gishu at a negotiated contract sum of Kshs.10,402,424. The contractor took possession

of the site on 24 October, 2019 for the execution of works but raised concern about hostility by the local community in their letter dated 31 January, 2020 to the Agency.

This was further confirmed by an internal memo dated 19 October, 2020 which indicated how the Plateau Dam had been encroached by politicians making the project's implementation untenable. However, there is no evidence that the Management did public participation and carried out due diligence that would have brought out the conflict at Plateau Dam for attention before committing public resources.

A field inspection of Kerita Dam in February, 2021 revealed that the dam is silted, with plant matter overgrown the water level. In addition, the spillways were put into place before desilting. Also, the fencing was not done with pre-treated poles.

Consequently, the public may not have obtained value for money on the project.

## **5. Water and Sanitation Services Improvement Project**

### **5.1 Consultancies - Kapcherop II Upstream Water Treatment Works and Distribution Lines**

During the year under review, the Agency made payments totalling Kshs.1,329,500 to a consultant in respect of consultancy services for undertaking a feasibility study, detailed design and supervision for a gravity water scheme for Kapcherop. The water supply project is recorded to have been substantially completed and the works contractor, as well as the consultant, were discharged of their obligations under the contract after all defects were said to have been addressed by the end of the defects liability period. An EIA License No.0028566 for the additional water project for Kapcherop was issued by NEMA on 14 May, 2015 and EIA License No. NEMA/EIA/ PSL/ 3686 for Kipkarren dam project issued by NEMA on 18 August, 2016.

An audit inspection in November, 2020 revealed that project had dry lines and the main raw water intake had been run over by uncontrolled drainage which had almost completely covered the intake. This is an indication of a design error on the part of the consultant given that the location of the intake upstream was not properly thought out and was to be eventually destroyed by raw storm water from a nearby road. Further, the collection walls, as well as the sedimentation tank walls were too low, casting doubt on the capacity and viability of the raw water intake plan and design.

Further, as reported in the previous years, the construction works for the designed Kapcherop Upstream Water Treatment Works and Distribution Lines was a 12 months' contract reference LVNWSB/WaSSIP-AF/KAPCHEROP II/2014 which commenced on 22 September, 2015 at a contract sum of Kshs.114,586,833. The project was declared substantially complete on 20 March, 2017 and the contractor discharged of his contractual obligations on 9 January, 2018. The capacity of the treatment works was 600m<sup>3</sup>/day with an intake weir on River Kiptaragon comprising of an intake chamber, sedimentation tank, filters, flow control tank, fencing and gate, sentry house and toilet, alum mixing platform, septic tank, and soak pit. The chlorination tank is a 150 m<sup>3</sup> masonry clear water tank and the treatment centre has an administration building, 10 water kiosks, and chlorine mixing

and dosing platform have been constructed. The project has 13 masonry water tanks with a water distribution system of 38 km of distribution piping laid.

Payments were made to the main contractor including the final retention money upon successful completion of the project and handing over to Cherangani - Marakwet Water and Sanitation Company (CHEMAWASCO) for operation and maintenance on behalf of the County Government of Elgeyo Marakwet to benefit 15,000 people on 14 March, 2017.

However, audit verification revealed that the backwash tank supported by the Tembu water spring tank upstream still did not have enough pressure to clear any accumulated silt in the collection tank at the River Kiptaragon intake. The sedimentation tank was not properly raised resulting in raw drainage to run it over and the filters were completely blocked by silt and could not allow free flow of raw water for treatment. As a result, the raw water gravity main line which had been laid was dry as the water tanks at the raw intake tank did not have water. Although the project Management has indicated that the project was complete and benefiting 15,000 people, the project was not operational.

Consequently, the public may not have obtained value for money on the project.

## **5.2 Supply and Delivery of Non-Revenue Water Goods for Mumias and Kimilili Towns**

The statement of financial position reflects a capital works in progress balance of Kshs.4,137,074,004 which, as disclosed in Note 21 to the financial statements, includes an amount of Kshs.2,644,196,084 in respect of WaSSIP capital works in progress. The latter balance includes an expenditure of Kshs.70,313,340 for the supply and delivery of non-revenue water goods for Mumias and Kimilili Towns Pilot Project. The contract for supply and delivery of these goods was awarded to two contractors at a contract sums of Kshs.52,640,678 and Kshs.35,958,845 respectively. During the year under review, the two contractors were paid Kshs.70,313,340 comprised of Kshs.41,546,264 and Kshs.28,767,076 which after taking into account prior-year advances of Kshs.17,719,904 bring the total payments to Kshs.84,671,900. The following observations were made:

### **5.2.1 Abandoned Leak Detection Equipment, Pressure Data Loggers, Pressure Gauges, UFM Equipment, Meter Testing Benches, and Software**

Audit review of the documentation supporting the supply of goods for NRW project for Mumias and Kimilili under contract revealed that the contract was awarded to a local company at a contract sum of Kshs.35,958,845 and the contract signed on 06 February, 2019. The contractor was to supply leak detection equipment, pressure data loggers, pressure gauges, UFM equipment, meter testing benches and software.

However, the signed contract sum was higher than the approved procurement plan amount of Kshs.13,260,000 by Kshs.22,698,845 which was 71.1% in excess of the approved plan. WaSSIP-AF could not accommodate the new contract sum and therefore the extra cost of Kshs.22,698,845 was to be funded from other sources without prior approval.

All the leak detection equipment, pressure data loggers, pressure gauges, UFM equipment, meter testing benches, and software were subsequently supplied by the Company as per the contract in November, 2019. However, as at the time of audit in November, 2020, the goods supplied had not been put to use and were lying unattended in the respective stores in Mumias and Kimilili and no reason was provided for procuring equipment without a budget line and with an advance payment due to urgency then leave them to wear out for over a year since supply.

This investment of Kshs.35,958,845 may not have been well planned and may lead to wasteful expenditure.

### **5.2.2 Uncoordinated Supply, Delivery and Installation of Pipes, Meters, Fittings, Valves and Accessories**

The contract for supply of pipes, meters, fittings, valves, and accessories was awarded to a local engineering company at a contract sum of Kshs.52,640,678 against a procurement plan budget of Kshs.35,700,000 resulting in a shortfall of Kshs.16,940,678 which was also said to be funded from GOK counterpart funds. The contract sum was later varied to include installation of the supplied goods at an additional amount of Kshs.4,500,000. However, no details were provided on how this arrangement was arrived at or explanation provided relating to the abandonment of the initial programme envisaged under the consultancy.

During field verification in November, 2020 on the project sites in Mumias and Kimilili, it was revealed that the contractor did not have Bills of Quantities or pilot project site designs to guide in the installation of the procured infrastructure. In addition, project returns or briefs prepared as evidence of proper monitoring and evaluation indicating how the pipes were laid, various meters installed, and the various accessories distributed were not provided for audit review.

Consequently, the public may not have obtained value for money on the project.

### **5.2.3 Poor Technical Implementation of the Non-Revenue Water Pilot Project**

The main objective of this project was to study the existing water supply system, identify the gaps, investigate the factors causing water losses and in turn, high Non-Revenue Water (NRW), carry out water network modelling, formulate District Metering Areas (DMAs), identify pilot areas in each water scheme, prepare tender documents to execute the pilot DMAs under consultant's supervision, and frame a NRW strategy which can be used by Water Service Providers (WSP) to carry out NRW mitigation programme for remaining areas. One of the major outcomes expected from this project is sustainable exploitation of water, capacity building of WSPs to make them capable of operating the water schemes more efficiently and effectively.

The following anomalies were observed:-

### **i) Nambacha Water Treatment Plant - Mumias**

According to the consultancy report, the water abstracted from the river is 2417m<sup>3</sup>/day and the average total water production at Nambacha Water Treatment Plant is 1862 m<sup>3</sup>/day, out of which about 788 m<sup>3</sup>/day is billed. Hence average NRW level as calculated by WSP is 57.68%. The designed production capacity of water at the Water Treatment Plant is 15,000m<sup>3</sup>/day however the current water production is limited to 2,900 m<sup>3</sup>/day to meet the current water demand.

### **ii) Kamtiong Water Treatment Plant - Kimilili**

The average total water production at Kamtiong WTP is 3698 m<sup>3</sup>/day, out of which about 1,057m<sup>3</sup>/day is billed. Hence NRW level as calculated by WSP is 71%. The plant has a production capacity of 5000m<sup>3</sup>/day which however goes down during the dry season. The street and lantern lights, front/administration lights are not working while six (6) mortars that mix alum and chlorine had stopped working due to an electrical problem. The targeted water treatment plants are operating below capacity and their water loss is very high. Further, it is noted that after about 18 months the NRW works (pilot project) are not complete as expected, with the initial target date having been 30 June, 2018.

The project was therefore poorly designed, implemented and managed thus value for money may not be realized from the resources expended.

### **iii) District Metering Areas**

According to the consultancy report, DMA formation was one of the foremost and important steps in the NRW management which would allow the WSP to have full control over the system in terms of NRW management. The two pilot areas were surveyed, and the pilot DMA segregated after review of various set parameters as per the consultancy study. Kimilili water network is divided into 23 DMAs while Mumias water network is divided into 24 DMAs. To mark the pilot area, new gate valves to isolate each DMAs were proposed, with an option in some cases of permanently closing the existing gate valves to form the DMAs. The network already contained a number of existing bulk meters that have been appropriately located and only a few new bulk meters for monitoring the NRW in each DMA were therefore required.

Out of the newly formed DMAs, five DMAs each from Kimilili and Mumias were chosen for a pilot study. Each DMA was given a unique identification number. Existing water main which may be old and leaking and may require replacement were assessed to approximate quantities of new water mains for different diameters estimated in each DMA and the quantity considered in the tender documents.

Similarly, new bulk meters, gate valves, air valves, other pipe fittings were estimated and considered in the tender documents to ensure that complete NRW management was implemented in the pilot DMAs. It was expected that the pilot DMAs once commissioned, the existing NRW unit operators will get a hands-on experience in the operation and maintenance of the DMA. Further, on successful completion of the pilot DMAs, the client was expected to apply these procedures for completion of works in the remaining DMA to get total control of the NRW management.

However, from audit inspection carried out in November, 2020, all these well-documented procedures remained on paper and had not been initialized. As such the project does not really exist as envisaged. Further, there was no documented scope of implementation and listing of the infrastructure required for the DMAs under the pilot. Therefore, there were no improvements in commercial efficiency in the envisaged new billing systems; improved meter reading procedures; periodic customer surveys; or any database cleaning exercises undertaken.

Because of the poor implementation of the program in DMAs, water losses continue to afflict respective Water Service Providers in that the expected outcomes have not been achieved in metering inaccuracies; theft (arising from illegal connections), meter tampering and fraud; losses arising from the use of deemed consumption (for instance, where there is no meter, or the meter is broken); errors and omissions in the billing database; and illegitimate unbilled water uses (for instance pipe flushing).

### 5.3 Civil and Construction Works

The civil works involved equipping of drought boreholes at a cost of Kshs.57,746,397; construction of plinths or gutters for plastic tanks at a cost of Kshs.33,067,727; and rehabilitation and expansion of water supplies at a cost of Kshs.74,911,052. The following anomalies were observed on examination of the expenditure and field verification of the programmes:

#### 5.3.1 Equipping and Civil Works for Drought Boreholes

The WaSSIP capital works in progress balance of Kshs.2,644,196,084 includes an amount of Kshs.57,749,396 incurred on equipping and associated civil works for drought boreholes out of which a total of Kshs.32,841,560 was spent in the Rift Valley, Kshs.12,736,489 in the Lake Victoria South area and Kshs.12,168,347 in the Lake Victoria North area.

Included in the payments of Kshs.32,841,560 made for the Rift Valley Water Works Development Agency boreholes was a payment made to Lake Victoria North Water Works Development Agency of Kshs.3,826,919 being a transfer of funds to UDDT Retention for Baringo.

Further, the Lake Victoria South area amount of Kshs.12,736,489 included an expenditure of Kshs.2,275,097 in respect of Kangeso and Nyamila Boreholes in Migori and Homa Bay Counties. However, the contractor had advanced Kshs.2,300,000 to the supervising consultant under unclear circumstances.

#### 5.3.2 Rehabilitation/Expansion of Water Supplies

A total of Kshs.74,911,052 was spent on rehabilitation and expansion of water supplies against four projects as detailed below: -

Rehabilitation/Expansion Project	County	Amount Kshs.
LVNWWDA - Kwanza Water Supply	Trans Nzoia	22,599,496
RVWWDA - Suswa Water Supply	Narok	11,864,644

Rehabilitation/Expansion Project	County	Amount Kshs.
RVWWDA - Kapenguria Water Supply	West Pokot	9,567,916
RVWWDA – Kapindaram Water Supply	Baringo	30,878,996
<b>Total</b>		<b>74,911,052</b>

The projects were substantially completed and handed over but during field audit verification in November, 2020, the projects were found not operational as envisaged and therefore the target beneficiaries were not getting clean and safe drinking water.

### 5.3.2.1 Kwanza Water Supply

The contractor was paid Kshs.28,701,969 being certified works against certificate No.8. Included in the certificate was a payment to the Lake Victoria North Water Works Development Agency of Kshs.4,231,332 whose supporting documents were not provided for audit review.

The contract was awarded on 30 March, 2016 at a contract sum of Kshs.95,455,426 and the project sites handed over to the contractor on 23 August, 2016 with twelve months construction period and defects liability period of one year. However as at the time of audit in November, 2020, the planned works had not been completed, three years after the contract completion period had lapsed.

### 5.3.2.2 Suswa Water Supply

The contractor for the project was paid a total of Kshs.11,864,644 during the period under review in respect of the project to benefit 6,300 people. During site verification in November, 2020, the contractor was not on-site and there was no water supply since April, 2020. According to the progress reports, the works had been done up to 93% completion level and test running of the water supply had been completed but the project was experiencing voltage drop out. The problem has however not been resolved to date and as a result, the water supply has stopped, and the taps were found dry.

### 5.3.2.3 Kapenguria Water Supply

According to certificate No.9 of 31 July, 2019 the contractor had executed works valued at Kshs.44,957,532 and had been paid Kshs.42,062,636 leaving a balance of Kshs.1,561,936. However, the project Management paid the contractor a total of Kshs.10,441,000 instead of the balance of Kshs.1,561,936, resulting to over payment of Kshs.8,879,064 for which no reason has been provided.

Although the works have been recorded to be at completion level of 94% and benefiting 38,400 people, audit verification in November, 2020, revealed that the new silt check dam constructed at Kotoruk River intake with gabions had collapsed and exposing the intake to uncontrolled silting. This had affected the operations of the composite filtration unit expected to produce 600m<sup>3</sup>/day which was not operating at capacity. Further, the raw water pumping set Pedrollo HF6A 2.2KW 3HP installed at Kotoruk intake raw water pumping station to pump 37.5 m<sup>3</sup>/hour was said to have been removed after being destroyed by silt.

Under the circumstances, the Agency did not get value for the investment and the target community was not benefitting as planned.

### 5.3.2.4 Kapindaram Water Supply

During the year under review, a local contractor was paid Kshs.30,878,996 for the Kapindaram Water Supply works. However, audit inspection in November, 2020 revealed that part of the key works which involved connecting the newly secured intake at the water spring to the distribution infrastructure had not been done.

The welding of the main 540m gravity main piping of 200mm diameter HDPE from Kapindaram spring to the existing gravity main piping and anchoring of the existing 5Km gravity main of steel had technically failed and the works abandoned. By the time these works were abandoned, it was estimated to have been constructed up to 90% completion level.

The main Kapindaram Water Project where the spring was being protected; the project is not functional, though two 50m<sup>3</sup> masonry water tanks had been constructed at Emsos and Kipterewet; the 9.8Km of 75 and 50 mm HDPE pipelines had been laid to Kipterewet, Emsos, KWS, and Kipkorir; the 50m<sup>2</sup> office block constructed alongside the other works and the Project said to be benefitting some 19,800 community members.

The Project has therefore failed to meet its objectives and the community members under this main and primary component were not benefitting implying that the public may not get value for the amount of investment in this project.

### 5.3.3 Construction of Plinths/Gutters for Plastic Water Tanks

During the year under review, the project Management paid various contractors amounts totalling Kshs.33,067,726 for the services of installing the 10,000-liter plastic poly tanks delivered in the various targeted institutions as follows:

Contractor	County	No. of Sites	Kshs.
Melianko Contractors Limited	C&N-Pokot	12	3,117,418
Assup Enterprises Limited	LVSWSB	60	12,177,248
Prime Rigs and Drillers Limited	LVNWSB	29	3,436,238
Rotalink Engineering Limited	Turkana East	13	6,953,457
CEJ Systems	Turkana East	12	3,709,448
Shibalink Company Limited	Loima	12	3,673,917
<b>Total</b>		<b>138</b>	<b>33,067,726</b>

The tanks should have been delivered during the 2013/2014 financial year or about six (6) years ago and the contractors for the construction of plinths/gutters for these plastic water tanks works had been identified in 2014/2015 as follows: -

S/No.	Name of Contractor	County	No. sites	Kshs.	Date of Agreement
1.	Prime Rigs Drillers Ltd	West Pokot & Narok	65	14,014,337	19/11/2014
2	Assup Entreprises Ltd	Baringo	60	8,169,000	05/01/2015
3.	Assup Entreprises Ltd	Lake Victoria South	100	11,917,500	05/01/2015

S/No.	Name of Contractor	County	No. sites	Kshs.	Date of Agreement
4.	Prime Rigs Drillers Ltd	LVNWSB	100	20,150,288	02/06/2015
	<b>Total</b>		<b>325</b>	<b>54,251,124</b>	

Given that the project had targeted to supply 400 tanks, the final lot of tanks for Turkana County got the bank no objection letter for RAP and EIA screening on 24 April, 2015 and contract No. LVNWSB/WaSSIP-AF/DM/PLINTHS/2014-LOT 2a for installation of the balance of 75 No. plastic water tanks in Turkana County was signed on 30 October, 2015. In view of this, it was not clear how these contractors some who had been given advances were still on the project given it was expected to last a maximum of six (6) months which effectively would have ended the latest by 30 June, 2016 all factors notwithstanding. No report has been provided to justify the continuation of installation of the tanks six (6) years after the lapse of the contract period.

It was further noted that had the plinths under construction been done to the expected standards, the heights of the poly tanks supplied would have risen from 3.85 meters to 4.2 meters well above the standard height of ordinary buildings making it impossible to harvest the water. Alternatively, had the contractor supplied the tanks as specified, the height would have been reasonable at 1.970m rising to only 2.37m which is within a reasonable range for guttering and harvesting of the water.

A survey undertaken in West Pokot County during the month of November, 2020, revealed that nineteen (19) schools that received the tanks had the plinths constructed but in another four (4) the tanks were delivered and but the plinths were not constructed and the gutters therefore not installed.

Another survey undertaken in Turkana County in November, 2020, revealed that most of the tanks were not supplied or if supplied the list had been varied and as such, the number of these tanks could not, therefore, be verified. Given that the tanks had not been supplied as planned, it was not possible to ascertain the construction of plinths and the installation of the gutters.

Another random field visit to Nyosia DOK Primary School in Kisii Central Sub County of Kisii County revealed that the tank has never been supplied and received in school. Also, the plinth and gutters had not been constructed at the school.

The project management did not provide any report on this very old project that resurfaced at the closure of the project with invoices dating back a number of years without any explanation.

In view of the above, the propriety of expenditure in respect to the construction of these plinths of Kshs.33,067,726 could not be confirmed and value may not have been obtained from the expenditure.

#### **5.4 Consultancies**

The WaSSIP capital work in progress balance of Kshs.1,601,248,117 includes an amount of Kshs.46,390,787 incurred in respect of consultancy services, and the following issues were observed:

#### **5.4.1 Kwanza and Kapenguria Water Supply Projects**

Audit verification in November, 2020 at the Kapenguria water supply, revealed that the new silt check dam constructed at Kotoruk River intake with gabions had collapsed exposing the intake to uncontrolled silt which has since destroyed the main water pump. This had affected the operations of the composite filtration unit expected to produce 600m<sup>3</sup>/day which was not operating at capacity. This challenge was associated with poor design leading to the location of the raw water intake in an inappropriate site.

As reported in 2018/2019, the contractor installed an inappropriate water pump which could not be used to pump the treated water to the high-rise tanks again on the advice of the consultant making the whole project to fail in meeting its objectives.

Under the circumstances, value for money was not obtained from the amount of Kshs.7,286,244 paid to the consultant.

#### **5.4.2 Suswa and Kapindaram Water Supply**

The contract for the design and supervision of Suswa and Kapindaram Water Supply projects was awarded to a consultant who was paid Kshs.2,240,351 in 2019/2020 for the services. The Suswa project detailed design was approved on 4 November, 2015 while the Kapindaram detailed design for the project was approved on 15 September, 2015 and the consultant contract was awarded and signed on 7 November, 2016.

Audit verification in November, 2020 revealed that the contractor was not on site and the project was experiencing a voltage drop out which had not been resolved, and as a result, the water supply has stopped functioning. Further, it was noted that the welding of the main gravity piping from the spring to the existing gravity piping of steel had technically failed and the works had been abandoned.

#### **5.4.3 Non-Revenue Water (NRW) for Kimilili - Mumias**

Payments totalling Kshs.12,463,158 were made in February, April, May and June, 2020 to a local consulting firm that was contracted to offer technical assistance for study, design, and supervision the implementation of a program aimed at reducing the Non-Revenue Water (NRW) in two water service providers in Kakamega and Bungoma Counties. The contract was signed on 27 September, 2016 and the inception report was presented and approved by the stakeholders on 21 February, 2017. The project was to last 18 months effectively ending in July, 2018 but the works were still ongoing by the time of audit in November, 2020.

The consultant was said to have developed a Non-Revenue Water Operational Manual; formed one Non-Revenue Water Unit for each water supply system; trained Non-Revenue teams; conducted Non-Revenue Water Situation baseline assessment; identified and prepared Hydraulic Block maps and implemented preliminary Pilot District Metering Areas (DMA). The consultant had also prepared the tender documents for goods to address Non-Revenue Water. However, no evidence was provided for delivery of training or capacity building services.

In addition, the consultant had not provided the design maps for the pilot DMAs, Bills of Quantities for the infrastructure works expected to be implemented. The project was also being implemented in areas other than the original target areas.

Under the circumstances, the public did not get value for funds paid before the service was provided.

### **6.0 Outstanding Imprest**

The statement of financial position reflects a balance of Kshs.146,922,485 under receivables from non-exchange transactions which, as disclosed in Note 18 to the financial statements, includes an amount of Kshs.1,477,546 in respect of imprests due from staff. The imprests ought to have been surrendered on or before 30 June, 2020 but were still outstanding. This is contrary to Section 93(5) of the Public Finance Management (National Government) Regulations, 2015 which requires that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station.

The Management was in breach of law.

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

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

### **Conclusion**

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

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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 Board of Directors**

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 Agency's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve the Agency or to cease operations.

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

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

The Board of Directors is responsible for overseeing the Agency's financial reporting process, reviewing the effectiveness of how the Agency 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 Agency'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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Agency's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Agency to cease 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 Agency to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

16 February, 2022

**REPORT OF THE AUDITOR-GENERAL  
STATEMENT OF FINANCIAL PERFORMANCE**

For the year ended 30 June 2020

**Revenue from non-exchange transactions**

Transfers from other Governments-gifts and services-in-kind

Levy Income from WSPs

**Revenue from exchange transactions**

Other Income

Loan Repayment Income

Finance Income

**Total revenue**

**Expenses**

Employee costs

Remuneration of Directors

Depreciation and amortization expense

Repairs and maintenance

Supply and services

Transport Costs

General expenses

Rural water supply Development

**Total expenses**

Other gains/(losses)

Surplus/( Deficit) before tax

Taxation

Surplus/(Deficit) for the period

Jun-20

Jun-19

431,999,998

449,185,076

0

81,870,319

431,999,998

531,055,395

12,858,601

8,611,632

32,292,194

0

3,439,508

5,109,673

48,590,303

13,721,305

480,590,301

544,776,700

121,149,813

117,207,156

22,854,061

23,067,543

307,877,475

197,144,247

6,843,226

7,649,806

12,066,706

15,790,602

6,598,406

9,078,999

68,460,858

69,256,043

281,679,583

437,496,482

827,530,128

876,690,878

0

0

(346,939,827)

(331,914,178)

-

-

(346,939,827)

(331,914,178)

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

Lake Victoria North Water Works Development Agency  
Annual Report & Financial Statements 2019 -2020

**STATEMENT OF FINANCIAL POSITION**

As at 30 June 2020

		Jun-20	Jun-19
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	16	45,506,450	159,635,874
Receivables from exchange transactions	17	529,796,958	541,889,814
Receivables from non-exchange transactions	18	146,922,485	206,359,831
Inventories	19	<u>882,093</u>	<u>1,202,871</u>
		<b>723,107,986</b>	<b>909,088,390</b>
<b>Non-current assets</b>			
Property, plant and equipment	20	9,180,358,150	5,813,842,024
Capital Works In Progress	21	4,137,074,004	7,873,776,604
		<u>13,317,432,154</u>	<u>13,687,618,628</u>
		<b>14,040,540,140</b>	<b>14,596,707,018</b>
<b>Total assets</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	22	128,921,615	222,188,716
Provisions	23	5,512,802	5,112,802
Deferred income	24	0	-
Employee benefit obligation	25	7,990,902	3,934,889
Taxation	26	13,419,612	18,785,202
Long term loans due	27	<u>781,081,029</u>	<u>515,897,570</u>
		<b>936,925,961</b>	<b>765,919,179</b>
<b>Non-current liabilities</b>			
Borrowings	28	<u>11,209,756,695</u>	<u>11,239,977,050</u>
		<b>11,209,756,695</b>	<b>11,239,977,050</b>
<b>Total liabilities</b>		<b>12,146,682,656</b>	<b>12,005,896,229</b>
<b>Net assets</b>		<u><b>1,893,857,484</b></u>	<u><b>2,590,810,789</b></u>
Reserves		4,477,442,888	4,265,582,580
Accumulated surplus/deficit		<u>(2,583,585,404)</u>	<u>(1,674,771,791)</u>
<b>Total net assets and liabilities</b>		<u><b>1,893,857,484</b></u>	<u><b>2,590,810,789</b></u>

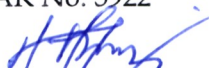
The Financial Statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:

Ag. Chief Executive Officer  
Eng. Daniel K. Bundotich



Date...23/09/2020.....

Head of Finance & Strategy  
CPA Fredrick Toloyi  
ICPAK No. 5922



Date...23/09/2020.....

Chairman of the Board  
Hon. Julius B. Wasike



Date...23/09/2020.....

**STATEMENT OF CHANGES IN NET ASSETS**

**Attributable to the owners of the controlling entity**

	<b>Total Kshs</b>
<b>Balance as at 30 June 2018</b>	<b>2,921,631,778</b>
Prior year adjustments	(3,228,183)
Transfers to/from during the period	9,455,042
(Deficit)/Surplus for the period	(337,047,848)
<b>Balance as at 30 June 2019</b>	<b>2,590,810,789</b>
<b>Balance as at 30 June 2019</b>	<b>2,590,810,789</b>
Accumulated depreciation for transferred assets	(569,120,256)
Transfers to/from during the period	211,860,309
Surplus for the period	(346,939,827)
Transfers to/from accumulated surplus	7,246,470
<b>Balance as at 30 June 2020</b>	<b>1,893,857,485</b>

**STATEMENT OF CASH FLOWS**

As at 30 June 2020

Cash flows from operating activities	Note	Jun-20	Jun-19
<b>Income</b>			
Government grants	3	431,999,998	449,185,076.00
Levy Income from WSPs	4	0	81,870,319
Other Income	5	12,858,601	8,611,632.00
Loan Repayment Income	6	32,292,194	-
Finance Income	7	3,439,508	5,109,673.00
<b>Total Income</b>		<b>480,590,301</b>	<b>544,776,700</b>
<b>Expenses</b>			
Employee costs	8	(121,149,813)	(117,207,156.00)
Remuneration of Directors	9	(22,854,061)	(23,067,543.00)
Repairs and maintenance	11	(6,843,226)	(7,649,806.00)
Supply and services	12	(12,066,706)	(15,790,602.00)
Transport Costs	13	(6,598,406)	(9,078,999.00)
General expenses	14	(68,460,858)	(69,256,043.00)
Rural water supply Development	15	(281,679,583)	(437,496,482.00)
<b>Total Expenses</b>		<b>(519,652,653)</b>	<b>(679,546,631)</b>
<b>Cash flows from operating activities</b>		<b>(39,062,352)</b>	<b>(134,769,931)</b>
<b>Working capital changes</b>			
(Increase)/Decrease in debtors		71,530,202	118,698,031
(Increase)/Decrease in stores		320,778	430,793
Increase/(Decrease) in Creditors		171,006,782	(82,130,475)
Prior year's adjustment		7,246,469	-
<b>Net cash flows from operating activities</b>		<b>211,041,879</b>	<b>(97,771,582)</b>
<b>Cash flows from Investing Activities</b>			
Purchase of property, plant, equipment and intangible assets		(506,811,257)	(381,985,201)
<b>Net cash flows used in Investing Activities</b>		<b>(506,811,257)</b>	<b>(381,985,201)</b>

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**Cash flows from Financing Activities**

Proceeds from borrowings	28	267,255,297	-
Repayment of borrowings/transfer to current liabilities	28	(297,475,653)	-
Increase in deposits		211,860,309	9,455,042
<b>Net cash flows used in financing activities</b>		<b>181,639,953</b>	<b>9,455,042</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(114,129,424)</b>	<b>(470,301,741)</b>
<b>Cash and cash equivalents at beginning of July 2019</b>	16	<b>159,635,874</b>	<b>629,937,615</b>
<b>Cash and cash equivalents at end of June 2020</b>	16	<b>45,506,450</b>	<b>159,635,874</b>

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustment	Final budget	Actual on comparable basis	Performance difference
	Jun-20 Kshs	Jun-20 Kshs	Jun-20 Kshs	Jun-20 Kshs	Jun-20 Kshs
<b>Revenue</b>					
Government Grants	189,736,505		189,736,505	431,999,998	242,263,493
WSTF Grants					-
GOK Rural development grants	335,071,000		335,071,000	0	(335,071,000)
Other Revenues	37,000,000		37,000,000	16,298,109	(20,701,891)
Levy Income from WSPs	36,465,000		36,465,000	0	(36,465,000)
Loan Repayment Income	402,780,654		402,780,654	32,292,194	(370,488,460)
<b>Total income</b>	<b>1,001,053,159</b>		<b>1,001,053,159</b>	<b>480,590,301</b>	<b>(520,462,858)</b>
<b>Expenses</b>					
Personnel Emoluments	139,731,742		139,731,742	121,149,813	18,581,929
Boards Expenses	21,487,600		21,487,600	22,854,061	(1,366,461)
Administrative/Establishment Expenses	55,905,063		55,905,063	68,460,858	(12,555,795)
Repairs and maintenance	15,354,162		15,354,162	6,843,226	8,510,936
Supply and services	15,752,938		15,752,938	12,066,706	3,686,232
Transport costs	10,770,000		10,770,000	6,598,406	4,171,594
Depreciation and amortization expense	402,780,654		402,780,654	307,877,475	94,903,179
Rural water supply Development	339,271,000		339,271,000	281,679,583	57,591,417
<b>Total expenditure</b>	<b>1,001,053,159</b>		<b>1,001,053,159</b>	<b>827,530,128</b>	<b>173,523,031</b>
<b>Surplus/ (deficit) for the period</b>				<b>(346,939,827)</b>	<b>(693,985,889)</b>

**Notes:**

**Income:**

The WSPs did not pay amounts for Loan Repayment Income.

**Expenses:**

**Personnel emoluments:** The Agency did not fill vacant positions.

**Administrative/Establishment Expenses:** Costs incurred in support of communities affected by floods.

**Repairs and maintenance:** Insurance of buildings and maintenance of assets not done during the period.

**Transport costs:** Expenses charged on projects costs.

**Depreciation and amortization expense:** Some assets were not completed in time hence were not transferred to fixed assets.

**Rural water supply Development:** Delays in project implementation.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. General information**

The Agency is established by and derives its authority and accountability from Water Act 2002. The Agency is wholly owned by the Government of Kenya and is domiciled in Kenya. The Agency'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 *Agency'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 *Agency*.

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 agency did not adopt any new or revised standards in year ending 30<sup>th</sup> June 2020.

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

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

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

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

The Agency 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 Agency 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 Agency 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

**ii) Revenue from exchange transactions**

***Rendering of services***

The Agency 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 Agency.

***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 2019-2020 was approved by the Board on 11<sup>th</sup> January 2019. 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.

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 Agency 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 recognized 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 Agency. 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 Agency 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 Agency 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 Agency. 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

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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 Agency expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Agency 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 Agency 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 Agency 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 Agency 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 Agency 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.

***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 Agency.

**j) Provisions**

Provisions are recognized when the Agency 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 Agency 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 Agency 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 Agency 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 Agency 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 Agency provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an Agency 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 Agency 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 Agency 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 Agency 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 Agency 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 Agency'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 Agency 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 Agency. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

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**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 Agency
- 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 Agency will comply with the conditions attaching to them
- ii) The grants have been received or are on transit at year end
- iii) Grants are recognized in the statement of financial performance in the same periods that the related expenses are recognized.
- iv) Grants exclude assistance that cannot reasonably be valued, and transactions between the government and the Agency that are in the normal course of business.

**3. Transfers from other Governments-gifts and services-in-kind**

**Unconditional Grants**

**Government Grants**

	Jun-20	Jun-19
<b>Actual</b>	<b>Shs</b>	<b>Shs</b>
Recurrent	129,999,998	67,900,000
Development	302,000,000	381,285,076
<b>Total Government Grants</b>	<b>431,999,998</b>	<b>449,185,076</b>

**4. Levy Income from WSPs**

	Jun-20	Jun-19
	<b>Shs</b>	<b>Shs</b>
Billed revenue from WSPs	0	81,870,319
<b>Total Levy Income from WSPs</b>	<b>0</b>	<b>81,870,319</b>

**5. Other Income**

	Jun-20	Jun-19
	<b>Shs</b>	<b>Shs</b>
Sale of tenders, Water bowsers services & Other income	12,858,601	8,611,632
<b>Total</b>	<b>12,858,601</b>	<b>8,611,632</b>

**6 Loan Repayment Income**

	Jun-20 Shs	Jun-19 Shs
Loan Repayment Income	32,292,194	0
<b>Total Loan Repayment Income</b>	<b>32,292,194</b>	<b>0</b>

**7. Finance Income**

	Jun-20 Shs	Jun-19 Shs
Interest from WaSSIP funds	3,439,508	5,109,673
<b>Total Interest</b>	<b>3,439,508</b>	<b>5,109,673</b>

**8. Employee costs**

	Jun-20 Shs	Jun-19 Shs
Basic salary and house allowance	82,925,848	76,631,877
Other allowances	2,999,994	6,323,628
Staff recruitment expenses	116,214	777,544
Staff welfare expenses	1,242,060	954,772
Commuter allowance	7,016,455	7,133,194
Medical allowance/expenses	13,199,753	11,934,729
Contributions to pensions/NSSF	12,118,178	11,765,394
Leave allowance & Accrued leave expense	1,531,311	1,686,018
Group life insurance/Personal accident cover	0	-
<b>Total Employee costs</b>	<b>121,149,813</b>	<b>117,207,156</b>

**9. Remuneration of directors**

	Jun-20 Shs	Jun-19 Shs
Board committee & conference	21,894,061	22,919,180
Honoraria for chairman	960,000	148,363
<b>Total Board remuneration</b>	<b>22,854,061</b>	<b>23,067,543</b>

**10. Depreciation and amortization expense**

	Jun-20 Shs	Jun-19 Shs
Furniture, Office equipment and fittings	88,996	95,039
Computers and related equipment	5,691,576	4,037,399
Motor Vehicles	0	-
Plant, Machinery and equipment	-	-

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Water supply infrastructure	302,096,903	172,279,318
<b>Total depreciation and amortization</b>	<b>307,877,475</b>	<b>176,411,756</b>

**11. Repairs and maintenance**

	Jun-20	Jun-19
	Shs	Shs
Laboratory/ quality control expenses	56,800	269,763
Maintenance of equipment	405,867	266,439
Minor alteration to building	51,636	3,064,230
Maintenance of computers	1,897,344	445,100
Electricity expenses-Interim WSPs	-	-
Monitoring and evaluation	823,900	2,851,862
Support to water service providers	3,607,679	752,412
<b>Total repairs and maintenance</b>	<b>6,843,226</b>	<b>7,649,806</b>

**12. Supplies and Services**

	Jun-20	Jun-19
	Shs	Shs
Advertisement and publicity	965,780	1,007,460
Computers stationery and accessories	87,950	529,318
Courier and postal services	312,719	453,931
General office supplies	1,768,674	1,662,193
Internet connections/ICT Expenses	3,135,033	2,027,460
Legal and professional services	2,064,895	1,627,440
Publishing & printing services	201,340	87,000
Professional subscriptions	396,096	547,826
Purchase of uniforms	-	225,000
Sanitary and cleaning materials	1,149,787	1,000,919
Subscription to newspapers	318,737	448,223
Telephone, Fax and mobile phones	213,873	39,596
Tender/Seek quotations	1,249,273	2,748,588
		3,385,647
Hospitality supplies and services and national celeb	202,550	
<b>Total contracted services</b>	<b>12,066,706</b>	<b>15,790,601</b>

**13. Transport Costs**

	Jun-20	Jun-19
	Shs	Shs
Transport operating costs-MV Maintenance	2,311,574	5,974,274
Motor vehicle insurance	358,753	1,475,233
Fuels and oils for motor vehicle	3,928,080	1,629,492
<b>Total Transport Costs</b>	<b>6,598,406</b>	<b>9,078,999</b>

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**14. General Expenses**

	<b>Jun-20</b>	<b>Jun-19</b>
	<b>Shs</b>	<b>Shs</b>
Electricity&Water	973,055	770,108
Trade shows & exhibitions	2,533,000	12,310,132
National Celebrations	-	-
Training expenses	10,047,336	11,887,987
Workshops and meeting expenses	14,179,635	11,335,296
Contracted guards & cleaning services	2,409,300	2,701,068
Corporate social responsinsibility,publicity	9,884,147	7,363,309
Staff travel and accommodations	14,551,844	11,142,581
Audit & accountacy	1,800,000	1,160,000
Board Capacity Development	2,324,270	1,666,671
Reserch and development	744,000	-
ISO Preparation and acquision expenses	3,567,255	6,107,390
Work environment survey/ safety	625,050	61,468
Adjustment on provisions of debtors	4,578,128	2,107,076
Bank Charges	243,838	642,957
<b>Total general expenses</b>	<b>68,460,858</b>	<b>69,256,043</b>

**15. Rural water supply Development**

	<b>Jun-20</b>	<b>Jun-19</b>
	<b>Shs</b>	<b>Shs</b>
Rehabilitation of water supplies-UNICEF Funded	306,921	1,454,871
Rural water supply development- Design&Construction	281,372,662	436,041,611
<b>Total Rural Water Supply Development</b>	<b>281,679,583</b>	<b>437,496,482</b>

**16. Cash and cash equivalent**s

		<b>Jun-20</b>	<b>Jun-19</b>
		<b>Shs</b>	<b>Shs</b>
KCB Revenue account	1103686909	8,711,569	91,891,908
KCB Recurrent account	1103686550	3,355,003	2,957,009
KCB Development account	1103686313	530,565	80,141
KCB KISIP Account	1130930009	163,058	9,667,795
Cooperative bank Development	0113609835501	4,268,919	44,321,589
Cooperative bank Gratuity	01100098355500	10,734,989	7,287,455
Standard Chartered- KIDDP	0102002530000	287,161	2,248,321
Standard Chartered- WaSSIP	0102002530002	16,998,170	417,719
Standard Chartered- UNICEF	0102002530001	457,015	763,936
<b>Total cash and cash equivalent</b> s		<b>45,506,450</b>	<b>159,635,873</b>

**17. Receivables from exchange transactions**

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	Jun-20	Jun-19
	Shs	Shs
<b>Current receivables</b>		
WSP Debtors	529,796,958	541,889,814
<b>Total current receivables</b>	<u>529,796,958</u>	<u>541,889,814</u>

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

	Jun-20	Jun-19
	Shs	Shs
<b>Current receivables</b>		
Imprest due from staff	1,477,546	4,667,696
Salary Advances	585,701	106,812
Contractor Debtors -WaSSIP-Account	0.00	77,516,109
Contractor Debtors - KIDDP and Unicef	30,109,238	23,041,059
Grants from Government	114,750,000	101,028,155
<b>Total current receivables</b>	<u>146,922,485</u>	<u>206,359,831</u>

**19. Inventories**

	Jun-20	Jun-19
	Shs	Shs
Consumable stores	882,093	1,202,871
<b>Total inventories at the lower of cost and net realizable value</b>	<u>882,093</u>	<u>1,202,871</u>

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**20. Property, Plant and Equipment**

Cost or Valuation	Furniture office equipment fittings 12.5%	Computer & Accessories 33.3%	Motor Vehicle 25%	Plant, Machinery & Equipment 20%	Water Supply Infrastructure 2.5%	Land and Buildings	Total
<b>Cost or Valuation</b>							
As at July 1, 2018	4,976,226	16,572,234	66,655,623	161,135,116	7,096,454,486	254,416,927	7,600,210,612
Additions at cost	63,999	5,730,558	-	-	65,000	3,552,636	9,412,193
Disposals	-	-	-	-	-	-	-
<b>As at June 30, 2019</b>	<b>5,040,225</b>	<b>22,302,792</b>	<b>66,655,623</b>	<b>161,135,116</b>	<b>7,096,519,486</b>	<b>257,969,563</b>	<b>7,609,622,805</b>
<b>Depreciation</b>							
Balance as at July 1, 2018	4,565,322	13,213,453	66,655,624	161,135,116	1,199,577,731	145,127,437	1,590,274,683
Prior year Adjustment	-	2,218	-	-	3,225,965	-	3,228,183
Charge for the period	95,039	4,037,399	-	-	177,412,987	20,732,491	202,277,916
Disposals	-	-	-	-	-	-	-
<b>Balance as at June 30, 2019</b>	<b>4,660,361</b>	<b>17,253,070</b>	<b>66,655,624</b>	<b>161,135,116</b>	<b>1,380,216,683</b>	<b>165,859,928</b>	<b>1,795,780,782</b>
<b>Net book Values</b>							
As at June 30, 2018	410,904	3,358,780	-1	-	5,896,876,755	109,289,490	6,009,935,929
<b>As at June 30, 2019</b>	<b>379,864</b>	<b>5,049,722</b>	<b>-1</b>	<b>-</b>	<b>5,716,302,803</b>	<b>92,109,635</b>	<b>5,813,842,023</b>
<b>Cost or Valuation</b>							
As at July 1, 2019	5,040,225	22,302,792	66,655,623	161,135,116	7,096,519,486	257,969,563	7,609,622,805
Transferred assets from WIP	13,597,343.00	27,824,906.00	37,727,046.00		3,461,731,765.00	(2,586,636)	3,540,881,060
Additions at cost		8,894,189	0		696,325,244		702,632,797
Revaluations	0	0	0	0	0	0	0
Disposals	0	0	(8,140,392)	0	0	0	(8,140,392)
<b>As at June 30, 2020</b>	<b>18,637,568</b>	<b>59,021,887</b>	<b>96,242,277</b>	<b>161,135,116</b>	<b>11,254,576,495</b>	<b>255,382,927</b>	<b>11,844,996,270</b>
<b>Depreciation</b>							
Balance as at July 1, 2019	4,660,361	17,253,070	66,655,623	161,135,116	1,380,216,683	165,859,928	1,795,780,781
Transferred assets from WIP	13,597,343	27,824,906	37,727,046		489,970,961		569,120,256
Charge for the year	88,996	5,691,576	-	-	281,364,412	20,732,491	307,877,475
Disposals	-	0	(8,140,392)				(8,140,392)
<b>Balance as at June 30, 2020</b>	<b>18,346,700</b>	<b>50,769,552</b>	<b>96,242,277</b>	<b>161,135,116</b>	<b>2,151,552,056</b>	<b>186,592,419</b>	<b>2,664,638,120</b>
<b>Net book Values</b>							
As at 1 July 30, 2019	379,864	5,049,722	-	-	5,716,302,803	92,109,636	5,813,842,025
<b>As at June 30, 2020</b>	<b>290,868</b>	<b>8,252,335</b>	<b>-</b>	<b>-</b>	<b>9,103,024,439</b>	<b>68,790,508</b>	<b>9,180,358,150</b>

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<b>21. Capital Works In Progress</b>	<b>Jun-20</b>	<b>Jun-19</b>
	<b>Shs</b>	<b>Shs</b>
<b>WaSSIP</b>		
Balance at the beginning of the year	6,523,957,579	6,244,928,075
Additional during the year	364,344,809	279,029,504
Transfers to property plant & equipment	<u>(4,244,106,304)</u>	<u></u>
<b>Balance as at 30 Jun 2020</b>	<b>2,644,196,084</b>	<b>6,523,957,579</b>
<b>KIDDP</b>		
Balance at the beginning of the year	-	-
Additional during the year	-	-
Transfers to property plant & equipment	<u></u>	<u></u>
<b>Balance as at 30 Jun 2020</b>	<b>-</b>	<b>-</b>
<b>Pans, Dams &amp; Other Rehabilitation Works</b>		
Balance at the beginning of the year	374,445,397	311,837,404
Additional during the year	11,046,721	62,607,993
Transfers to property plant & equipment	<u></u>	<u></u>
<b>Balance as at 30 Jun 2020</b>	<b>385,492,118</b>	<b>374,445,397</b>
 <b>Chebara Institutions</b>		
Balance at the beginning of the year	2,101,730	330,800
Additional during the year	-	1,770,930
Transfers to property plant & equipment	<u></u>	<u></u>
<b>Balance as at 30 Jun 2020</b>	<b>2,101,730</b>	<b>2,101,730</b>
 <b>BELGIUM</b>		
Balance at the beginning of the year	973,271,898	603,543,947
Additional during the year	132,012,174	29,164,579
<b>Balance as at 30 Jun 2020</b>	<u>1,105,284,072</u>	<u>632,708,526</u>
 <b>Total Capital Works In Progress</b>	<u><u>4,137,074,004</u></u>	<u><u>7,533,213,232</u></u>
 <b>22. Trade and Other payables</b>	<b>Jun-20</b>	<b>Jun-19</b>
	<b>Shs</b>	<b>Shs</b>
WaSSIP payables	0	107,895,470
General Suppliers	123,212,754	107,594,024
Other payables	<u>5,708,862</u>	<u>6,699,220</u>
<b>Total trade and other payables</b>	<u><u>128,921,615</u></u>	<u><u>222,188,714</u></u>
 <b>23. Current provisions</b>	<b>Jun-20</b>	<b>Jun-19</b>
	<b>Shs</b>	<b>Shs</b>
Balance at the beginning of the year	5,112,802	5,112,802

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Additional provisions raised	400,000	-
Provision utilized	-	-
Change in provision due to change in discount factor and time value of money	-	-
Transferred from non-current provisions	-	-
<b>Balance as at 30 June 2020</b>	<b>5,512,802</b>	<b>5,112,802</b>

**24. Deferred income**

	Jun-20 Shs	Jun-19 Shs
Balance at the beginning of the year(National government)	-	79,980,661
Addition during the year	302,000,000	303,278,155
Deferred Income utilized	(302,000,000)	(383,258,816)
<b>Total deferred income</b>	<b>0</b>	<b>0</b>

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

	Jun-20 Shs	Jun-19 Shs
Balance at the beginning of the year	3,934,889	5,981,772
Current benefit obligation	4,056,013	2,844,481
Gratuity released in the year	-	(4,891,364)
<b>Total employee benefit liability</b>	<b>7,990,902</b>	<b>3,934,889</b>

**26. Taxation**

	Jun-20 Shs	Jun-19 Shs
VAT	7,751,096	10,502,267
WHT	5,668,516	8,282,935
<b>Total</b>	<b>13,419,612</b>	<b>18,785,202</b>

**27. Long Term loan repayments Due**

	Jun-20 Shs	Jun-19 Shs
KFW Loan- Nzoia Phase I	309,954,424	237,147,118
KFW Loan- Nzoia Phase II	342,985,214	198,533,659
WaSSIP	128,141,391	80,216,793
<b>Total</b>	<b>781,081,029</b>	<b>515,897,570</b>

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**28. Borrowings**

	Jun-20	Jun-19
	Shs	Shs
<b>KFW LOAN</b>		
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	<u>(652,939,638)</u>	<u>(435,680,778)</u>
	<b>5,304,539,864</b>	<b>5,521,798,724</b>
 <b>IDA LOAN</b>		
Balance at the beginning of the year	4,774,509,907	4,854,726,700
During the year	149,249,147	-
Loan Repayments	(32,292,194)	-
Less: total current portion of bank loans	(47,924,598)	<b>(80,216,793)</b>
Transfers to grant	-	-
	<u>4,843,542,262</u>	<u>4,774,509,907</u>
 <b>Vihiga Cluster</b>		
Balance at the beginning of the year	943,668,418	603,105,047
During the year	118,006,150	340,563,371
Less: total current portion of bank loans	-	-
	<u>1,061,674,568</u>	<u>943,668,418</u>
 <b>Total non-current borrowings</b>	<u><u>11,209,756,694</u></u>	<u><u>11,239,977,049</u></u>

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

**Attributable to the owners of the controlling entity**

	Grants KIDDP		Grants KFW		Grants Worldbank		Accumulated surplus		Grants GOK		Total	
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
<b>Balance as at 30 June 2018</b>	25,924,938	352,501,359	221,783,948	1,056,135,490	(1,334,495,760)	2,599,781,802	2,921,631,777	-	-	-	(3,228,183)	9,455,042
Prior year adjustment	-	-	-	-	(3,228,183)	-	-	-	-	-	-	-
Transfers to/from during the period	-	9,455,042	-	-	-	-	-	-	-	-	-	-
Surplus/(deficit) for the period	-	-	-	-	(337,047,848)	-	-	-	-	-	-	(337,047,848)
Transfers to/from accumulated surplus	-	-	-	-	-	-	-	-	-	-	-	-
<b>Balance as at 30 June 2019</b>	<b>25,924,938</b>	<b>361,956,401</b>	<b>221,783,948</b>	<b>1,056,135,490</b>	<b>(1,674,771,791)</b>	<b>2,599,781,802</b>	<b>2,590,810,788</b>					
<b>Balance as at 30 June 2019</b>	<b>25,924,938</b>	<b>361,956,401</b>	<b>221,783,948</b>	<b>1,056,135,490</b>	<b>(1,674,771,791)</b>	<b>2,599,781,802</b>	<b>2,590,810,788</b>					
Accumulated depreciation for transferred assets	-	-	-	-	(569,120,256)	-	(569,120,256)	-	-	-	-	(569,120,256)
Transfers to/from during the period	-	-	-	211,860,309	-	-	-	-	-	-	-	211,860,309
Surplus/(deficit) for the period	-	-	-	-	(346,939,827)	-	(346,939,827)	-	-	-	-	(346,939,827)
Transfers to/from accumulated surplus	-	-	-	-	7,246,470	-	7,246,470	-	-	-	-	7,246,470
<b>Balance as at 30 June 2020</b>	<b>25,924,938</b>	<b>361,956,401</b>	<b>221,783,948</b>	<b>1,267,995,799</b>	<b>(2,583,585,404)</b>	<b>2,599,781,802</b>	<b>1,893,857,484</b>					

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

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

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**30. RELATED PARTY DISCLOSURE**

Companies and other parties related to the LVNWWDA 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 agency's operating and financial decisions

- i) County Governments within the agency's 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

	Jun 20	Jun-19
	KES	KES
<b>a) Related party transactions</b>		
Grants received from related parties' GOK	431,999,996	371,178,371
Grants received from related parties' Others	118,006,150	9,455,042
Loans received from related parties' IDA	346,565,110	0
	<u>896,571,256</u>	<u>380,633,413</u>
<b>b) Key management remuneration</b>		
Directors	22,854,061	23,067,543
Key management compensation	20,865,841	18,714,832
	<u>43,719,902</u>	<u>41,782,375</u>
<b>c) Due from related parties</b>		
Due from Water Services Companies	529,796,958	541,889,814
	<u>529,796,958</u>	<u>541,889,814</u>
<b>d) Due to related parties</b>		
Due to GOK		
Due to county Busia	1,552,802	1,552,802
	<u>1,552,802</u>	<u>1,552,802</u>

**31. Financial Risk Management**

The Agency's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Agency's overall risk management

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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 Agency 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 Agency'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 Agency'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 2020</b>			
Trade receivables	146,922,485	529,796,958	-
Bank balances	30,237,446		-
<b>At 30 June 2019</b>	<b>Ksh</b>	<b>Ksh</b>	<b>Ksh</b>
Trade receivables	206,359,831	541,889,814	-
Bank balances	159,635,874		-

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 Agency 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 Agency has significant concentration of credit risk on amounts due from Water Service providers. The board of directors sets the Agency'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 Agency directors, who have built an appropriate liquidity risk management framework for the management of the Agency's

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short, medium and long-term funding and liquidity management requirements. The Agency manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Agency 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 90 days equal their carrying balances, as the impact of discounting is not significant. The liability will however be disposed of when funding is received from WSPs, GOK or the defects liability period for projects is complete.

	<b>Less than 30 days</b>	<b>Between 30-90 days</b>	<b>Over 90days</b>	<b>Total</b>
Trade Payables At 30 June 2020	5,723,432	4,286,906	115,687,050	125,697,388
Trade Payables At 30 June 2019	17,521,239	5,592,636	192,375,619	215,489,494

**(iii) Market Risk**

The Agency has put in place an internal audit function to assist it in assessing the risk faced by the LVNWWDA 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 Agency'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 Agency'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 Agency's exposure to market risks or the manner in which it manages and measures the risk.

**(a) Foreign Currency Risk**

The Agency 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.

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

**(b) Interest Rate Risk**

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

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The interest rate risk exposure arises mainly from interest rate movements on the Agency'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 Agency is the equity attributable to the equity holders (GOK). The primary objective of the Agency'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 Agency.

#### 32. Contingent Liabilities

	2020	2019
	Ksh	Ksh
Legal Contingent Liabilities	<u>20,000,000</u>	<u>10,000,000</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 Agency'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 & LVNWWDA
3	Busia Environment & Land Court Petition number 5 of 2015	Wilson Ogola -vs- LVNWWDA & 2 OTHERS
4	Kakamega ELC 161/2014	Charles Alemba Lisamula & Ano. Vs. LVNWWDA
5	Civil Appeal No. 278 of 2016	Amatsi Water Services Company Ltd -VS- Francis Shire Chachi & LVNWWDA
6	Bungoma CMCC 269/2014	Ryan Bunyasi Vs. LVNWWDA
7	Bungoma ELC Case No. 3 of 2015	Solomon Kipchoke Kipsigei and Alex Kipsigei Vs. LVNWWDA, County Government of Bungoma & Others
8	KSM CIVIL APPEAL NO. 78 OF 2018	Eng. Alfred O. Amombo vs LVNWWDA & Hon. Joseph K. Lagat
9	KSM ELRC NO 337/2017	Kenneth Indusa -vs- LVNWWDA.
10	NRB HCCC PETITION NO. 277 OF 2017	Council of County Governors -vs- LVNWWDA & 15 Others

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11	KSM ELRC NO. 59 of 2018	Peter Kiplangat Bett -vs- LVNWWDA & Hon. Joseph Lagat
12	KIMILILI CMC ELC CASE 47 of 2018	Nancy Wanyonyi -vs- LVNWSB & 2 Other
13	VIHIGA CMC ELC Case No. 1 of 2019	Joseph Sabwa & Others -VS- LVNWSB & Ano.
14	KKMG CMC Case No. 175 of 2015	Patrick Boy Makari -vs - LVNWSB
15	BGM CMC Case 138 of 2017	Kennedy Wafula -vs- LVNWSB
16	NRB HC Petition No. 276 of 2019	Emmanuel Buchichi 2 Others -vs- LVNWWDA
17	Kitale CMC Case No. 107 of 2019	Juliet Naliaka Mayeku vs LVNWSB
18	Butali SPM Case No. 117 of 2019	Abigael Namasake vs LVNWSB
19	Butali SPM Case No. 118 of 2019	Geoffrey Nathan vs- LVNWSB
20	KSM ELRC Petition No. 11 of 2020	Joseph Oyolo & Ano vs LVNWSB

**33. Events after the reporting period**

As at 30<sup>th</sup> June 2020, Kshs 114,750,000 (One hundred and fourteen million seven hundred and fifty thousand shillings) was in transit from the Parent Ministry. These amounts were for development projects during the year.

**34. Dividends/surplus remission**

LVNWWDA did not make any surplus during the year (FY 2019/2020) and hence no remittance to the Consolidated Fund.

**35. Taxation**

LVNWWDA is a government parastatal and as such is not expected to pay taxes.

**36. Deferred tax liability**

LVNWWDA is a government parastatal and as such is not expected to pay taxes.

**37. Ultimate and holding entity**

The entity is a State Corporation under the Ministry of Water and Sanitation. Its ultimate parent is the Government of Kenya.

**38. Currency**

The financial statements are presented in Kenya shillings (Kshs)

**39. Signing of financial statements**

The financial statements have been signed by the current chairman and CEO of LVNWWDA. The terms of the former chairman and CEO lapsed before the statements were presented to the auditors hence they could not sign the statements.

**APPENDIX I: 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)
Presentation of Board Information	Board Chair had not signed the statements, Non-disclosure of amount disbursed by KOICA to the Board	Failure by the chair to sign the financial statement was occasioned by legal challenges. At the time when the revised financial statements were prepared, there were two boards in place. The first board was for Lake Victoria North Water Services Board while the other was for Lake Victoria North Water Works Development Agency.	Chief Manager Finance and Strategy	Resolved	

Chairman of the Board



Date 23/09/2020

Chief Executive Officer



Date 23/09/2020

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**APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY**

S/No	Project title	Project Number	Donor	Period/ duration	Donor commitment (Kshs Millions)	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1	Water & Sanitation Services & Improvement Project	1107101601	World Bank	Dec 2012-Dec 2021	3,400	Yes	Yes
2	Vihiga Cluster Water Project	1107105301	Belgium	Aug 2018-Dec 2020	1,700	No	Yes
3	Kenya Towns Sustainable Water Supply and Sanitation Program	1103102100	AfDB	Dec 2018-Dec 2021	3,300	Yes	Yes
	<b>Total</b>				<b>8,400</b>		

**Status of project implementation**

S/NO	Project	Total project Cost Kshs Millions	Total expended to date Kshs Millions	Completion % to date	Budget	Actual	Sources of funds
1	Water & Sanitation Services & Improvement Project	3,400	2,935	100%	375	279	IDA/ World Bank
2	Vihiga Cluster Water Project	1,700	943	55%	150	369	Belgium
3	Mois Bridge-Matunda Water and Sewerage Project	1,750	90	5%	30	23	GoK

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4	Malava Gravity Scheme	1,000	78	8%	15	13	GoK
5	Mt Elgon-Bungoma-Busia Gravity Scheme	17,000	89	1%	30	7	GoK
6	Soy-Nervillus Dam Water Project	300	83	28%	30	21	GoK
		<b>25,150</b>	<b>4,218</b>		<b>1,030</b>	<b>711</b>	

INTER-ENTITY TRANSFERS


ENTITY NAME:		Lake Victoria North Water Works Development Agency		
Break down of Transfers from the Ministry of Water & Sanitation				
FY 19/20				
a.	Recurrent Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		14-Aug-19	10,833,333	2019-2020
		05-Sep-19	10,833,333	2019-2020
		04-Oct-19	10,833,333	2019-2020
		05-Nov-19	10,833,333	2019-2020
		10-Dec-19	10,833,333	2019-2020
		24-Dec-19	10,833,333	2019-2020
		10-Feb-19	10,833,333	2019-2020
		04-Mar-20	10,833,333	2019-2020
		02-Apr-20	10,833,333	2019-2020
		28-May-20	10,833,333	2019-2020
		03-Jun-20	10,833,333	2019-2020
		29-Jun-20	10,833,333	2019-2020
		<b>Total</b>	<b>129,999,996</b>	
b.	Development Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		05-Dec-19	21,250,000	2019/2020
		11-Dec-19	22,000,000	2019/2020
		18-Dec-19	39,000,000	2019/2020
		18-Dec-19	30,000,000	2019/2020
		18-Dec-19	21,250,000	2019/2020
		20-Jan-20	17,000,000	2019/2020
		12-Jun-20	28,750,000	2019/2020
		19-Jun-20	8,000,000	2019/2020
		08-Jul-20	32,000,000	2019/2020
		08-Jul-20	30,000,000	2019/2020
		08-Jul-20	16,000,000	2019/2020
		08-Jul-20	8,000,000	2019/2020
		08-Jul-20	28,750,000	2019/2020

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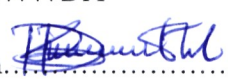
		<b>Total</b>	<b>302,000,000</b>	431,999,996
c.	Direct Payments			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		29-Nov-19	54,662,606	2019/2020
		31-Dec-19	51,281,254	2019/2020
		30-Apr-20	12,062,290	2019/2020
		<b>Total</b>	<b>118,006,150</b>	
d.	Donor Receipts			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		03-Feb-20	346,565,110	2019/2020
		<b>Total</b>	<b>346,565,110</b>	

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

Manager Finance  
 LVNWWDA

Sign.....

Head of Accounting Unit  
 LVNWWDA

Sign.....

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**APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES**

Name of the MDA/Donor Transferring the funds	Date Received as per bank statement	Nature: Recurrent/ Development	Total Amount - Kshs	Statement of Financial Performance	Where Recorded/recognized				Total transfers during the year
					Capital Fund	Deferred Income	Receivables	Others - must be specific	
Eldowas Water and Sanitation Company Limited	26-07-19	Development	4,468,938.00			X			4,468,938.00
Eldowas Water and Sanitation Company Limited	26-07-19	Development	6,349,767.00			X			6,349,767.00
Nzoia Water and Sanitation Company Limited	20-08-19	Recurrent	300,000.00			X			300,000.00
Nzoia Water and Sanitation Company Limited	20-08-19	Recurrent	300,000.00			X			300,000.00

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Eldowas Water and Sanitation Company Limited	09-09-20	Recurrent	2,000,000.00						X		2,000,000.00
Eldowas Water and Sanitation Company Limited	18-10-19	Recurrent	2,357,364.00						X		2,357,364.00
Kakamega County Urban Water and Sanitation Corporation	24-10-19	Recurrent	500,000.00						X		500,000.00
Eldowas Water and Sanitation Company Limited	19-11-19	Development	4,446,367.00						X		4,446,367.00
Eldowas Water and Sanitation Company Limited	19-11-19	Development	6,317,697.00						X		6,317,697.00
County Government of Kakamega	11-12-19	Recurrent	6,539,448.30						X		6,539,448.30

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Eldowas Water and Sanitation Company Limited	03-02-20	Recurrent	2,357,364.00						X		2,357,364.00
Eldowas Water and Sanitation Company Limited	04-06-20	Development	4,423,797.00						X		4,423,797.00
Eldowas Water and Sanitation Company Limited	04-06-20	Development	6,285,628.00						X		6,285,628.00
<b>Total</b>			<b>46,646,370.30</b>								<b>46,646,370.30</b>