

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



REPORT	
THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 14 FEB 2019	DAY: THURSDAY
TABLED BY: Hon. Adan Duale	OF
CLERK AT THE TABLE: Moss Lemuna	

14/2/19
PARLIAMENT OF KENYA CLERKARY

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA TOWNS SUSTAINABLE WATER SUPPLY
AND SANITATION PROGRAM
(ADB LOAN NO. 2000200000501)**

**FOR THE YEAR
ENDED 30 JUNE 2018**

TANA WATER SERVICES BOARD





**PROJECT NAME: KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION
PROGRAM**

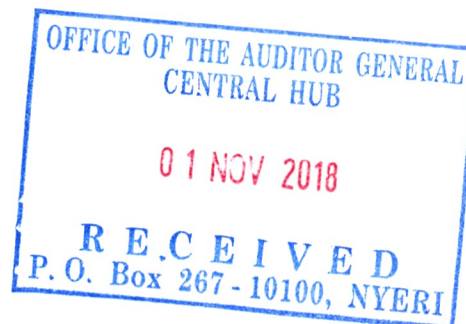
IMPLEMENTING ENTITY: TANA WATER SERVICES BOARD

PROJECT LOAN NUMBER: 200200000501

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30 2018**

**Prepared in Accordance with the Cash Basis of Accounting Method Under the International
Public Sector Accounting Standards (IPSAS)**



KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM
LOAN NUMBER: 200200000501
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30 2018

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KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM
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FOR THE FINANCIAL YEAR ENDED JUNE 30 2018

1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and Registered Office

Name: Tana Water Services Board

Objective:

The main objective of the Program is to improve the access, quality, availability and sustainability of water supply and wastewater management services in multiple towns in Kenya, with a view to catalyzing commercial activities, driving economic growth, employment creation, improving quality of life of the people and building resilience against climate variability and change.

Address:

Tana Water Services Board
Baden Powell Rd.
Nyeri County, Kenya
P.O. Box 1292-10100
Nyeri.

Contacts:

Telephone: 061-2032282
Fax: 061-2034118
E-mail: info@tanawsb.or.ke or tanawaterboard@yahoo.com
Website: www.tanawsb.or.ke

1.2 Project Information

Project Start Date:	29 September 2017
Project End Date:	30 June 2021
Project Manager:	Eng. Moses M. Naivasha
Project Sponsor:	African Development Bank

KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM
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1.3 Project Overview

Line Ministry	The Project is under the Supervision of the Ministry of Water and Sanitation
Project Number	P-KE-E00-011
Strategic Goals of the Project	The Strategic Goals of the Project is to improve the access, quality, availability and sustainability of water supply and waste water management in the Kenya towns of Kerugoya, Kutus, Chuka, Chogoria, Meru, Mandera and Marsabit.
Achievement of Strategic Goals	The Project Management aims to achieve the goals through the following means: <ul style="list-style-type: none"> i. Construction and Rehabilitation of Water Supply and Sanitation infrastructure for improved water and sanitation services. ii. Capacity Development of Water Service Providers and Water Boards, the sector regulator for improved service efficiency and women and youth for increased employment opportunities. iii. Improved water and sanitation services iv. Improved service efficiency and sustainability v. Increased employment opportunities
Other Important Background Information of the Project	The Project aims to improve the Health and Quality of life and reduce poverty levels of the population of Kenya through provision of Water and sanitation services on a sustainable basis.
Current Situation that the Project was formed to Intervene	The Project aims to Improve the Low Water and Sanitation Coverage where the Water and Sanitation needs are not being addressed by any other Development Partners (DPs) in Kerugoya, Kutus, Chuka, Chogoria, Meru, Mandera and Marsabit.
Project Duration	The Project started on 29 September 2017 and is expected to end on 30 June 2021

1.4 Bankers

Kenya Commercial Bank
Nyeri Branch
P.O Box 215-10100
Nyeri, KENYA

1.5 Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 3008
GPO 00100
Nairobi, Kenya

KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM
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1.6 Roles and Responsibilities

Names	Title Designation	Key Qualification	Responsibilities
Eng. Moses M. Naivasha	Chief Executive Officer	Engineer	Project Manager/ Accounting Officer
Eng. John Mbogori	Technical Services Manager	Engineer	Technical Services Manager
Arthur Mamo	Project Co-ordinator	Engineer	Programme Coordinator
CPA Nicholas Kanyeke	Finance Manager	Financial Specialist	Financial Management

1.7 Funding Summary

The Kenya Towns Sustainable Water Supply and Sanitation Programme is for a duration of 5 years from 29 September 2017 to 30 June 2021 with an approved budget of USD 107,631,872 equivalent to Kshs 10,998,156,567 to implement the following projects in Tana Water Services Board (TWSB) area of jurisdiction: Kerugoya/Kutus Water and Sewerage, Chuka/Chogoria Water and Sewerage & Meru Sewerage .In addition (TWSB) in conjunction with Northern Water Services Board (NWSB) is implementing the following Projects in NWSB area of jurisdiction ; Manderu Water and Sewerage and Marsabit Water and Sewerage. The loan amount of Kshs.10, 998,156,567 is shared between the two Boards as follows:

- (i) Tana Water Services Board - KShs. 5,689,093,088
- (ii) Northern Water Services Board -KShs. 5,309,063,479

Below is the funding summary:

Source of Funds	Donor Commitment		Amount received to date (30 June 2018)		Undrawn balance to date (30 June 2018)	
	<i>Donor currency USD</i>	<i>Kshs</i>	<i>Donor currency USD</i>	<i>Kshs</i>	<i>Donor currency USD</i>	<i>Kshs</i>
	<i>(A)</i>	<i>(A')</i>	<i>(B)</i>	<i>(B')</i>	<i>(A)-(B)</i>	<i>(A')-(B')</i>
(i)Loan						
Africa Development Bank*	55,675,511	5,689,093,088	1,133,995	115,175,789	54,540,624	5,573,917,299
Africa Development Bank**	51,956,361	5,309,063,479	738,435	75,720,315	51,217,926	5,233,343,164
(ii)Counterpart Funds						
Government of Kenya	-	1,790,397,581***	-	64,873,884	-	-
Total	107,631,872	11,063,854,281	1,872,430	255,769,988	105,758,550	12,391,286,234

*Loan for Tana Water Services Board

**Loan for Northern Water Services Board

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***GoK Counterpart

Computation (Amount in Millions)

Total Program Amount = ADB Loan UA 271.721
ADF Loan UA 5.135
GoK UA 43.388
UA 320.244

=GoK Counterpart ratio: GoK/Total program Cost
= 43.388/320.244=14%

=Kes $\frac{10.99 * 14\%}{86\%}$ =Kes **1.790**

1.8 Summary of Overall Project Performance:

• **Budget Performance**

The ADB budget for the Programme during the FY 2017/2018 was KShs. 190,896,104

• **Physical Progress**

The Consultant was procured and the payments made relate to consultancy services. The procurement of Contractors for works is at tendering stage, hence the performance and impact of the project cannot be evaluated at this stage.

• **Value for Money Achievement**

The amount paid is based on milestones and the money that was paid was for the milestones achieved hence there is value for money.

• **Absorption Rate**

Kenya Towns Sustainable Water Supply and Sanitation Programme commenced in the FY 2017/2018. The Project absorption rate is at 2.3% of the total project cost. This is calculated as actual expenditure divided by total project cost.

= $\frac{255,769,988}{11,063,854,281}$ = **2.3%**

However, the project is at 10% completion.

Implementation Challenges

- (i) Inadequate allocation of GoK Counterpart fund.
- (ii) Delays in GoK Counterpart disbursements.

Recommended Way Forward

The way forward is for The National Treasury to ensure sufficient budgetary allocation while the Ministry of Water and Sanitation ensures funds are disbursed in time.

1.9 Summary of Project Compliance

- During the FY 2017/2018 the Project complied with all applicable Laws and Regulations, and essential external Financing Agreements/Covenants.
- No consequence was /is likely to be suffered on account of non-compliance.
- We have complied with all necessary Laws and Regulations to allow us to carry on with the Project Implementation.

KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM
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2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Chief Executive Officer, Tana Water Services Board and the Project Coordinator for ADB funded Project are responsible for the preparation and presentation of the Project's Financial Statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2018. This responsibility includes:

- (i) Maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period.
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project.
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the Financial Statement, and ensuring that they are free from material misstatements, whether due to error or fraud.
- (iv) Safeguarding the assets of the Project.
- (v) Selecting and applying appropriate Accounting Policies.
- (vi) Making accounting estimates that are reasonable in the circumstances.

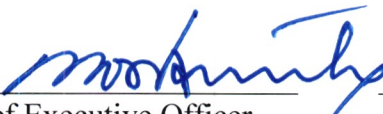
The Chief Executive Officer, Tana Water Services Board and the Project Coordinator for ADB funded Project accept responsibility for the Project's Financial Statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate Accounting Policies in accordance with International Public Sector Accounting Standards.

The Chief Executive Officer, Tana Water Services Board and the Project Coordinator for ADB funded Project are of the opinion that the Project's Financial Statements give a true and fair view of the state of Project's transactions during the Financial Year ended June 30, 2018, and of the Project's financial position as at that date. The Chief Executive Officer, Tana Water Services Board and the Project Coordinator for ADB funded project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project Financial Statements as well as the adequacy of the systems of internal financial control.


The Chief Executive Officer, Tana Water Services Board and the Project Coordinator for ADB funded Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the Financial Year/Period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project Financial Statements

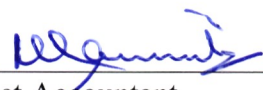
The Project Financial Statements were approved by the Chief Executive Officer TWSB and the Project Coordinator for ADB funded project on 22/8/ 2018 and signed by them.



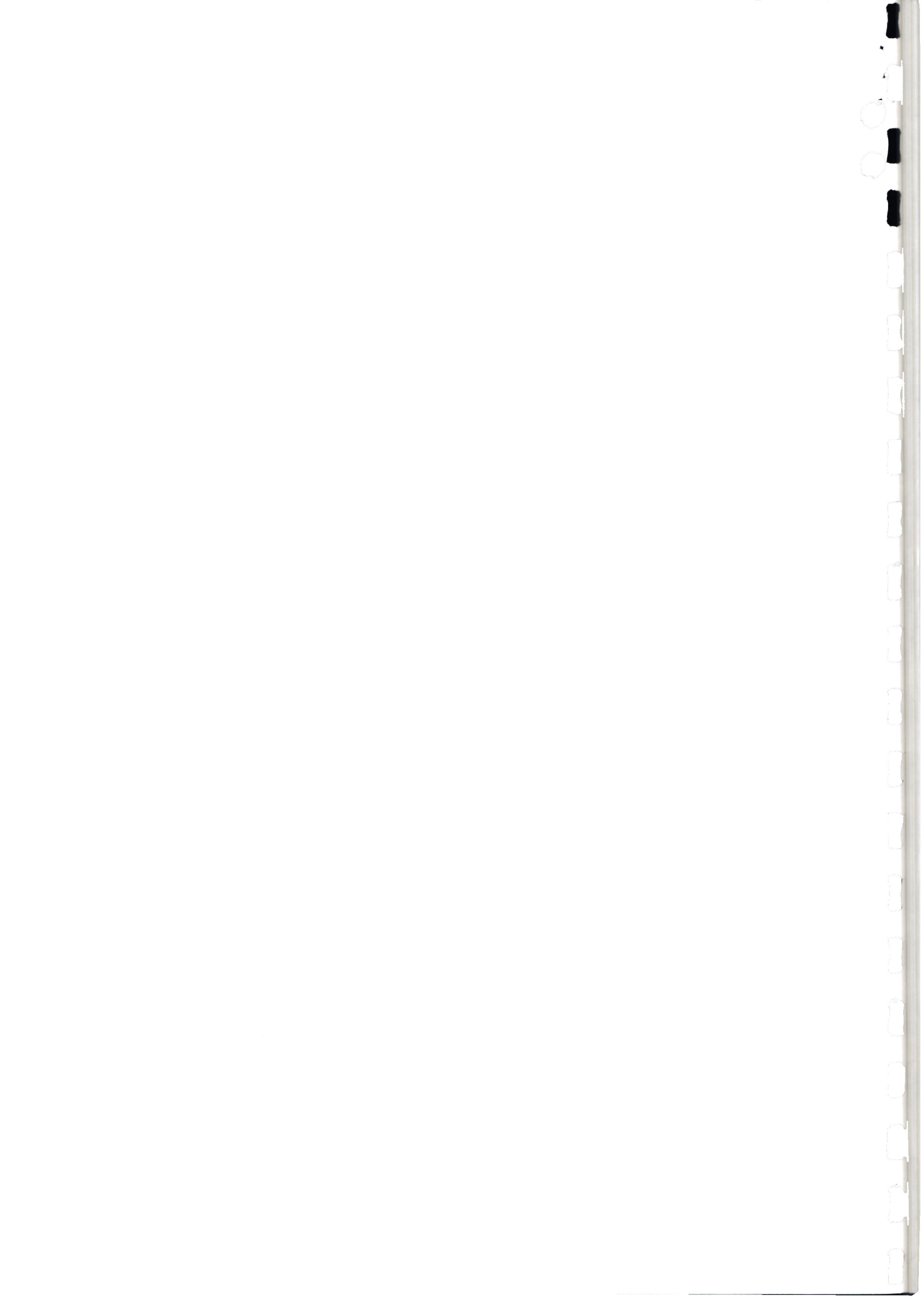
Chief Executive Officer
Name: Eng. Moses M. Naivasha



Project Coordinator
Name: Arthur Mamo



Project Accountant
Name: CPA Nicholas Kariuki
ICPAK Member Number: 6863



REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM (ADB LOAN NO. 2000200000501) FOR THE YEAR ENDED 30 JUNE 2018 - TANA WATER SERVICES BOARD

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kenya Towns Sustainable Water Supply and Sanitation Program set out on pages 1 to 14, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and statement of comparative budget and actual amounts for the year ended 30 June 2018, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya, Section 35 of the Public Audit Act, 2015 and Article VIII, Section 8.02 of the Loan Agreement No. 2000200000501 dated 9 January 2017 between the Republic of Kenya and the African Development Bank (ADB). 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, the financial statements present fairly, in all material respects, the financial position of Kenya Towns Sustainable Water Supply and Sanitation Program as at 30 June, 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the terms of the Loan Agreement.

Basis for Opinion

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

Key Audit Matters

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

Report of the Auditor-General on the Financial Statements of Kenya Towns Sustainable Water Supply and Sanitation Program (ADB Loan No. 2000200000501) for the year ended 30 June 2018 - Tana Water Services Board

Other Matter

Failure to Register Parcel of Land

Note 8.6 to the financial statements reflects under acquisition of non-financial assets an expenditure of Kshs.25,017,458. The amount relates to purchase of a parcel of land measuring approximately twenty-one acres in Meru County for the establishment of sustainable waste management system. However, transfer of ownership of the parcel of land in the name of Tana Water Services Board had not been finalized as at 30 June 2018. The management has not provided satisfactory justification for the delay in processing the land ownership documents.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Conclusion

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to 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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the 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

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the 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.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 1315. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance were maintained in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the African Development Bank, I confirm that:

- i. The Project funds have been used in accordance with the conditions of Loan Agreement with due attention to economy, efficiency and effectiveness for the purposes for which they were provided;
- ii. Counterpart funds have been provided and used in accordance with the conditions of the Loan Agreement;
- iii. Goods and services financed have been procured in accordance with the Loan Agreement and the Funds' rules and procedures;
- iv. Necessary supporting documents, records and accounts have been kept in respect of all Project activities; and
- v. Adequate internal control to monitor expenditure and other financial transactions and ensure safe custody of assets exists.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) 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.

In preparing the financial statements, management is responsible for assessing the ability of Kenya Town Sustainable Water Supply and Sanitation Program ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to cease operations, or have no realistic alternative but to do so.

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 Kenya Town Sustainable Water Supply and Sanitation Program policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Kenya Town Sustainable Water Supply and Sanitation Program ability 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 Kenya Town Sustainable Water Supply and Sanitation Program to cease sustaining 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 Kenya Town Sustainable Water Supply and Sanitation Program to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

28 December 2018

KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM
LOAN NUMBER: 200200000501
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30 2018

4. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30 JUNE 2018

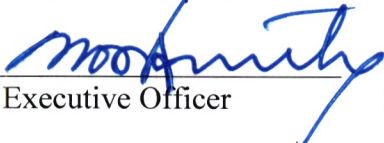
	Note	2017/18		2016/17		Cumulative to-date
		Receipts and Payments controlled by TWSB	Payments made by ADB	Receipts and Payment controlled by TWSB	Payments made by ADB	
		KShs	KShs	KShs	KShs	KShs
RECEIPTS						
Transfers from Government Entities	8.3	64,873,884	-	-	-	64,873,884
Loan from External Development Partners	8.4a	-	115,175,789	-	-	115,175,789
Loan from External Development Partners	8.4b	-	75,720,315	-	-	75,720,315
TOTAL RECEIPTS		64,873,884	190,896,104	-	-	255,769,988
PAYMENTS						
Purchase of Services	8.5a	-	115,175,789	-	-	115,175,789
Purchase of Services	8.5b	-	75,720,315	-	-	75,720,315
Acquisition of Non-Financial Assets	8.6	25,017,458	-	-	-	25,017,458
Project Administrative Costs	8.7	39,856,426	-	-	-	39,856,426
TOTAL PAYMENTS		64,873,884	190,896,104	-	-	255,769,988
SURPLUS/(DEFICIT)		-	-	-	-	-

Notes

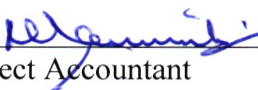
8.4a & 8.5a Relates to Tana Water Services Board

8.4b & 8.5b Relates to Northern Water Services Board

The Accounting Policies and explanatory notes to these Financial Statements are an integral part of the Financial Statements.


 Chief Executive Officer


 Project Coordinator


 Project Accountant

Name: Eng. Moses M. Naivasha

Name: Arthur Mamo

Name: CPA Nicholas Kariuki
ICPAK Member Number: 6863

KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM
LOAN NUMBER: 200200000501
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30 2018

5. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30TH JUNE 2018

This is the first Financial Statements for the Programme, there were no Assets and Liabilities as at the end of the 2017/2018 Financial Year.



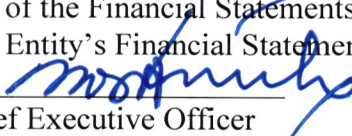
KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM
LOAN NUMBER: 200200000501
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30 2018

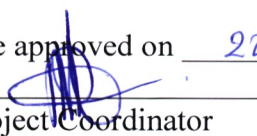
6. STATEMENT OF CASHFLOW FOR THE PERIOD 30 JUNE 2018

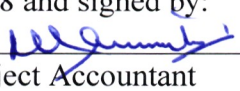
		2017/18	2016/17
	Note	KShs	KShs
Receipts for Operating Activities			
Transfer from Government Entities	8.3	64,873,884	-
Payments for Operating Activities			
Purchase of Services	8.5a	(115,175,789)	
Purchase of Services	8.5b	(75,720,315)	-
Project Administrative Costs	8.7	(39,856,426)	-
Net Cash Flow from Operating Activities		(165,878,646)	-
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	8.6	(25,017,458)	-
Net Cash Flows from Investing Activities		(25,017,458)	-
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings	8.4a	115,175,789	-
Proceeds from Foreign Borrowings	8.4b	75,720,315	
Net Cash Flow from Financing Activities		190,896,104	-
NET INCREASE IN CASH AND CASH EQUIVALENT			
		-	-
Cash and Cash Equivalent at Beginning of the Year		-	-
Cash and Cash Equivalent at End of the Year		-	-

The Accounting Policies and Explanatory Notes to these Financial Statements form an Integral part of the Financial Statements.

The Entity's Financial Statements were approved on 22/8/2018 and signed by:


 Chief Executive Officer
 Name: Eng. Moses M. Naivasha


 Project Coordinator
 Name: Arthur Mamo


 Project Accountant
 Name: CPA Nicholas Kariuki
 ICPAK Member No: 6863

22/8/2018
 Date

22/8/2018
 Date

22/8/2018
 Date



KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM
LOAN NUMBER: 200200000501
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FOR THE FINANCIAL YEAR ENDED JUNE 30 2018

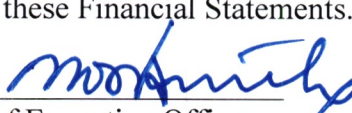
7. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

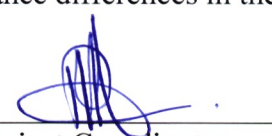
Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Variance	% of Variance
	A	B	c=a+b	D	e=c-d	f=e/c %
Receipts						
Transfer from Government Entities	66,000,000	-	66,000,000	64,873,884	1,126,116	1.70%
Proceeds from Borrowings*	120,000,000		120,000,000	115,175,789	4,824,211	4.02%
Proceeds from Borrowings**	80,000,000		80,000,000	75,720,315	4,279,685	5.35%
Total Receipts	266,000,000	-	266,000,000	255,769,988	10,230,012	
Payments						
Purchase of Services*	120,000,000	-	120,000,000	115,175,789	4,824,211	4.02%
Purchase of Services**	80,000,000	-	80,000,000	75,720,315	4,279,685	5.35%
Acquisition of Non-Financial Assets	25,200,000	-	25,200,000	25,017,458	182,542	0.72%
Project Administrative Costs	40,800,000	-	40,800,000	39,856,426	943,574	2.31%
Total Payments	266,000,000	-	266,000,000	255,769,988	10,230,012	


* Relates to Tana Water Services Board

** Relates to Northern Water Services Board

Note: The budget utilisation/performance differences in the last column are explained in **Annex 1** to these Financial Statements.


 Chief Executive Officer
 Name: Eng. Moses M. Naivasha


 Project Coordinator
 Name: Arthur Mamo


 Project Accountant
 Name: CPA Nicholas Kariuki
 ICPAK Member No: 6863

22/8/2018
 Date

22/8/2018
 Date

22/8/2018
 Date



KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM
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NOTES TO THE FINANCIAL STATEMENTS

The Principal Accounting Policies adopted in the preparation of these Financial Statements are set out below:

8.1. Basis of Preparation

8.1.1. Statement of Compliance and Basis of Preparation

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

The Financial Statements comply with and conform to the form of presentation prescribed by the PSASB.

The Accounting Policies adopted have been consistently applied to all the years presented.

8.1.2. Reporting Entity

The Financial Statements are for the Kenya Towns Sustainable Water Supply and Sanitation Programme under The National Government of Kenya.

8.1.3. Reporting Currency

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

8.2. Significant Accounting Policies

a) Recognition of Receipts

The Project recognises all Receipts from African Development Bank (ADB) when the event occurs and Request for Disbursement has been submitted to the Parent Ministry.

• Transfers From the Exchequer

Transfer from Exchequer is being recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to Tana Water Services Board.

• External Assistance

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



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SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proceeds from borrowing

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

Undrawn external assistance

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

b) Recognition of Payments

The Project recognises all payments by ADB when the event occurs and Request for Disbursement has been submitted to the Parent Ministry.

• **Compensation of Employees**

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

• **Use of Goods and Services**

Goods and services are recognized as payments in the period when the goods/services are consumed.

• **Interest on Borrowing**

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



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SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Repayment of Borrowing (Principal amount)**

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

- **Acquisition of Fixed Assets**

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

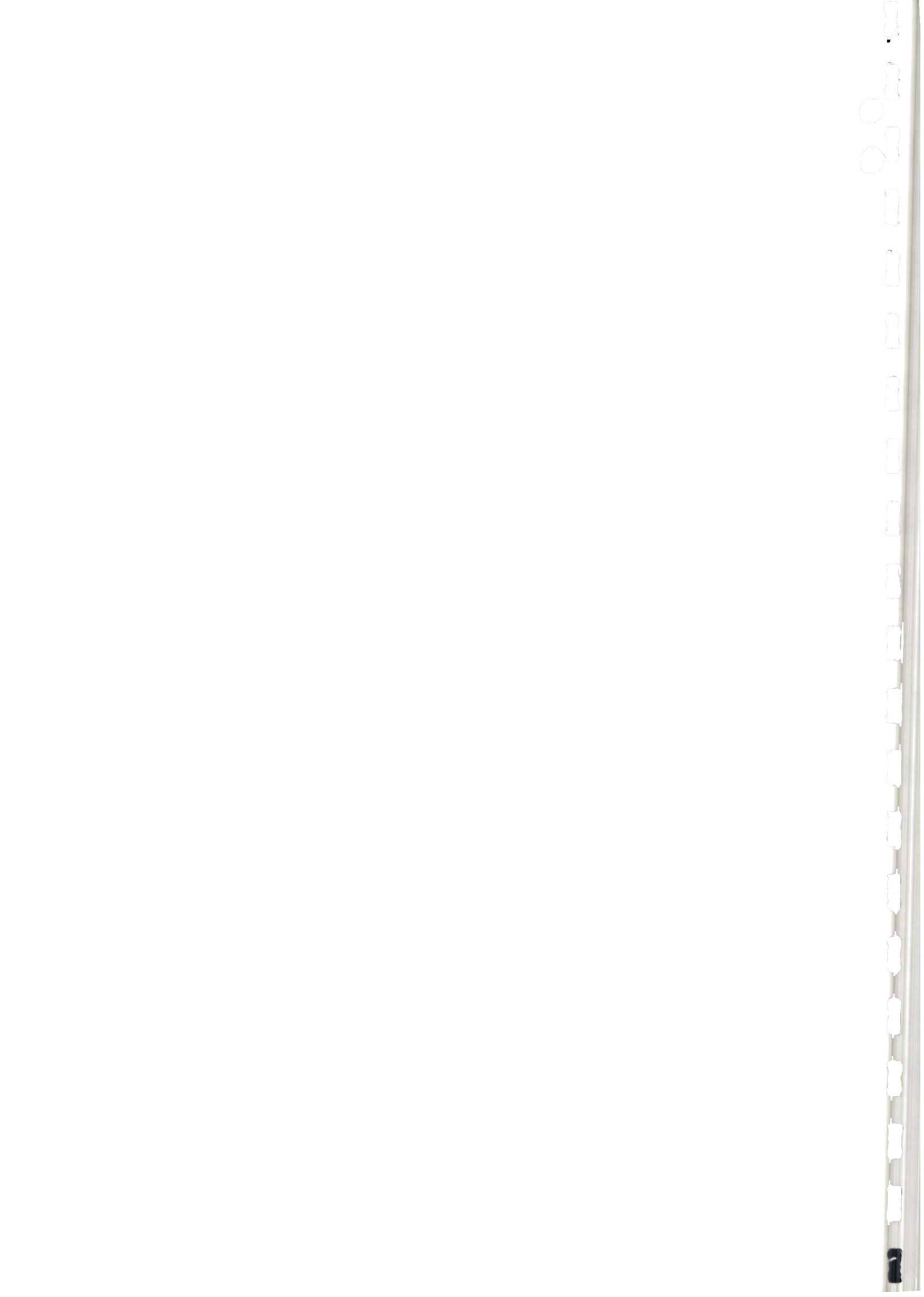
A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated Financial Statements.

c) In-kind Donations

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

d) Cash and cash equivalents

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



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SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Accounts Receivable

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

f) Pending Bills

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

g) Budget

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

A high-level assessment of the Project's actual performance against the comparable budget for the Financial Year under review has been included in an annex to these Financial Statements.

h) Third Party Payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments.

During the year Kshs 190,896,104 being loan disbursements was received in form of direct payments from ADB out of which Kshs 115,175,789 was direct payment for Tana Water Services Board request for payments and Kshs 75,720,315 direct payment for Northern Water Services Board.



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SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Exchange Rate Differences

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

j) Comparative Figures

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

k) Subsequent Events

There have been no events subsequent to the Financial year/period end with a significant impact on the financial statements for the year ended June 30, 2018.

l) Errors

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



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**REPORTS AND FINANCIAL STATEMENTS
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8.3 RECEIPTS FROM GOVERNMENT OF KENYA

These represent Counterpart Funding and other receipts from Government as follows:

	2017/18	2016/17	Cumulative
	KShs	KShs	to-date
<i>Counterpart Funding through Ministry of Water and Sanitation</i>			
Counterpart funds Quarter 1	6,898,350	-	6,898,350
Counterpart funds Quarter 2	13,927,835	-	13,927,835
Counterpart funds Quarter 3	4,181,653	-	4,181,653
Counterpart funds Quarter 4	39,866,046	-	39,866,046
Total	<u>64,873,884</u>	<u>-</u>	<u>64,873,884</u>

8.4(a) & (b) LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the 12 months to 30 June 2018 we received funding from ADB in form of loans negotiated by The National Treasury and Donors as detailed in the table below:

Name of Donor	Date received	Amount received in currency USD	Loans received in cash	Loans received as direct payment	Total amount in Kshs	
					FY 2017/18	FY 2016/17
			Kshs	Kshs	Kshs	Kshs
Loans Received from Donors						
Africa Development Bank*		1,133,995	-	115,175,789	115,175,789	-
Africa Development Bank**		738,435	-	75,720,315	75,720,315	-
Total		1,872,430	-	190,896,104	190,896,104	-

* Relates to Tana Water Services Board

** Relates to Northern Water Services Board



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.5 (a) & (b) PURCHASE OF GOODS AND SERVICES

	FY 2017/18			FY 2017/16	Cumulative to-date
	Payments made by the TWSB in Cash	Payments made by ADB	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Utilities, Supplies and Services*	-	115,175,789	115,175,789	-	115,175,789
Utilities, Supplies and Services**	-	75,720,315	75,720,315	-	75,720,315
Total	=	<u>190,896,105</u>	<u>190,896,105</u>	=	<u>190,896,105</u>

* Relates to Tana Water Services Board

** Relates to Northern Water Services Board

8.6 ACQUISITION OF NON-FINANCIAL ASSETS

	FY 2017/18			FY 2016/17	Cumulative to-date
	Payments made by TWSB in Cash	Payments made by ADB	Total Payments		
	Kshs	Kshs	Kshs	Kshs	Kshs
Acquisition of Land	25,017,458	-	25,017,458	-	25,017,458
Total	25,017,458	-	25,017,458	-	25,017,458



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8.7 OTHER GRANTS AND TRANSFERS AND PAYMENTS

	FY 2017/18			FY 2016/17	Cumulative to-date
	Payments made by TWSB Cash	by in	Payments made by ADB	Total Payments	
	KShs		KShs	KShs	KShs
Project Administrative Costs	39,856,426	-	39,856,426	-	39,856,426
Total	<u>39,856,426</u>	=	<u>39,856,426</u>	=	<u>39,856,426</u>

8.8 BANK ACCOUNTS

Special Deposit Accounts

The Project has no Special Deposit Account (SDA)

8.9 OUTSTANDING IMPRESTS AND ADVANCES

No Imprest was outstanding as at 30th June 2018.

9.0 OTHER IMPORTANT DISCLOSURES

9.1 PENDING ACCOUNTS PAYABLE

There was no pending bills as at 30th June 2018.



**KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION
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**10 PROGRESS ON FOLLOW UP OF AUDITOR GENERAL
RECOMMENDATIONS**

This is the first Financial Statement for the Programme.



KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM

LOAN NUMBER: 200200000501

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FOR THE FINANCIAL YEAR ENDED JUNE 30 2018

ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Final Budget	Actual on Comparable Basis	Budget Utilisation Variance	% of Utilisation Variance to Final Budget	Comments on Variance
	A	B	c=a-b	d=c/a %	
RECEIPTS DURING THE YEAR/PERIOD					
Government of Kenya	66,000,000	64,873,884	1,126,116	1.70%	
External financing	200,000,000	190,896,104	9,103,896	4.55%	
Total Receipts	266,000,000	255,769,988	10,230,012		
PAYMENTS DURING THE YEAR/PERIOD					
Purchase of Services*	120,000,000	115,175,789	4,824,211	4.02 %	
Purchase of Services**	80,000,000	75,720,315	4,279,685	5.35%	
Acquisition of Non-Financial Assets	25,200,000	25,017,458	182,542	0.72%	
Project Administrative Costs	40,800,000	39,856,426	943,574	2.31%	
Total Payments	266,000,000	255,769,988	10,230,012		

* Relates to Tana Water Services Board

** Relates to Northern Water Services Board

Comment on the Variances

The variances are below 10% which is not significant.



11-11-11