

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability



THE NATIONAL ASSEMBLY
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THE AUDITOR-GENERAL

ON

WATER SECTOR TRUST FUND

FOR THE YEAR ENDED
30 JUNE, 2025



**WATER SECTOR TRUST FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2025**

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

WATER SECTOR TRUST FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2025

Table of Contents

GLOSSARY OF TERMS.....	1
1. KEY ENTITY INFORMATION AND MANAGEMENT.....	2
2. BOARD OF TRUSTEES.....	7
3. MANAGEMENT TEAM.....	15
4. CHAIRPERSON'S STATEMENT.....	18
5. REPORT OF THE CHIEF EXECUTIVE OFFICER.....	21
6. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2024/2025.....	23
7. CORPORATE GOVERNANCE STATEMENT.....	24
8. MANAGEMENT DISCUSSIONS AND ANALYSIS.....	30
9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING.....	35
10. MARKET PLACE PRACTICES.....	37
11. REPORT OF THE TRUSTEES.....	39
12. STATEMENT OF TRUSTEES' RESPONSIBILITIES.....	40
13. REPORT OF THE INDEPENDENT AUDITOR TO THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF WATER SECTOR TRUST FUND FOR THE YEAR ENDED 30 JUNE 2025.....	41
14. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2025.....	44
15. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2025.....	45
16. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2025.....	46
17. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2025.....	47
18. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2025.....	48
19. NOTES TO THE FINANCIAL STATEMENTS.....	49
20. APPENDICES.....	73

GLOSSARY OF TERMS

Acronym	Description
AfDB	African Development Bank
AOD	Aid on Delivery
ASAL	Arid and Semi-Arid Lands
BMGF	Bill and Melinda Gates Foundation
CBOs	Community Based Organizations
CFA	Community Forest Associations
COVID-19	Corona Virus Disease-2019
DANIDA	Danish International Development Agency
EU	European Union
GDP	Gross Domestic Product
GoK	Government of Kenya
HOA	Horn of Africa for Ground Water Resilience
IFAD	International Fund for Agricultural Development
ISO	International Organisation for Standardization
KfW	Kreditanstalt fuer Wiederaufbau (German Government Bank)
KShs	Kenya Shillings
MoU	Memorandum of Understanding
MOWSI	Ministry of Water, Sanitation & Irrigation
NCBA	NCBA Bank Kenya Plc
OBA	Output Based Aid
QMS	Quality Management Systems
SFD	Saudi Fund for Development
SWASAP	Sustainable Management and Access to Water and Sanitation in the ASAL Programme
UBSUP	Upscaling Basic Sanitation for the Urban Poor
UNICEF	United Nations Children's Fund
UPC	Urban Project Concept
USD	United States Dollar
WASH	Water and Sanitation for Hygiene
WASREB	Water Services Regulatory Board
WRA	Water Resources Authority
WRUA	Water Resources Users Association
WSDP	Water & Sanitation Development Programme
WSPs	Water Services Providers
WSTF	Water Sector Trust Fund
WUA	Water Users Associations

1. KEY ENTITY INFORMATION AND MANAGEMENT

(a) BACKGROUND INFORMATION

Water Sector Trust Fund (formerly Water Services Trust Fund) – WSTF, is a corporate body established under section 113 (1) of the Water Act, 2016 of the Laws of Kenya and it is domiciled in Kenya.

(b) PRINCIPAL ACTIVITIES

The objective of the WaterFund is to provide conditional and unconditional grants to counties and to assist in financing the development and management of water services in marginalized areas or any area which is considered by the Board of Trustees to be underserved including: -

- a) Community level initiatives for the sustainable management of water resources;
- b) Development of water services in rural areas considered not to be commercially viable for provision of water services by licensees;
- c) Development of water services in the under-served poor urban areas; and
- d) Research activities in the area of water resources management and water services, sewerage and sanitation.

Vision:

“To be the institution of choice in financing the improvement of access to water and sanitation for the underserved in Kenya”

Mission:

“To finance the development of sustainable water and sanitation services and water resources management”

Core Values

- a) **Sustainability** - The Fund strives to ensure that the funded projects are financially, socially and environmentally sound and sustainable through innovative mechanisms.
- b) **Integrity** - The Fund ascribes to high standards of personal and professional ethics and integrity in the conduct of its affairs.
- c) **Good Governance** - The process is as good as the product. The Fund promotes the virtues of equity and fair play for equitable sustainable development through consultations as well as effective communication, coordination and public participation in all undertakings.
- d) **Human Dignity** - The Fund is committed to uphold reasonable standards of access to water and sanitation for the citizens of Kenya to meet its constitutional mandate.
- e) **Teamwork** - The Fund relentlessly pursues timely attainment of targeted results at all levels through high level coordination, networking and collaboration within WSTF and its partners.

1. KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(c) Key Management

Board of Trustees

Dr Erick Kipkoech Rutto	Board Chairperson
Mr. Julius Korir, CBS	Principal Secretary, State Department for Water and Sanitation
Dr. Chris K. Kiptoo CBS	PS, The National Treasury and Planning (TNT)
Mr. Daniel Mutua	Alternate Trustee to CS: Ministry of Treasury and Planning
Mr. Rolex Kibet Kirui	Alternate Trustee to PS: Ministry of Water, Sanitation and Irrigation (effective 27 th February 2025)
Eng. Joseph Kimani Ngacha	Member
Mr. Barako Qatamur	Member
Mr. Andrew Mbithi	Member
Mr. Lucas Chepkitony	Member
Ms. Maryan Ubah Mohamed	Member
Ms. Winfred Wanjiku Njoroge	Member
Ms. Josphine Eregae	Member
Mr. Marselino Malimo Arbelle	Member
Ms Halima Ali	Corporation Secretary

Management Team

Mr. Willis Okello Ombai, BSc (Forestry), MA (Project Planning & Management)	Chief Executive Officer
Mr. Edwin Korir, B.Ed. (Arts), MBA, CPA (K)	General Manager, Internal Audit & Risk Assurance
Mr. Samwel Gitau Mbugua, B. Com (Accounting), MBA, CPA (K)	General Manager, Corporate Services
Mrs. Halima Ali Abdullahi, Bachelor of Laws (LLB), LLM, CIARB, CPS	General Manager, Legal Services & Corporation Secretary
Mrs. Ruth Nganga, BA (Theology), PGCE, Ed, CP3P, MBA	General Manager, Fund Development
Mr. Isaac Kega, BA (Econ), MEcon, PMP, MESK	General Manager, Programmes
Mr. Bernard Njenga, B. Com (Business Information Systems), MBA (MIS)	Manager, ICT
Mr. Paul Atwa, BA (HR), Higher Dip. HR, MBA(Ongoing)	Manager, Human Resources and Administration
Mr. Thomas Nyangau BSC. Eng, MBA Strategy	Manager, Commercial Financing/ Urban Investments
Mr. Panuel Nyaga, MSC, Procurement & Logistics, BCOM (Marketing), Diploma in Purchasing & Supplies	Manager, Supply Chain Management
Eng. Rose Nyikuri, BSc. Eng (Civil), MSc (WREM), R. Eng., MIEK	Manager, Water Resources and Climate Change
Mr. Peter Koech, BSC. Eng, (Civil)	Manager, Water and Sanitation Services
Mr. Elly Ochere, MBA, BSC Actuarial Sciences with IT	Ag. Manager, Research, Planning and M&E

1. KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2023 and who had direct fiduciary responsibility were;

Name	Designation
Mr. Willis Okello Ombai	Chief Executive Officer
Mr. Samwel Gitau Mbugua	General Manager, Corporate Services
Mr. Isaac Kega	General Manager, Programmes
Mr. Edwin Korir	General Manager, Internal Audit & Risk Assurance

(e) Fiduciary Oversight Arrangements

The key fiduciary oversight arrangements were;

Audit and Risk Committee

The committee assists the Board of Trustees in fulfilling its oversight role with objectivity, independence and effectiveness by;

- Obtaining assurance from management that all financial and non-financial internal control and risk management functions are operating effectively and reliably
- Providing an independent review of an entity's reporting functions to ensure the integrity of financial reports
- Monitoring the effectiveness of the entity's performance management and performance information
- Providing strong and effective oversight of an entity's internal audit function
- Providing effective liaison and facilitate communication between management and external audit
- Providing oversight of the implementation of accepted audit recommendations
- Ensuring the entity effectively monitors compliance with legislative and regulatory requirements and promotes a culture committed to lawful and ethical behaviour.

Finance and Corporate Services Committee

The committee ensures effective systems that provide leadership in management, resource rationalization and professional performance that endeavour in realizing the achievement of goals by providing the following;

- Reviewing and recommending WSTF policies relating to Finance, Human Resources, Planning & Research, Procurement and ICT for efficient and effective function of the Fund.
- Ensuring that the Fund has effective and efficient internal control systems.
- Reviewing and recommending the Fund's long, medium and short-term plans that are consistent with the Strategic Plan.
- Ensuring that the Fund has optimal liquidity to enable the smooth flow of operations for working capital and development.
- Ensuring there are adequate financial reporting structures in place.
- Reviewing financial reports and making appropriate recommendations to the Board.

1. KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(e) Fiduciary Oversight Arrangements

Investment and Monitoring Committee

The Committee provide guidance, advice and recommendations to the Board for the realization of access to Water and Sanitation services through financing of viable projects by;

- Developing and reviewing funding mechanisms and make recommendations as appropriate to the BOT for approval.
- Ensuring compliance with developed systems in terms of appraising, funding, implementation and monitoring of sustainable water and sanitation projects.
- Reviewing project proposals and/or investment briefs recommended by the Management and recommend as appropriate to the Board of Trustees for approval.
- Strengthening and sustaining the Fund's relationship with the parent ministry, other water institutions and relevant stakeholders.

Public Investment Committees

This is a select Committee established pursuant to Standing Order No. 206 of the National Assembly and is mandated to among other things, examine the reports and accounts of Public Investments as submitted by the Auditor-General and also examine whether the affairs of public investments are managed in accordance with sound financial or business principles and prudent commercial practices, Article 229 of the Constitution of Kenya also mandates Parliament to consider the report of the Auditor-General. The Committee invites the Fund to appear before it to adduce evidence on the Reports of the Auditor -General on the Financial Statements of the Water Sector Trust Fund for specified period.

Development Partners

Development Partners provide oversight through quarterly steering committees and bilateral meetings held from time to time. WaterFund prepares and submits quarterly and annual reports to Partners regarding status and progress of the programmes, including statements of expenditure for funds received from each partner. The Fund receives and addresses Partners feedback on reports and during meetings and often organizes field visits for partners to inspect projects they have funded. They also provide Technical Assistants who help to enhance WaterFund's capacity. WaterFund utilizes the funds against a work plan and budget allocated by the National Treasury.

(f) Registered Offices

CIC Plaza First Floor,
Mara Road, Upper Hill,
P.O. Box 49699 - 00100
Nairobi, Kenya.

(g) Entity Contacts

Tel: +254 - 20-2720696/9017/9018/9019
Fax: +254 - 20-2724357
E-mail: info@waterfund.go.ke
Website: www.waterfund.go.ke

(h) Bankers

Central Bank of Kenya
Haile Selassie Avenue
P.O Box 60000 – 00200
Nairobi, Kenya.

1. KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(h) Bankers (Continued)

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

Kenya Commercial Bank Limited
Capitol Hill Branch
P.O. Box 69695 - 00100
Nairobi, Kenya.

NCBA Bank Limited
NCBA House, Masaba Road
P.O. Box 44599 - 00100
Nairobi, Kenya.

Cooperative Bank of Kenya
Upper hill Branch
P.O. Box 48231 – 00100
Nairobi, Kenya

Equity Bank Kenya Limited
Supreme Branch Upper hill
P.O. Box 75104 – 00200
Nairobi, Kenya

(i) Independent Auditor

Auditor General
Office of the Auditor General
Anniversary Towers
P.O. Box 30084 - 00100
Nairobi, Kenya.

(j) Principal Legal Advisors

The Attorney General
State Law Office & Department of Justice
Harambee Avenue
P.O. Box 40112 - 00200
Nairobi, Kenya

2. BOARD OF TRUSTEES

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

Dr Erick Kipkoech Rutto – Board Chairman

Erick Kipkoech Rutto holds a Master's of Science degree in Tropical and Infectious Diseases, as well as a Bachelor of Science degree in Medicine and Surgery. Dr Rutto is currently pursuing a Ph.D. in Medical Microbiology.

In addition to his role as Chairperson of the WaterFund, Dr Rutto is a distinguished entrepreneur and serves as the 1st Vice President of the Kenya National Chamber of Commerce. In this capacity, he actively promotes and safeguards the commercial and industrial interests of the Chamber's members and the country as a whole. Dr Rutto plays a crucial role in facilitating domestic and international trade by organizing finance trade and industrial exhibitions, which contribute to fostering economic growth.

Dr Rutto is a strong advocate for favourable legislation and effective bureaucratic measures that protect the interests of Chamber members. Acting as a liaison, he connects foreign investors with opportunities in Kenya, stimulating partnerships and contributing to the country's economic development.

With over fifteen years of experience in senior management, Dr Rutto has demonstrated expertise in strategic leadership, operations management, finance management, organizational development, administration, stakeholder relations, and client relationship management. He has also contributed to the promotion of high educational standards through his teaching experience in higher education institutions.

Professionally, Dr Rutto is an active member of the Kenya Medical Association (KMA), the Kenya Association of Private Hospitals (KAPH), and serves as the Chairman of the Eldoret Private Hospital Owners Association (EPHOA). His involvement in these professional organizations reflects his commitment to the advancement of healthcare and the improvement of medical services.

Dr Rutto's research experience focuses on Translational Research, which involves leveraging knowledge from basic sciences and research to develop new drugs, medical devices, diagnoses, and treatment options. His specific research interests include in-house genotype antiretroviral drug resistance in therapy-naive HIV-1 positive patients, interactions between malaria and HIV co-infections in malaria endemic zones, and antibacterial sensitivity patterns, trends, and antibiotic use stewardship in Kenya.

Outside of his professional commitments, Dr Rutto serves as an advisor and Board Member to the Tegla Lorupe Peace Foundation, contributing his expertise to promote health and well-being. He has also previously held positions as a member of the Board of Directors of the Water Services Regulatory Board (WASREB) and Chairman of the Eldama Ravine Sub County Referral Hospital in Eldoret.

Dr Rutto's extensive experience, entrepreneurial mindset, and dedication to research and community service make him a valuable asset as Chairperson of the Water Sector Trust Fund. His combination of medical knowledge, management skills, and commitment to the advancement of the water sector in Kenya ensures impactful contributions to the country's sustainable development.



Mr. Willis Ombai – Chief Executive Officer

Mr. Ombai is a Developmental Expert with a bias in Natural Resource Management and with over 20 years' experience in various countries in Africa serving in different capacities. He holds Masters of Arts Degree in Project Planning and Management from Maseno University, Bachelor of Science Degree in Forestry from Moi University. He is currently pursuing a PhD in Environment Policy from University of Nairobi.



Mr. Ombai has extensive experience in management of development projects financed by bilateral, global and national agencies including World Bank, European Union, DANIDA, German Development Bank, International Fund for Agricultural Development, The Gates Foundation, Government of Sweden, Government of Finland and Government of Kenya.

In his previous portfolio as a Chief Manager, Investments and Programmes, Mr. Ombai's key role was overall supervision of implementation of investments across WaterFund through monitoring and development of quality and timely reporting to Development Partners, Board of Trustees and other key stakeholders. He led in development of short to long term investment strategies, development and review of proposals for resource mobilisation, establishment and strengthening of partnerships.

Mr. Ombai previously worked as a Project Coordinator at Open Society Initiative for Southern Africa, a Civil Society Organisation on Sustainable Land Management (SLM) Project for Sub-Saharan Africa funded by the United Nations Development Programme (UNDP). Key among his responsibilities was to provide strategic leadership to the project teams in budgeting, stakeholder engagement, grant management risk assessment and assurance. High-level reporting for transparency and accountability in compliance to best practices, national and international environmental laws was also part of his responsibilities.

Mr. Ombai has been serving as the Secretary and Advisor to the WaterFund Board of Trustees (Investments & Monitoring Committee) on broader issues pertaining investments in water, sanitation and water resources management projects, monitoring, evaluation accountability and learning. Mr. Ombai has also previously worked for World Agro Forestry Centre (International Centre for Agroforestry-ICRAF), Danish International Development Agency and National Environment Trust Fund amongst others.

Mr. Ombai is a member of Forestry Society of Kenya, Environmental Institute of Kenya and Institute of Directors (Kenya).



Mr. Julius Korir, CBS, Principal Secretary, State Department for Water and Sanitation

Mr. Julius Korir is the Principal Secretary in the State Department for Water and Sanitation since October 2023. Before this posting, Mr. Korir served in the Office of the Deputy President, State Department for Cabinet Affairs (December 2022 – September 2023) He has also served in other different Government Ministries and Departments that include; Ministry of Devolution (February-2021- December-2022, State Department for Youth in the Ministry of ICT, Innovation and Youth Affairs (September 2019 – February 2021), State Department for Infrastructure in the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works (February 2018 - September 2019).

In the State Department of Infrastructure, he Spearheaded the implementation of the Low Volume Sealed Roads (LVSr) Programme aimed at upgrading 10,000km of gravel Rural Roads to Bitumen Standards.

Mr. Julius Korir has also served as the Principal Secretary in the Ministry of Health (March 2017 - February 2018). Here, he facilitated the restoration of Donor confidence through demonstrable strengthening of financial management and controls systems in the utilization of financial resources of GoK and Donor funds. He also oversaw the rollout of the Managed Equipment Services (MES).

Mr. Korir has served as the Principal Secretary State Department of Investment and Industry in the Ministry of Industry, Trade and Cooperatives having been appointed on 18th December 2015. Prior to this he was appointed Industrialization Secretary, in the then

Ministry of Industrialization and Enterprise Development from May 2014. At the Ministry of Industrialization, he spearheaded development of Kenya's Industrial Transformation Program (KITP), Kenya's Industrialization Blueprint. He also successfully coordinated the Kenya Government Business

Reform Initiatives under the Ease of Doing Business Reforms where the Country's rankings in the World Bank Ease of Doing Business Report improved tremendously from 136 to 92 in a period of two (2) years.

Over the years he has been involved in managing a large portfolio of Development partner funded Projects that are targeted towards improving livelihoods and making trade work for the poor. He is a holder of an MBA in International Business and a BSc. in Agricultural Economics.

Dr. Chris K. Kiptoo, CBS – PS, The National Treasury and Planning (TNT)

Dr. Chris Kiptoo is the Principal Secretary, National Treasury. He was appointed Principal Secretary by President William Samoei Ruto on 1st December 2022. Dr. Kiptoo is the immediate former Principal Secretary, Ministry of Environment and Forestry. Before that, he also served as a Principal Secretary at the State Department of Trade, Ministry of Industry, Trade & Cooperatives.



In his working career, Dr. Kiptoo has acquired a rich wealth of experience in economic policy analysis, mainly gained at the Central Bank of Kenya, Capital Market Authority and the International Monetary Fund, where he has served in various capacities. His expertise especially relates to the design and implementation of monetary policy; balance of payments and exchange rates; fiscal operations and policy; financial sector matters including capital markets; national accounts/real sector and macroeconomic accounting, and modelling and forecasting.

Additionally, Dr. Kiptoo has proven experience in environment and climate change policies, trade policy and regional integration, private sector development and advocacy, infrastructure development, institutional development of Government institutions and organisational management, all mainly gained at the Ministry of Environment and Forestry, State Department of Trade as well as Trade Mark East Africa. Noteworthy, he also has four years of experience in economic policy coordination gained while working at the then Office of the Prime Minister.

Dr. Chris Kiptoo holds a Doctor of Philosophy Degree (PhD) in Finance (*International Macroeconomics Finance specialization*) from The Nairobi University, as well as a Master of Science (Ag. Economics) and Bachelor of Science (Ag. Economics) degree from Egerton University. He is also an Accredited Fellow in Macroeconomic Management Macroeconomic & Financial Management Institute of Eastern & Southern Africa (MEFMI)

Mr. Daniel Mutua - Alternate Trustee to CS: Ministry of Treasury and Planning

Daniel Mutua is a Deputy Director, Investment at the National Treasury. He alternates with the Cabinet Secretary, the National Treasury at the Board. He has over 23 year's Public sector experience in various Ministries including – Ministry of Labour, National Heritage, and the National Treasury – Directorate of portfolio management. Intensive training in Investment appraisal, Enterprise Risk analysis, Corporate Governance, and Public-Private Partnerships. Mutua holds a B.Ed. (Economics/Business) from Kenyatta University (1991), MBA from ESAMI/Maastricht (2006) and several certificates from IP3 Institute, Washington DC-USA. He has previously served as an Alternate Director in the Boards of ICDC, EPZA, WSTF, NBA, KNAC (2001) Ltd and University of Eldoret Council.



2. BOARD OF TRUSTEES (Continued)

Mr. Rolex Kibet Kirui - Alternate Trustee to Principal Secretary, Ministry of Water, Sanitation and Irrigation, State Department for Water and Sanitation (effective 27th February 2025)



Rolex Kibet Kirui is an accomplished Chief Economist with over 19 years of professional experience in the Water and Sanitation Sector, having served in various capacities since 2007. He holds both a Bachelor of Arts degree (2002) and a Master of Arts in Economics (2013), earned from the University of Nairobi. His expertise spans policy analysis, economic modelling, and performance management within the public service.

Mr. Kirui plays a pivotal role in shaping the strategic direction of the water sector by preparing policy briefs, reviews, and reports that assess the status of the economy and evaluate the impact of water and sanitation on economic performance. He also contributes to the formulation of ministerial strategic plans through the provision of statistical data and analytical insights.

Mr. Kirui is actively involved in coordinating stakeholder engagement, facilitating both state and non-state actors in developing donor funding proposals. Additionally, he oversees the preparation and dissemination of survey reports and statistical bulletins, ensuring that data-driven decisions inform sector development. His work supports the formulation of national policies, Bills, and strategies by coordinating the provision of essential sector data.

At the regional and global levels, Mr. Kirui contributes significantly to international commitments. He facilitates the monitoring and reporting of Sustainable Development Goal 6 (clean water and sanitation) and other international frameworks. He also initiates position papers on regional and international economic cooperation and undertakes economic modelling and forecasting for the water sector.

Furthermore, Mr. Kirui plays a key role in the monitoring, evaluation, and reporting of performance contracts for the Ministry and its affiliated institutions. His leadership and technical expertise support continuous improvement in the delivery of water and sanitation services nationwide.

Eng. Joseph Kimani Ngacha - Independent Trustee

Eng. Joseph Kimani Ngacha, is a member of the Board of Trustees at the Water Sector Trust Fund (WaterFund), contributing his extensive expertise in civil engineering and construction management to advance WaterFund's mandate. Eng. Ngacha's educational background is anchored in a Bachelor of Science degree in Civil Engineering from the University of Nairobi, where he achieved the distinction of graduating with Honours in 1977.

With a remarkable career spanning over three decades, Eng. Ngacha, has demonstrated his prowess in construction management. His track record is characterized by the successful oversight of multi-million-shilling projects, effectively navigating them from conceptualization to their ultimate completion. He is not only a seasoned engineer but also a founding member of the esteemed Kenya Federation of Masters Builders (KFMB), a testament to his dedication to the development of the construction industry.

Eng. Ngacha boasts a diverse professional background, having held pivotal roles within the Ministry of Public Works and Housing, as well as Kenya Railways. His tenure in these institutions has encompassed various capacities, including Principal Engineer and District Civil Engineer, showcasing his versatility and in-depth knowledge of civil engineering practices.

Presently, Eng. Ngacha, occupies the position of Managing Director at Jipsy Civil and Building Contractors Ltd., a position that underscores his leadership acumen and ability to drive successful projects in the construction sector. His extensive experience and industry insights align seamlessly with WaterFund's mandate as he contributes his wealth of knowledge to support the same.



Mr. Barako Qatamur - Independent Trustee



Mr. Barako Elema Qatamur brings a wealth of legal expertise and a distinguished career in the judiciary to his role as a vital member of the Board of Trustees at the Water Sector Trust Fund (WaterFund). His background within the legal landscape of Kenya spans over a decade with dedicated service within the Judiciary for more than 11 years, as the Head of Protocol in the Office of the Chief Justice.

Holding a Master of Arts in Diplomacy and International Studies from the University of Nairobi, Mr. Qatamur demonstrates a broad understanding of international relations and diplomacy. Furthermore, his academic foundation includes a Post Graduate Diploma in Law from the Kenya School of Law, a Bachelor of Laws Degree (LLB), and a Bachelor of Arts in Journalism and Media Studies (Public Relations).

In recognition of his leadership potential and management acumen, Mr. Qatamur has completed the Senior Management Course from the Kenya School of Government (KSG), further enhancing his strategic decision-making skills.

Notably, Mr. Qatamur is a Certified Professional Mediator, indicative of his dedication to alternative dispute resolution mechanisms. His professional affiliations encompass membership in various bodies such as the Law Society of Kenya, Public Relations Society of Kenya, Protocol & Diplomacy International – Protocol Officers Association, and Mediation Training Institute International, USA.

Mr. Andrew Mbithi - Independent Trustee

Andrew Mbithi Muiya is a member of the Water Sector Trust Fund (WaterFund) Board of Trustees. Holding a BSc degree in Governance and Leadership from Jomo Kenyatta University of Agriculture and Technology (JKUAT), Mr. Mbithi combines academic excellence with a wealth of leadership experience.

Mr. Mbithi's extensive leadership journey includes serving as the leader of the Majority Coalition in the County Assembly of Embu, showcasing his adeptness in strategic collaboration. His dynamic career spans roles such as Treasurer at CDF Mbeere South Constituency and Director at Elite Logistic Ltd. His remarkable contributions extend to chairing both Embu County Council and Mbeere County Council.

With diverse experiences ranging from national intelligence services (special branch) to the Kenya Police Force, Mr. Mbithi's comprehensive background brings unique perspectives to the Board. WaterFund anticipates leveraging his profound expertise in leadership to drive impactful initiatives and promote positive change within the water sector.



2. BOARD OF TRUSTEES (Continued)

Mr. Lucas Chepkitony - Independent Trustee



Mr. Lucas Kipkosgei Chepkitony is a member of the Water Sector Trust Fund (WaterFund) Board of Trustees. Holding a Post-graduate degree in Animal Production from the Agricultural University of Norway and a Bachelor of Science in Agriculture from New Mexico State University, USA, Mr. Chepkitony's academic foundation underscores his commitment to excellence.

With a diverse career spanning agriculture and related sectors, Mr. Chepkitony's impact has been far-reaching. Notably, during his tenure as Member of Parliament for Keiyo North Constituency, he served as a member and vice-chair of the Agriculture committee, showcasing his dedication to agricultural development.

Mr. Chepkitony's extensive professional journey includes leadership roles such as Director at the Pest and Agricultural Chemical Product Board, Managing Director of Rift Valley Textile Limited (Rivatex), General Manager at Agro-Chemical and Food Company Ltd, Muhoroni, and Deputy Managing Director at Muhoroni Sugar Company.

His influential presence extends beyond his corporate roles. He served as Chairman of the Kenya Association of Manufacturers (KAM) Eldoret Chapter, held positions on boards including the National Management Board of Kenya Association of Manufacturers and the National Management Board of Federation of Kenya Employers (FKE), and contributed to educational institutions as a member of various boards and committees.

Mr. Chepkitony's remarkable wealth of expertise, garnered from diverse leadership positions, is a valuable asset. His distinct blend of industry knowledge and strategic insight serves as a catalyst for driving positive impact within Kenya's water sector.

Ms. Maryan Ubah Mohamed - Independent Trustee

Maryan Ubah Mohammed is a member of the Water Sector Trust Fund (WaterFund) Board of Trustees. Armed with a Bachelor of Arts (BA Hons) degree in International Relations with Political Science from the University of Birmingham, UK, Maryan combines her academic foundation with a stellar 13-year career in the Human Services field.

With meticulous attention to detail, Maryan is a consummate professional, renowned for her organizational prowess. Her adeptness in leadership, strategic task development, and administrative support is underlined by her effective communication skills. She champions marginalized and at-risk populations through program development, exemplifying her dedication to positive change.

Maryan is a collaborative and analytical force, proficient in forging partnerships and advocating for communities in need. Her presence on the Board underscores WaterFund's commitment to impactful change in the water sector, driven by Maryan's passion for equitable development. Maryan is the Chairperson to the Audit and Risk Assurance Committee.



2. BOARD OF TRUSTEES (Continued)



Ms. Winfred Wanjiku Njoroge - Independent Trustee

Ms. Winfred Wanjiku Njoroge serves as the Deputy Inspector-General, State Corporations at the Inspectorate of State Corporations. Within the Board of Trustees of the Water Sector Trust Fund (WaterFund), she represents the Inspector-General, State Corporations, bringing her wealth of experience and expertise.

With an impressive career spanning over 18 years, Ms. Njoroge possesses a diverse background in both public and private sectors. Her proficiency encompasses corporate governance, Human Resource instrument development, public policy advisory, public sector reforms, board evaluation, project monitoring & evaluation, and media monitoring.

Her commitment to governance excellence and efficient service delivery earned her the esteemed Head of State Commendation (HSC) in December 2021. Ms. Njoroge's dedication extends to continuous education, having completed courses in public sector governance, corporate governance, and governance audit.

Educationally, she holds a Master of Business Administration (MBA) degree in Operations Management and a Bachelor of Arts degree in Economics and Sociology, both from the esteemed University of Nairobi. She further enhances her expertise with a Diploma in Project Management from the Kenya Institute of Management (KIM).

Ms. Winfred Wanjiku Njoroge's multifaceted background and passion for governance fortify the WaterFund Board of Trustees. Her role ensures effective representation of the Inspector-General's office and contributes significantly to WaterFund's pursuit of increasing access to water and sanitation to underserved and marginalised communities.

Josphine Eregae, Independent Trustee

Josphine K. Eregae is an integral member of the Water Sector Trust Fund (WaterFund) Board of Trustees. Holding a Master of Science in Leadership and Governance from Jomo Kenyatta University of Agriculture and Technology, along with a Bachelor's Degree in Arts (Education) from Bugema University, Ms. Eregae combines academic excellence with a rich professional background.

With over a decade of experience in Government Relations, Ms. Eregae's expertise shines. Her impactful leadership roles have included steering County Departments in policy development, lobbying, advocacy, and organizational management. Her strategic acumen comes to the forefront in fostering enhanced relationships with county legislators and stakeholders.

As an accomplished Executive Director, Ms. Eregae is recognized for driving progress through adept team leadership and development. Her career has spanned diverse roles such as Executive Director of Horn of Africa, County Executive Committee Member for Education, Youth, Sports, Gender, Culture & Social Services, and County Executive Committee Member for Water, Sanitation, Energy, Environment & Climate Change.

Her hands-on experience extends to her tenure as Ward Administrator within the County Government of Isiolo. Ms. Eregae's multifaceted background enriches WaterFund's initiatives, bringing invaluable knowledge and expertise to the Board. Her presence contributes significantly to the Fund's vision of sustainable funding of safe water and sanitation for all.



2. BOARD OF TRUSTEES (Continued)

Marselino Malimo Arbelle - Independent Trustee (Effective 01st September 2023)

Marselino Malimo Arbelle is a member of the Water Sector Trust Fund (WaterFund) Board of Trustees. He holds a Bachelor of Business Management (Marketing) degree from Mt. Kenya University (MKU), Kenya, which forms the foundation of his extensive professional journey.

Mr. Arbelle is a seasoned Business Manager and Administrator with a multifaceted skill set honed over the years. His expertise spans sales, marketing, client relations, human resources, and financial management. He excels in orchestrating operational functions and leading teams to achieve remarkable success.



His career includes a tenure as the Member of Parliament for Laisamis Constituency and service as a Member of the National Assembly in the Kenyan Parliament. During this time, he contributed his insights and skills to committees dealing with Security, Budget, and Powers and Privileges, demonstrating his commitment to effective governance.

Mr. Arbelle's professional journey also encompasses roles such as Country Manager at Trojan International-South Sudan, Sales and Marketing Manager at Hass Petroleum-Rwanda, and Sales and Marketing and Security Inspector at Firestone EA Ltd-Kenya. His tenure as a police officer with the Kenya Police Service further underscores his dedication to public service and security.

Marselino Arbelle's leadership acumen, innovative problem-solving abilities, and team-building skills add significant value to WaterFund. His diverse experience and expertise are invaluable assets as the organization pursues its mandate to increase water and sanitation access to underserved and marginalised areas in Kenya, making a positive impact within the water sector and beyond.



Ms. Halima Ali – Corporation Secretary

Ms. Halima Ali joined the Fund as Corporation Secretary and Legal Manager 2018. She is an advocate of the High Court with Bachelor of Law Degree from University of Nairobi and LLM from Queen Mary University of London through Commonwealth Scholarships and currently finalising her second masters in International Finance and Regulations from Strathmore University and a member of the Institute of Certified Secretaries.

Halima is also an associate member of Chartered Institute of Arbitrators, a certified mediator and member of Commonwealth Scholarship Commission alumni advisory panel.

Halima has been the Managing Partner of HH Associates Advocates and has worked with other law firms including Meritad Law Africa, Bulle & Company Advocates, Swaleh and Company Advocates under the department of Commercial and Conveyancing.

3. MANAGEMENT TEAM



Mr. Willis Ombai
Chief Executive Officer

Mr. Willis Ombai – Chief Executive Officer

Mr. Ombai is a Developmental Expert with a bias in Natural Resource Management and with over 20 years' experience in various countries in Africa serving in different capacities. He holds Masters of Arts Degree in Project Planning and Management from Maseno University, Bachelor of Science Degree in Forestry from Moi University. He is currently pursuing a Ph.D in Environment Policy from University of Nairobi.

Mr. Ombai has extensive experience in management of development projects financed by bilateral, global and national agencies including World Bank, European Union, DANIDA, German Development Bank, International Fund for Agricultural Development, The Gates Foundation, Government of Sweden, Government of Finland and Government of Kenya.

In his previous portfolio as a Chief Manager, Investments and Programmes, Mr. Ombai's key role was overall supervision of implementation of investments across WaterFund through monitoring and development of quality and timely reporting to Development Partners, Board of Trustees and other key stakeholders. He led in development of short to long term investment strategies, development and review of proposals for resource mobilisation, establishment and strengthening of partnerships.

Mr. Ombai previously worked as a Project Coordinator at Open Society Initiative for Southern Africa, a Civil Society Organisation on Sustainable Land Management (SLM) Project for Sub-Saharan Africa funded by the United Nations Development Programme (UNDP). Key among his responsibilities was to provide strategic leadership to the project teams in budgeting, stakeholder engagement, grant management risk assessment and assurance. High-level reporting for transparency and accountability in compliance to best practices, national and international environmental laws was also part of his responsibilities.

Mr. Ombai has been serving as the Secretary and Advisor to the WaterFund Board of Trustees (Investments & Monitoring Committee) on broader issues pertaining investments in water, sanitation and water resources management projects, monitoring, evaluation accountability and learning. Mr. Ombai has also previously worked for World Agro Forestry Centre (International Centre for Agroforestry-ICRAF), Danish International Development Agency and National Environment Trust Fund amongst others.

Mr. Ombai is a member of Forestry Society of Kenya, Environmental Institute of Kenya and Institute of Directors (Kenya).

3. MANAGEMENT TEAM (Continued)



**General Manager,
Corporate Services**

Mr. Samwel Gitau Mbugua,
B. Com (Accounting), MBA,
CPA (K)



**General Manager, Internal Audit &
Risk Assurance**

Mr. Edwin Korir, B.Ed. (Arts), MBA,
CPA (K)



**General Manager, Fund
Development**

Mrs. Ruth Nganga, BA (Theology),
PGCE, Ed, CP3P, MBA



**General Manager, Legal
Services & Corporation
Secretary**

Mrs. Halima Ali Abdullahi
Bachelor of Laws (LLB),
LLM, Certified Mediator,
Associate Member of
CIARB, CPS



General Manager, Programmes

Mr. Isaac Kega, BA (Econ), MEcon,
PMP, MESK



**Manager, Water Resources and
Climate Change**

Eng. Rose Nyikuri, BEng (Civil), MSc
(WREM), R. Eng., MIEK



**Manager, Human Resources and
Administration**

Mr. Paul Atwa, BA (HR), Higher
Dip. HR, MBA(On-going)



Manager, ICT

Mr. Bernard Njenga, B. Com
(Business Information)



**Manager, Water and
Sanitation**

Mr. Peter Koech, BSC. Eng.
Civil

3. MANAGEMENT TEAM (Continued)



**Ag. Manager, Research,
Planning and M&E**
Mr. Elly Ochere, MBA, BSC
Actuarial Sciences with IT



**Manager, Supply Chain
Management**
Mr. Panuel Nyaga, MSC
Procurement & Logistics, BCOM
(Marketing), Diploma in
Purchasing & Supplies



**Manager, Commercial
Financing/ Urban
Investments**
Mr. Thomas Nyangau BSC.
Eng, MBA Strategy

4. CHAIRPERSON'S STATEMENT

This financial report has been prepared in accordance with the guidelines issued by the National Treasury and presents the financial performance of the Water Sector Trust Fund (WaterFund) for the Financial Year 2024/2025. It provides an in-depth analysis of WaterFund's achievements in fulfilling its mandate, the challenges encountered, and the lessons learned during the period under review. The report further demonstrates WaterFund's commitment and capacity to meet its statutory obligations under Section 113 of the Water Act, 2016, while remaining aligned with its Strategic Plan.

During the year, WaterFund operated in a difficult environment characterized by global economic shocks and local disruptions that slowed GDP growth. These challenges significantly heightened the risks associated with investments in underserved and marginalized areas WaterFund's core focus of intervention.

Despite these obstacles, the Fund made remarkable progress in expanding access to water and sanitation services and promoting sustainable water resources management. Through its financed projects under the Rural, Urban, and Water Resources Investment programs, WaterFund provided access to safe water for **69,481** people, improved sanitation services for **63,128** people, and secured an additional **330,000 m³** of water storage capacity. While these achievements are notable, it is our conviction that even greater results could have been realized in the absence of prevailing political and economic disruptions.

Notably, WaterFund recorded significant improvements across most of its core indicators and overall performance. The Fund has put in place strategies to ensure delivery of high-quality, sustainable projects that enhance access to water and sanitation services while strengthening water resource management in targeted underserved and marginalized communities.

In FY 2024/2025, WaterFund's performance was evaluated against its performance contract targets by the Public Service Performance Monitoring and Management Unit (PSPMMU). The Fund was rated **excellent**, with a composite score of 2.3114, according to the established evaluation criteria.

These achievements are the result of strong collaboration and mutually beneficial partnerships with stakeholders. Guided by our Strategic Plan 2023–2027, WaterFund remains committed to scaling, accelerating, and transforming the lives of Kenyans through improved access to water and sanitation services and sustainable water resources management in areas that need them most.

Looking ahead, we remain confident that, despite persistent challenges, WaterFund has the right partnerships, commitment, and institutional capacity to deliver on its mandate and contribute meaningfully to national priorities. These include the Bottom-Up Economic Transformation Agenda (BETA), the National Climate Change Action Plan, the National Water Master Plan, and Kenya's Vision 2030 (through the Medium-Term Plan IV), as well as global commitments such as the Sustainable Development Goals (SDGs).

We sincerely appreciate the unwavering support of our stakeholders and look forward to continued collaboration in the years ahead. At WaterFund, we are firmly persuaded that the journey towards realizing the objectives and aspirations of the Water Act, 2016, is well on course, and that the short-term implementation challenges we face will be successfully overcome.

Corporate Strategy

During the period under review, Water Sector Trust Fund continued the implementation of its Strategic Plan 2023-2027 as spread across 5 financial years with each year's target embedded in the annual institutional workplan and cascaded down to departmental and divisional workplans as per the departmental core functions. The cumulative achievement of each key result area (KRA) of the Strategic Plan as at end of Year 2 is highlighted in table 1 below.

4. CHAIRPERSON'S STATEMENT (continued)

Corporate Strategy (continued)

Table 1: WaterFund's 2023-2027 strategy
Summary of strategic goal achievements

<i>Strategic Issue</i>	<i>Goal</i>	<i>Cumulative Achievements FY2024/2025</i>
Water and Sanitation Access	Improving access to additional 3.2 million people with safe water and dignified sanitation services	As at end of the period under review, WaterFund reached 452,902 people with water and sanitation services
Water Sector Financing	Mobilize additional KShs. 52 B to finance water, sanitation, IWRM, climate change and research and innovations	Cumulatively WaterFund mobilized KShs 12.51B
Water Resource Management and Climate Change	Finance IWRM and Climate Change Initiatives to Increase water storage capacities by 0.55Million M3 and conserve 2,500 Sq. Kms	Cumulatively as at end the period under review, WaterFund achieved additional storage of 0.410Million M³ and conserved 10.67KM² from its WRM interventions.
Research and Knowledge Management	Finance at least 50 research studies and 25 innovations in the water and sanitation Sector	<ul style="list-style-type: none"> i) WaterFund has established collaborations with two (2) research institutions and submitted one research concept for funding. ii) WaterFund is also in the process of setting up the Knowledge Hub iii) Formulation and Implementation of approved Research Science Technology and Innovation Strategy. iv) Capacity building of Research committee was trained on Research Ethics, Security, Integrity, Quality Assurance & Monitoring and Research Resource Mobilization and Reporting. v) Formulation of Intellectual Property Policy
Institutional Strengthening	Achieve a Holistic Organization Capacity Assessment Index (HOCAI) of 70% and above	<ul style="list-style-type: none"> i) As at the end of the period under review, WaterFund achieved Holistic Organization Capacity Assessment Index (HOCAI) of 63% ii) Mapping of business process and re-engineering of operational processes undertaken to progressively improve efficiency. iii) WaterFund is also in the process of digitalization of its records by developing electronic documentation and records management system.

Despite the cumulative progress made in implementing the Strategic Plan, several key challenges have been encountered. These include: inadequate resourcing towards implementation of key strategic actions; lengthy approval processes for funding proposals have hindered timely resource mobilization thus causing delays in securing financing for critical water and sanitation infrastructure coupled with limited capacity and high staff turnover among Implementing Partners; delays in County Government contributions, which have slowed project implementation; and the prolonged completion timelines of medium-sized projects, resulting in variances between planned and actual impact. In response, WaterFund continues to implement targeted mitigation measures to address these challenges and sustain progress.

Institutional Performance Management

In FY 2024/2025, the Board of Trustees, on behalf of the WaterFund, signed a Performance Contract (PC) with the Ministry of Water, Sanitation and Irrigation. The contract, developed in line with the 21st cycle guidelines, sets out the strategic intents of the WaterFund in fulfilling its mandate. The PC targets are delegated to management for execution and subsequently cascaded to all staff.

4. CHAIRPERSON'S STATEMENT (continued)

Institutional Performance Management (continued)

During FY 2023/2024, WaterFund successfully implemented its Performance Contract in accordance with the prescribed guidelines and submitted timely quarterly reports to the Public Service Performance Monitoring and Management Unit (PSPMMU) through the Government Performance Contracting Information System (GPCIS).

In the same period, the Performance Contract for FY 2023/2024 was evaluated by the Public Service Performance Monitoring and Management Unit (PSPMMU), where the WaterFund attained an **Excellent** rating with a composite score of **2.3114**, marking an improvement from the score of **2.5624** achieved in FY 2022/2023, underscoring the Fund's continued commitment to performance excellence and accountability in delivering its mandate.

Research and Innovation Financing Framework and Policy

Section 114 (d) of the Water Act 2016 mandates the Fund to finance innovative research activities in the thematic areas of water services, water resources management, sewerage and sanitation.

During the period under review, the Water Sector Trust Fund advanced the implementation of its Research, Science, Technology, and Innovation (RSTI) Strategy. This included forging strategic collaborations and partnerships to address critical issues in science, technology, and innovation within the water sector.

WaterFund prioritized the capacity building of its staff, focusing on STI mainstreaming in rapidly evolving environments, as well as Intellectual Property (IP) rights, transfer, and commercialization. As part of these efforts, the Fund formulated its Intellectual Property Policy, which was subsequently approved by the Board of Trustees.

This policy aims to position WaterFund at the forefront of research and innovation financing in the sector, providing a competitive edge.

Additionally, WaterFund presented an abstract titled "*The Role of Intellectual Property in Fostering Innovation in Kenya's Water Sector*" at a multisectoral conference organized by NACOSTI. The presentation underscored the significance of protecting intellectual property to drive innovation in the sector.

ISO 9001:2015 Recertification

Implementing a Quality Management System (QMS) in accordance with the ISO 9001:2015 international standard offers organizations several strategic benefits. These include the ability to consistently deliver products and services that meet customer expectations as well as statutory and regulatory requirements; enhanced opportunities to improve customer satisfaction; a structured approach to addressing risks and opportunities within the organization's context and objectives; and the capability to demonstrate compliance with defined quality management system requirements.

During the period under review, WaterFund was due for the recertification of its QMS and undertook a two-stage external audit process, both conducted by the Kenya Bureau of Standards (KEBS), the official certification body. The Stage 1 Audit was successfully completed and was subsequently followed by the Stage 2 Audit, which was also successfully concluded. As a result, WaterFund was awarded the ISO 9001:2015 Quality Management System recertification, which is valid until 2028.

Looking ahead, WaterFund plans to undertake an external surveillance audit in Quarter 1 of FY 2025/2026 to monitor and confirm the ongoing implementation, maintenance, and conformity of its QMS to the ISO 9001:2015 standard requirements further reinforcing its commitment to quality service delivery and continuous improvement.

Thank You.



Dr Erick K. Rutto
Chairman, Board of Trustees
Water Sector Trust Fund

5. REPORT OF THE CHIEF EXECUTIVE OFFICER

Water Sector Trust Fund has continued to implement its mandate through well formulated policy and strategic direction as guided by the Board of Trustees. During the period under review, WaterFund finalized and has been implementing its Strategic Plan 2023 – 2027. The Strategy outlines key goals of Funds Mobilization, Utilization, and Institutional Strengthening for efficient delivery on financing the water and sanitation Sector.

In the financial year 2024/2025, WaterFund continued with processes and negotiations aimed at unlocking an additional KShs 9 billion from various Development Partners including the World Bank and the Government of Finland (GOF). The former USAID WASH FIN2 provided Technical Assistance support of USD 50 Million to undertake feasibility studies for development of the Loan Facility Model.

WaterFund developed, submitted and followed up on 4 No. proposals for funding to development partners that are at an advanced status of discussions. Additionally, 4 No. project concept notes were approved by the National Treasury's Public Investment Management (PIM) Unit with a total value of KShs 7.15 billion

BUSINESS PERFORMANCE

Revenue

Water Sector Trust Fund earned revenues amounting to KShs. 2,593.8 million (2023/2024: 1,993.4 million) from the development partners, the Government of Kenya and other revenues from exchange transactions. The Government of Kenya contributed KShs. 255.9 million (2023/2024: 290.7 million), development partners contributed KShs. 2,320.3 million (2023/2024: 1,637.7 million) while revenues from exchange transactions amounted to KShs. 17.6 million (2023/2024: 65 million).

The Government of Kenya support to WaterFund experienced a decrease of 12% from the previous year. The support from the development partners made significant impact in the performance that made Water Sector Trust Fund earn funds amounting to KShs 2,320.3 million representing an increase of 41%. WaterFund remained liquid throughout the year, experiencing high liquidity towards the end of the financial year due to increased support from the development partners and the government. WaterFund is projecting increased support from the development partners as well as the government.

Cash flow

The cash and cash equivalents decreased from KShs. 3,467 million as at 30 June 2024 to KShs. 2,774 million as at 30 June 2025. Towards the end of the financial year, there was significant cash outflow in form of funding for projects to WSPs.

Employees

The Water Sector Trust Fund (hereinafter referred to as WaterFund or the Fund) continues to recognize human capital as a critical enabler in the realization of its strategic objectives and mandate. In its commitment to excellence, the Fund prioritizes the availability of an adequate, highly skilled and motivated workforce to effectively serve its stakeholders and contribute to sustainable development.

During the year under review, WaterFund advanced the gradual implementation of its revised Human Resource Policy Instruments, which are pivotal in supporting the delivery of its expanded mandate. The Fund maintained an in-post staffing level of 95 employees out of the 175 positions provided for in the approved Staff Establishment—similar to the previous financial year. Despite this staffing gap, WaterFund continued to deliver on its mandate efficiently and effectively.

To enhance team cohesion, staff morale and workplace communication, the Fund facilitated four successful safe space meetings during the financial year. These engagements provided constructive platforms for open dialogue, feedback and team bonding.

In alignment with its commitment to continuous professional development, WaterFund offered various training opportunities and capacity-building programs for staff, even amidst budgetary constraints experienced during the reporting period

5. REPORT OF THE CHIEF EXECUTIVE OFFICER (Continued)

Employees (Continued)

The Fund upheld its commitment to performance contracting, resulting in an overall rating of "Very Good" for the year. Additionally, employee engagement remained strong, as evidenced by an increase in the staff satisfaction index to 86.6%, up from 86.4% in the previous year. The National Productivity and Competitiveness Centre (NPCC) also evaluated the Fund and assigned it a High Productivity Rating, with a computed productivity index of 3.2.

In adherence to the Constitutional requirement to reserve at least 5% of employment opportunities for Persons with Disabilities (PWDs), the Fund achieved a representation of 2.13% during the year. While this falls short of the threshold, WaterFund remains proactive in encouraging applications from PWDs during recruitment and provides internship and attachment opportunities to youth living with disabilities. The Fund surpassed its performance target by engaging 24 interns and attaches against a commitment of 17.

Furthermore, the Fund initiated a comprehensive review of its Human Resource Policy Instruments in line with the Public Service Commission's Guidelines for all Ministries, Departments and Agencies (MDAs). This review, expected to be completed in FY 2025/2026, aims to promote optimal staffing and enhance service delivery in alignment with each institution's unique mandate.

The Fund also recorded significant achievements in promoting National Values and Principles of Governance. It attained a 100% compliance score in the evaluation conducted by the Directorate of National Cohesion and Values. Additionally, the Public Service Commission ranked the Fund at position nine (9) nationwide in its assessment of adherence to Articles 10 and 232 of the Constitution on public service values and principles.

To cap off the year and in recognition of the collective and individual contributions of its staff, the Fund celebrated outstanding performance by awarding gift vouchers to employees. This gesture underscored the value placed on staff dedication and resilience, particularly in a year marked by budgetary challenges and external pressures.

Conclusion

We appreciate the unrelenting support from the Board of Trustees, management, staff, development partners, implementing partners and all the key stakeholders. We look forward to the continued partnerships and cooperation in areas of mutual interest.



Mr. Willis Ombai
Chief Executive Officer
Water Sector Trust Fund (WSTF)

6. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2024/2025

Water Sector Trust Fund has 4 strategic pillars and objectives within its Strategic Plan for the FY 2024/2025 These strategic pillars are as follows:

Pillar 1: Improve access to safe water and dignified sanitation to additional 3.2 million people by 2027.

Pillar 2: Mobilize an additional KShs 52 B to finance water, sanitation, IWRM, climate change and research and innovations by 2027.

Pillar 3: Finance IWRM and Climate Change Initiatives to Increase water storage capacities by 0.55Million M3 and conserve 2,500 Sq. Kms by 2027.

Pillar 4: Finance 50 research studies and 25 innovations in the water sector by 2027.

WaterFund develops its annual work plans based on the above 4 pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The *Fund* achieved its performance targets set for the FY 2024/2025 period for its 4 strategic pillars, as indicated in the diagram below:

Strategic Pillar	Objective	KPI	Activities	Achievements
Pillar 1: Improved access to safe water and dignified sanitation to additional 3.2 million people by 2027	To increase the number of people with access to improved water services and basic levels of sanitation services	No. of people reached with increased access to water and dignified sanitation services	Financing of Water and sanitation projects to increase access to water and sanitation services provision	As at end of the period under review, WaterFund reached 452,902 people with water and sanitation services
Pillar 2: Mobilize an additional KShs 52B to finance water, sanitation, IWRM, climate change and research and innovation by 2027	To increase resources available for investment in water, sanitation, water resources and research projects.	%Increase in GoK budgetary allocation Amount in KShs (B) of new funding commitments from new & existing Partners	Engage GoK for increased budgetary allocation Engage existing & new Partners for Increased Funding to WSTF	Cumulatively WaterFund mobilized KShs 12.51B
Pillar 3: Finance IWRM and Climate Change Initiatives to Increase water storage capacities by 0.55Million M3 and conserve 2,500 Sq. Kms by 2027	Increase area under conservation	Area in Km2 Conserved and Capacity in m3 of storage increased	Financing of IWRM projects to increase area conserved (KM) and storage capacity(M3)	As at end of the period under review, WaterFund achieved additional storage of 0.410Million M³ and conserved 10.67KM² from its WRM interventions
Pillar 4: Finance 50 research studies and 25 innovations in the water sector by 2027	To generate new knowledge and utilize innovations to improve service delivery in the water sector in areas of water, sanitation, sewerage and water resources	No. of Research and Innovation Initiatives Financed	Financing of Research and Innovations to bolster knowledge in the water sector	<ul style="list-style-type: none"> i)WaterFund has established collaborations with two (2) research institutions and submitted one research concept for funding. ii)WaterFund is also in the process of setting up the Knowledge Hub iii)Formulation and Implementation of approved Research Science Technology and Innovation Strategy. iv)Capacity building of Research committee was trained on Research Ethics, Security, Integrity, Quality Assurance & Monitoring and Research Resource Mobilization and Reporting. v)Formulation of Intellectual Property Policy

7. CORPORATE GOVERNANCE STATEMENT

Water Sector Trust Fund, established under Section 113 of the Water Act, 2016, is a water sector financing institution mandated to provide conditional and unconditional grants to counties and to assist in financing the development and management of water services in marginalized areas or any area considered by the Board of Trustees to be underserved.

The Fund remains committed to the highest standards of corporate governance. Good corporate governance practices are essential to the delivery of long term and sustainable stakeholder and shareholder value. To this end, The Fund is committed to ensuring compliance with the laws that govern it, namely the Constitution of Kenya 2010; The Water Act 2016; The State Corporations Act; The Public Finance Management Act; The Public Procurement and Asset Disposal Act and The Public Officer Ethics Act.

Essential to the corporate governance framework in the Fund is its formal governance structure, which has the Board of Trustees at its apex, playing an oversight role over the management of the Fund. This governance structure is designed to ensure an informed decision-making process based on accurate reporting to the Board by Management.

THE BOARD OF TRUSTEES

The powers and functions of the Fund are exercised and performed by a Board of Trustees, pursuant to Section 115 of the Water Act, 2016. The Trustees are from time-to-time appointed by the Cabinet Secretary.

The Board comprises a chairperson; six other members recruited in accordance with the First Schedule and representative of the Attorney General; Principal Secretary Ministry of Water, Sanitation and Irrigation and the Principal Secretary, National Treasury.

Powers and Functions of the Board of Trustees

The statutory powers and functions of the Board of Trustees are set out in Section 116 of the Water Act, 2016. Additionally, the Board of Trustees is responsible for the long-term strategic direction of the Fund. To this end, it guides in policy development and is responsible for the recruitment of the Chief Executive Officer and the holders of other senior managerial positions in the Fund.

In the FY 2024/2025, the Board of Trustees duly exercised its powers and functions and to this end:

- a) Managed the resources of the Fund;
- b) Mobilized additional resources for the Fund;
- c) In consultation with the Ministry of Water, Sanitation and Irrigation, presented the Projects Funding Criteria to be used for financing projects to the Committee on Delegated Legislation;
- d) Monitored the implementation of projects;
- e) Maintained and made publicly available information on the projects financed and impact of such projects, through the Fund's website and social media platforms;
- f) Received grants for onward lending to water services providers, counties, and registered community schemes towards water services and water resources management projects for the underserved areas and urban poor; and
- g) In collaboration with relevant institutions developed incentive programmes for water resources management including disaster management, climate change adaptation and mitigation.

COMPLIANCE WITH MWONGOZO CODE OF GOVERNANCE

a) Board Membership

WaterFund is committed to adhering to the provisions of Mwongozo Code of Governance with regard to the membership of the Board. In the 2023/2024 financial year, the Board of Trustees consisted of a Chairperson, nine members and the Chief Executive Officer, who is an *ex officio* member. Each Board member was formally appointed to the Board through a Gazette Notice as is required under Mwongozo. The appointments duly considered the mix of skills and competencies required for the achievement of the Fund's long-term goals. The Board also comprised a financial expert with expertise in financial management. Further, one third of the Board members were independent members, within the meaning set out in Mwongozo.

7. CORPORATE GOVERNANCE STATEMENT (Continued)

COMPLIANCE WITH MWONGOZO CODE OF GOVERNANCE (Continued)

b) Board Induction

In line with the requirements of Mwangozo Code of Governance, the Board of Trustees underwent a comprehensive induction programme upon appointment in July 2023. During this induction, the Management oriented the Board members on the organization, its core statutory function, its departmental structure and its policies. The Board was also trained on Corporate Governance.

c) Board Training

The Board of Trustees underwent two trainings in the 2024/2025 Financial Year, in compliance with the requirements of Mwangozo on continuous skills development.

d) Preparation of an Annual Work Plan

The Board of Trustees ensured the development of an Annual Board Work Plan which guided its operations through the financial year. The Work Plan was presented to the State Corporations Advisory Committee as is required by the government circulars.

BOARD COMMITTEES

Board Committees are critical to the oversight role played by the Board. They facilitate the utilization of the expertise and diversity of the Board members and ultimately contribute to the efficient conduct of board business. Mwangozo recommends that the Board should establish not more than four committees. In line with this requirement, The Board of Trustees established and transacted its business through four Board committees in the 2023/2024 financial year, namely:

i) Investment & Monitoring Committee

This Committee was established to guide the Board of Trustees in making prudent investment decisions aimed at financing viable water and sanitation projects and to provide organizational guidance on the monitoring and evaluation of funded projects.

The Trustees who served on this committee during the year under review were:

S/No.	Name	Position in committee
1	Hon. Lucas Chepkitony	Chairperson
2	Hon. Marselino M. Arbelle	Member
3	Hon. Andrew Mbithi	Member
4	Mr. Barako Qatamur	Member

i) Fund Development Committee

This Committee was instituted in July 2024 with the mandate of sustainably mobilizing and generating resources for the functions of the Fund.

The members who served on this committee during the year under review were:

S/No.	Name	Position in committee
1	Ms. Josephine Eregae	Chairperson
2	Mr. Rolex Kirui	Representative of the PS, Ministry of Water, Sanitation and Irrigation
3	Mr. Barako Qatamur	Representative of the Hon. Attorney General
4	Ms. Maryan Ubah Mohamed	Member

ii) Finance and Corporate Services Committee

The Board carried out its duty of providing oversight over the financial operations of the institution through this Committee.

The objectives of this Committee are:

- a) Reviewing and recommending WSTF policies relating to Finance, Human Resources, Planning & Research, Procurement, ICT, Corporate Communication and Legal Services for efficient and effective function of the Fund.

7. CORPORATE GOVERNANCE STATEMENT (Continued)

BOARD COMMITTEES (Continued)

Finance and Corporate Services Committee (Continued)

- b) Ensuring that the Fund has effective and efficient internal control systems.
- c) Reviewing and recommending the Fund's long, medium and short-term financial plans that are consistent with the Strategic Plan.
- d) Ensuring that the Fund has optimal liquidity to enable the smooth flow of operations for working capital and development.
- e) Ensuring there are adequate financial reporting structures in place.
- f) Reviewing financial reports and making appropriate recommendations to the Board

The membership of the Committee comprised:

S/No.	Name	Position in committee
1	Eng. Joseph Ngacha	Chairperson
2	Mr. Rolex Kirui	Representative of the Principal Secretary, Ministry of Water, Sanitation and Irrigation
3	Mr. Daniel Mutua	Representative of the Cabinet Secretary, National Treasury
4	Hon. Andrew Mbithi	Member
5	Ms. Maryan Ubah Mohamed	Member

iii) Audit and Risk Committee

This Committee was established to advise the Board of Trustees on institutional risk management and compliance. It assesses the effectiveness of the system of internal controls and risk management. Its purpose was to support the Board of Trustees to fulfil its oversight role by:

- a) Obtaining assurance from management that all financial and non-financial internal control and risk management functions are operating effectively and reliably
- b) Providing an independent review of an entity's reporting functions to ensure the integrity of financial reports
- c) Monitoring the effectiveness of the entity's performance management and performance information
- d) Providing strong and effective oversight of an entity's internal audit function
- e) Providing effective liaison and facilitating communication between management and external audit
- f) Providing oversight of the implementation of accepted audit recommendations
- g) Ensuring the entity effectively monitors compliance with legislative and regulatory requirements and promotes a culture committed to lawful and ethical behaviour.

The members of this Committee during the year under review were:

S/No.	Name	Position in committee
1	Hon. Marselino M. Arbelle	Chairperson
2	Mr. Daniel Mutua	Representative of the Cabinet Secretary, National Treasury
3	Ms. Josephine Eregae	Member
4	Hon. Lucas Chepkitony	Member

BOARD MEETINGS

Mwongozo Code of Governance requires the Board to meet regularly as is required and at least quarterly in order to ensure the effective governance of the organization.

In compliance with this requirement, the Board of Trustees met quarterly to monitor the implementation of the WaterFund's Strategic Plan and the achievement of the targets in the Performance Contract signed with the Government. The Board of Trustees also played an oversight role over all other financial and operational issues.

It held four Board meetings and three special Board meetings during the Financial Year 2024/2025.

7. CORPORATE GOVERNANCE STATEMENT (Continued)

COMMUNICATION WITH STAKEHOLDERS

WaterFund, through its Board of Trustees, is committed to ensuring that all its stakeholders are provided with full and timely information about its programmes and performance. This is done through the Fund's Corporate Communications Department, the Annual Stakeholders Conference and through participation in some of the Fund's public engagement activities.

In the 2024/2025 FY, the Board of Trustees participated in various stakeholder forums, as follows:

- a) Further public participation on WaterFund's projects funding criteria as the Fund was advised by the senate committee on delegated legislation in the counties of Wajir, Garissa and Mandera which enabled members of the public to give their input on the Draft Criteria.
- b) Consultative meeting with the Ethiopian Water Sector Delegation together with MoWSI, WASREB, Athi water works Development Agency and three water service providers namely Nairobi, Mathira and Murang'a South. In which meeting the Ethiopian delegation was keen to learn about WaterFund's Result-Based Financing Programmes.
- c) Engagement with the Parliamentary committee on Delegated Legislation on the WaterFund's Draft Funding Criteria whose purpose was to undertake pre-public scrutiny of the Criteria before Gazettement.
- d) The Board participated in various networking forums as part of resource mobilization and partnerships development. These included the Nyanza International Investment Conference held in Kisumu County. WaterFund contributed to the national and international dialogue on solutions to the challenges in the water and sanitation sector during these forums.
- e) The Board was represented in a high -level engagement meeting in Isiolo and Samburu counties regarding the programme being implemented by the Fund for the drilling of wells and rural development programme funded by Saudi Fund for Development. The programme is experiencing some delays that made it necessary to engage key stakeholders to review progress, address challenges and identify ways to enhance execution.
- f) The Board was represented in the World Chambers Federation Africa Summit 2025 which was held at the Kenyatta International Conference Center in Nairobi. The theme of the summit was "Africa's' Global future: integrated, innovative and sustainable which aimed to unlock the continents potential through trade, investment and sustainable development alignment with the African Continental Free Trade Agreement (AfCFTA)
- g) The Board participated in the launch of various projects across the country. The Board nominated at least two representatives to join the Management of the Fund in commissioning completed projects across the country, namely:

Moyale and North Horr integrated projects in Marsabit County which are being implemented under the Sustainable Management and Access of Water and Sanitation in the ASALs (SWASAP) and The Ground-Breaking of Mtempur-Kitalakapel Water Project in West Pokot County being implemented under EDE-CPIRA programme.

STATEMENT OF COMPLIANCE

The Board of Trustees confirms that Water Sector Trust Fund has throughout the FY2024/2025 complied with all statutory and regulatory requirements and that the Fund has been managed in accordance with the principles of good Corporate Governance.

7. CORPORATE GOVERNANCE STATEMENT (Continued)

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

The Trustees are responsible for reviewing the effectiveness of WaterFund's system of internal control, which is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorized use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances that may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

WaterFund continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. Business processes and controls are reviewed on an ongoing basis. The Board of Trustees has delegated the responsibility of the review of the effectiveness of WaterFund's internal controls to the Audit and Risk Committee.

An annual risk-based audit plan, which provides assurance over key business processes and operational and financial risks facing WaterFund, is prepared by the Internal Audit and Risk Assurance Department for approval by the Audit and Risk Committee.

The Audit and Risk Committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Board. Where weaknesses are identified, the Committee ensures that management takes appropriate action.

Standing Instructions

The WaterFund has several approved standing instructions key among them being the Code of Conduct and Ethics, the Service Charter, the Human Resources Policy and Finance Policy that apply to all employees. These have several standing instructions to employees of WaterFund designed to enhance internal control. The WaterFund has also designed a set of standing instructions to be followed in the financing of projects in each investment.

The Board of Trustees and all staff are required to sign the Code of Conduct and Ethics at the time of joining the Fund in order to enhance compliance.

Organization Structure

A clear organizational structure exists, detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements. Training plans are prepared and implemented to ensure that staff develop and maintain the required skills to fulfil their responsibilities and that WaterFund can meet its future management requirements.

Strategic Plan

The business of WaterFund is determined by the Strategic Plan. The Strategic Plan sets out the objectives of WaterFund, and the annual targets to be met to attain those objectives. The Strategic Plan is evaluated annually to assess the achievement of those objectives. The Board on an annual basis approves the work plan supported by the financial plan for the year. Progress against the plan is monitored every quarter.

Risk Management

WaterFund has in place a risk management framework that guides the Fund in identifying, assessing, and managing the risks. The Fund has developed a risk register that documents and prescribes mitigating measures of all the risks both external and internal facing the Fund. The risk management framework and register are regularly reviewed to incorporate any emerging issues in the operating environment. The risk management is coordinated by the General Manager, Internal Audit and Risk Assurance assisted with a management team drawn from the various departments/sections. This team reviews all the risks in WaterFund and updates the risk register and ensures that all new and emerging risks are appropriately evaluated, and any further actions identified. The identified risks are reported to the Audit and Risk Committee to assist the Board in the management of risks.

7. CORPORATE GOVERNANCE STATEMENT (Continued)

Management Team

The management team headed by the Chief Executive Officer implements the Board decisions and policies through action plans. The team meets regularly to review these action plans to ensure that the Board's objectives are achieved effectively and efficiently.

As part of follow-up of findings from external and internal audits, an action plan is prepared to assist in tracking the status of implementation of the various recommendations. This status is shared with various stakeholders including the Development Partners. This is done on a quarterly basis.

External Auditor

WaterFund is audited by the Auditor-General, Republic of Kenya. The Auditor-General had however delegated this function to an independent auditor, as per Sections 23 of the Public Audit Act, 2015.

8. MANAGEMENT DISCUSSIONS AND ANALYSIS

WaterFund's core operating activity has been the financing support to projects for improved access to water and sanitation and investments in water resources. The Government of Kenya has supported WaterFund in the engagement of new partners and its support in honouring the counterpart funding.

During the year, WaterFund earned revenue of KShs 2,305.6 million from GOK, European Union (EU), Kreditanstalt fuer Wiederaufbau (KfW) (German Government Bank), Government of Denmark and the World Bank for water, sanitation and water resources management projects and other revenues from exchange transactions. The funds received from the Government of Kenya represented support to operations and development to the rural and urban investments.

FUNDS MOBILIZATION AND PARTNERSHIPS

Water Sector Trust Fund has continued to implement its strategic objectives and initiatives for Fund Development in order to realize sustainable funding for programmes and operations. WaterFund is keen to mobilize funds for the loan facility, and to operationalize other sustainable models that unlock climate financing. In the financial year 2024/2025, WaterFund continued with processes and negotiations aimed at unlocking an additional KShs 9 billion from various Development Partners including the World Bank and the Government of Finland (GOF). The former USAID WASH FIN2 provided Technical Assistance support of USD 50 Million to undertake feasibility studies for development of the Loan Facility Model.

During the period, WaterFund developed, submitted and followed up various other proposals for funding to development partners. The following are at an advanced status of discussions as presented below:

1. The Financing Agreement for the World Bank K-WASH was signed in the FY 2023/2024, while the Subsidiary Agreement is expected to be finalized and executed in 2025/2026, for KShs 5 billion.
2. Danida - *Water Resources Management, Re-forestation and Climate Adaptation Programme*. The Project Document has been approved for funding by the Government of Denmark, while the approval process by the Government of Kenya is currently ongoing, with the Project Concept Note already approved. The Programme is expected to be signed in the 2025/2026 financial year for KShs 2 billion.
3. Finland - *Implementation of Technology and Tools Towards Enhanced Water Safety, Security and Climate Change Resilience (WASASE) Programme* to be financed under the Finnish Public Sector Investment Financing Facility (PIF). The Project Document has been approved by Finland, while the Project Concept Note has been approved by GOK for KShs 4 billion. The Commercial Contract has been reviewed by the National Treasury, and it is expected that the Programme will be signed in FY 2025/2026, once all processes are completed.
4. Various other discussions are ongoing on proposals for additional funding, expected to be realized within the next two financial years.

The following additional Concept were approved by the Treasury's Public Investment Management (PIM) Unit:

1. **Water Sector Loan Facility (KShs 5 billion Seed Fund from GOK)**. WaterFund to submit pre-feasibility studies to receive full approval (Large Project).
2. **School WASH Project (KShs 1.5 billion)**. WaterFund to submit a pre-feasibility study for full approval (Large Project).
3. **Huri Hills Water and Sanitation Project (KShs 290 million)**. The Project is ready for budgeting and does not need further studies (Small Project).
4. **Rehabilitation of Water Network for MUA Hills Area Project (KShs 360 million)**. Project can proceed to budgeting (Small Project).

These PCNs total an additional KShs 7.15 Billion when funded.

Partnership Development Activities

Key Networking, Partnership and Stakeholder forums held in the financial year included the following:

1. Joint Rural and Urban Steering Committee Meeting was held on 16th Dec 2024 with both Rural and Urban Partners and Stakeholders. The meeting mainly deliberated on the Annual and Quarter 1 Programmes Progress Reports. Additionally, the Rural Steering Committee meetings were held in Quarters 3 and 4, while the Urban Steering Committee Meeting was held in Quarter 4.
2. Meeting was held with the Royal Danish Embassy and the Danida Sustainable Infrastructure Finance (DSIF) in January 2025 to deliberate on areas of collaboration in blended financing. DSIF is interested in funding preparation of bankable proposals through WaterFund, and also collaboration in blended financing. Various other meetings were held with Danida to deliberate on ongoing programmes and the proposed new Programme for the Ewaso Ngiro Basin.

8. MANAGEMENT DISCUSSIONS AND ANALYSIS (Continued)

Funds Mobilization and Partnerships (continued)

3. World Bank Mission on the Kenya WASH (K-WASH) Programme, was held from 3rd to 18th March 2025. The Mission, which included meetings with the Ministry, WSTF, WASREB, Counties, Utilities and other key stakeholders, deliberated on the status and implementation of the Programme. The Mission also deliberated on steps towards signing of WaterFund's Subsidiary Agreement. Additional meetings were held with the World Bank, commercial banks and WSPs, to deliberate on the modalities of blended financing under the Disbursement Linked Indicators of the K-WASH Programme.
4. A progress review mission was held with KfW on 16th May 2025, to take stock of the funded programmes and deliberate on pertinent issues.
5. Meeting was held with the European Union to deliberate on the closure processes for the EU Cpira Programme whose closure period ended on 5th December 2024, while implementation ended on 5th August 2024.
6. Finnish delegation visit was held from 24th to 28th March 2025, including Operon International Ltd. Oy and representatives from the Embassy of Finland, comprising meetings with WSTF, Ministry, Utilities and other key stakeholder, to discuss the status and way forward on the PIF Programme. WaterFund expects the PIF Commercial Contract and the Financing agreement to be signed within the 2024/2025 financial year, for the Programme to commence.
7. WaterFund, Gatsby Africa, and the Water Services Providers held various forums to deliberate on the new Programme aimed at increasing capacity of WSPs through strengthening their commercial viability and financial flows.
8. Various other meetings were held with Partners and Stakeholders in an effort to nurture partnerships, discuss pertinent issues and explore opportunities for collaboration. Various audit and programme closure related engagements were held with WSTF's funding Partners.

COMMERCIAL FINANCING/ URBAN INVESTMENTS DIVISION

KFW PHASE IV PROGRAMME

The objective of the Project is to provide affordable, economically viable and sustainable access to safe water supply and basic sanitation services to the urban poor. The Project comprises investments in water supply and basic sanitation services for the poor population living in urban and peri-urban areas in addition to supporting measures through Water Sector Trust Fund (WSTF) which acts as Project Executing Agency (PEA).

The programme encompasses the following components:

- i) Urban Project Concept (UPC) comprising investments in extension of urban water supply and basic public sanitation,
- ii) Upscaling Basic Sanitation for the Urban Poor (UBSUP) comprising subsidized plot and household level sanitation including construction and rehabilitation of toilets and decentralized treatment facilities and
- iii) Aid on Delivery comprising investments in the extension of water and sanitation services (Aid on Delivery / AoD) within the area of service of the WSPs via a results-based approach.
- iv) The Supporting measures at the level of WSTF, WSPs and target population.

1. Urban Project Concepts (UPC) 8th Call

The UPC investments focuses on the extension of water supply and improvement of sanitation situation in public places. Up to date, the programme has financed 406 projects, some of which the progress is ongoing. During the financial year 51 UPC projects under the 8th call for proposals were approved for funding. These consisted of 38 water projects and 13 Public sanitation projects. All the 51 water supply projects and 13 Public Sanitation projects have been financed where disbursements were made to various projects within the reporting financial year.

The programme targets to benefit 107,905 and 8,800 people with affordable, economically viable and sustainable access to safe water and basic sanitation respectively to the urban poor. so far, 100,372 people have been reached with clean water services and 7,200 people with dignified sanitation services as per the compiled completion reports from IPs. It is envisaged that the target will be met once all the projects are completed.

8. MANAGEMENT DISCUSSIONS AND ANALYSIS (Continued)

KFW PHASE IV PROGRAMME (Continued)

2. Up-scaling Basic Sanitation for Urban Poor Programme

The Up-scaling Basic Sanitation for Urban Poor (UBSUP) programme is financed by KfW and the Bill & Melinda Gates Foundation (BMGF) at a total of KShs. 1.46 billion, and its targeting 400,000 beneficiaries with improved sanitation services as well as 200,000 beneficiaries with clean and safe drinking water. The programme has achieved most of the milestones related to the concept development. The other milestones related to the number of beneficiaries have been achieved for the water supply while the sanitation milestones are ongoing.

The program aimed to provide dignified sanitation services to a total of 54,056 beneficiaries through household sanitation/ 40,056 people reached through the decentralized treatment facilities (DTFs) and 14,000 people reached through the household sanitation toilets. So far, a total of 50,750 beneficiaries have been reached with dignified sanitation services with 25,000 people through the DTFs and 25,750 through the household sanitation projects. The remaining beneficiaries will be reached when all the projects are completed. One training on operation and maintenance was undertaken for the DTF that was completed within the financial year.

3. Aid on Delivery (AoD)

Seven projects from seven Water Service Providers (WSPs) totaling KShs 764 million were recommended for further development into bankable proposals. These projects were grouped into two lots, with Lot 1 comprising four projects and Lot 2 comprising three projects. Two national Consultants, CAS Consultants Africa and Design Masterplan in Association with Gauff Consultants Africa, prepared the detailed designs and bankable proposals for the WSPs to secure financing from commercial banks. The estimated cost of the 7 projects is Kshs,764 Million and none of the project has begun implementation hence no beneficiaries were achieved.

Conditional Liquidity Support Grant (CLSG) II

WaterFund is implementing Component 3 (National Performance-Based Financing which has the following two subcomponents: (i) Support for water and sanitation infrastructure investments and services; and (ii) Technical assistance for national performance-based financing). Under the support for water and sanitation infrastructure investments and services, WaterFund is implementing the Conditional Liquidity Support Grant II (CLSG-II) which focuses to support financial recovery of Water Service Providers (WSPs) to pre-COVID levels or better. A total of 31 WSPs with 77 interventions costing KShs 2.198 billion have been pre-qualified to implement the programme.

WSTF received necessary approvals to begin the implementation of subprojects, with 29 out of 31 Water Service Providers (WSPs) signing Grant Agreements for the CLSG II project and starting preparatory activities. Two WSPs, Kibwezi and Garissa, did not sign due to cash flow issues and pending audits, respectively. Environmental and Social Impact Assessments were conducted for 18 WSPs, leading to the organization of WSPs into 4 clusters for Comprehensive Project Reports. Procurement processes were carried out for Information and communication Technology (ICT) and Organizational Development (OD) Consultants. The specifically targets WSPs with the potential to achieve financial recovery within a period of less than 12 months whereby the financial recovery is defined as achieving an Operating Cost Coverage Ratio (OCCR) above 100%.

HORN OF AFRICA GROUNDWATER FOR RESILIENCE PROJECT (HoAG4RP)

The Horn of Africa Groundwater for Resilience Project is being implemented in the counties of Garissa, Mandera, Marsabit, Turkana and Wajir. The project aims at increasing sustainable access and management of groundwater as a key contribution to strengthen the climate resilience of targeted communities. The implementation period is 2022 to 2028 with a total budget of approximately KShs 9 billion. The implementation will be administered in a Performance Based approach where Counties will receive funds on their achievement of results based on the agreed targets.

During FY2024/2025, significant progress was made towards realization of the outcome envisaged. Design of water supply schemes for rehabilitation were concluded in the four counties of Turkana, Marsabit, Wajir and Mandera. These are 9No. in Turkana, 11No. in Marsabit, 17No. in Wajir and 10No. in Mandera County.

The above numbers were arrived at after applying the selection criteria and later test pumping. Initially, each county presented 30 sites for consideration (totaling to 120), but due to the water quality and quantity, the numbers reduced to 47 in the four counties. The sites that had low yield were put on hold to allow for hydrogeological studies to be conducted during the design of batch 2 sites. In general, batch 2 will have a considerable number of new sites to be drilled to augment the supply.

8. MANAGEMENT DISCUSSIONS AND ANALYSIS (Continued)

HORN OF AFRICA GROUNDWATER FOR RESILIENCE PROJECT (HoAG4RP) (continued)

This progress marks a critical step forward in ensuring that the rehabilitation and upgrading activities can commence in good time, aligning with the project's objectives to enhance groundwater-based rural water supply infrastructure in the targeted counties.

In a bid to ensure compliance with the World Bank's Environmental and Social Management Framework (ESMF), Environmental and Social Impact Assessments (ESIAs) for 47No. water schemes in five target counties were finalized, awaiting World Bank approval. Water abstraction permits for boreholes at the schemes were at authorization stage with Water Resources Authority (WRA) support and consequently licensing by National Environmental Management Authority (NEMA) was underway. Conflict sensitivity assessments and validation of Gender Based Violence (GBV) referral pathways for the five (5) target counties were completed. The Stakeholder Engagement Plan (SEP) and the Indigenous Peoples/Vulnerable and Marginalized Groups (IP/VMG) Plan were updated.

WATER AND SANITATION SERVICES INVESTMENT

The Water and Sanitation Services investment programme's objective is to finance water and sanitation projects in the underserved rural communities across Kenya. The key implementers are Rural Water Service Providers (WSPs), Water Users Associations (WUAs) and Non-Governmental Organizations (NGOs) who are involved in the preparation, planning, implementation operations water and sanitation projects. Provision of water and sanitation services is a devolved function, with WaterFund working closely with the County Governments in identifying target projects, underserved areas, provide co-financing to projects, oversight and coordination of activities. In FY 2024-2025, the Water and Sanitation Services investments implemented a number of activities under the Climate Proofed Infrastructure Programme (CPIRA) and Sustainable Management and Access to Water and Sanitation in the ASALs (SWASAP) Investments.

Climate proofed infrastructure Programme- EU CPIRA

During the period, 10No. water, 12No. Public Sanitation Facilities, 6No. Water Resource management Projects were completed. Additionally, WSTF commissioned 2No. water projects under the 2nd call projects. WSTF monitored 43No. which includes 15No. water projects, 20No. PSFs and 8No. WRUA projects were during the financial year. During the financial year WSTF launched 6No. water projects under the 3rd call projects, all these projects were implemented and completed during the financial year.

WSTF also held a consultative meeting with EU on a robust closure strategy for the programme so as to forestall closure issues. A total of KShs. 261,997,057.05 were disbursed to the various ongoing projects.

Under the Public Private Community Partnerships (PPCP) result area, 4No. PPCPs were signed, 2No. Counties have been trained on Governance, Risk and Compliance, 8No. Water management committees were trained on financial and technical management and capacity building activities conducted to Water Management Committees.

During the financial year, the following additional people were served: 185,586 people through water projects and 46,133 people through sanitation.

Sustainable Management and Access to Water and Sanitation in the ASALs (SWASAP).

In the financial year, a great milestone was achieved towards completion of the funded components within the SWASAP Integrated projects. Water services component recorded a completion for 8 no water distribution system creating access to 69,318 people. The water resources component increased storage to a total of 330,000m³ aimed to creating access to 33,648.00 people when full. Under the sanitation component a total of 202 door institutional VIP latrines have been completed in public primary schools, 15 doors dedicated to Persons With Disability. Additionally, through the Community total led Sanitation, 96 villages were certified Open defecation Free reaching over 9000 Households with basic latrine and handwashing access.

Strengthening Commercial Viability and Financial Flows for WSP (CVF) Program

The Strengthening Commercial Viability and Financial Flows for WSPs (CVF) Programme is a collaboration of Water Sector Trust Fund (WaterFund) with Gatsby Africa (GA).

This is a two-year programme running from January 2024 to December 2025 targeting 18 Water Service Providers (WSPs) aimed at improving their creditworthiness and Operational Cost Coverage Ratio (OCCR) 18 Water Service Providers (WSPs) across Elgeyo-Marakwet, Embu, Homabay, Kiambu, Kilifi, Laikipia Machakos, Meru, Nakuru, Nyandarua, Nyeri, Siaya and Trans-Nzoia Counties. By improving their Operational Cost Coverage Ratio (OCCR), the programme will help WSPs overcome barriers to commercial financing, enabling them to secure funding for service improvements, infrastructure investments, and expansion. The specific program outcome is an improved creditworthiness rating above BB and OCCR above 120 % for the 18 selected WSPs.

Saudi Fund for Development (SFD)

Under the Programme, WaterFund held a number of meeting with the National Treasury and the consulting team with the aim of reviewing the Programme progress and exploring ways to unlock the existing implementation challenges.

On tax exemptions, the Parties agreed to revise the Memorandum of Understanding (MOU) to make income tax from the Consultant and Contractors taxable according to Kenyan law. While on the withdrawal application, it was agreed that this will apply the existing stipulations as spelt out in the Kenya's Public Finance Management Act.

Major Risks facing the Fund

Water Fund has put in place an Enterprise Risk Management (ERM) framework. The ERM was developed and approved by the Board of Trustees. ERM contains the risk management policy and framework of the Water Fund, the risk universe, risk assessment, modalities of treatment of risks, responsibility of risk management, monitoring framework and reporting. In the framework, key exposure high-risk areas were identified, and risk mitigation measures developed.

The key high-level risks identified, and mitigating measures put in place are as follows;

- Financial risk; Financial risks faced by the fund are market risk, credit risk, liquidity risk, and operational risk.
- Competitive trends: Many institutions are undertaking similar work being done by the Fund and thus there is competition for the resources from various Development Partners.
- External Policy and Strategy risks; various Development Partners which the Fund is getting support from have been changing their external policies and strategies and this may affect the Fund in terms of resource mobilization and support.
- Fraud and Corruption; the Fund is facing the risks of fraud and corruption by the Implementing Partners who receive Funds for project implementations.
- Economic Trends: The current international economic situation is changing and may affect the Fund in resource mobilization strategies.
- Political Environment: the political risks at the County and National Government may affect the process of project implementation.
- Financial Environment: current economic and inflationary pressures may affect the funding of various projects. This could lead to delay in execution of funded projects.
- Changing Demographics; changes in demographics affects the projects implementation and difficulty in reaching nomadic populations who are main beneficiaries.
- Resources (Budgeting and Resources allocation); The Government of Kenya and other Development partners may change the priorities in resources allocation thus affecting the Fund.
- Climate Change: Climate change has affected the sustainability of the funded projects.
- Physical Environment: The Fund finance projects in Arid and Semi-Arid Lands (ASAL) areas which could have harsh physical and climatic conditions.
- Socio – Cultural issues; various socio-cultural issues affects the projects implementation.
- Health, Safety and Environment; risk of security issues in areas funded by the Fund.
- Capacity of Implementing Partners; the capacity of implementing partners affects the pace of projects implementation.

Risk Management process has been integrated in the daily operation of the Fund and risk identification, assessment and mitigating measures are put in place. Various head of departments and divisions have been allocated various roles in risk management.

9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

SUSTAINABILITY STRATEGY

Water Sector Trust Fund is keen to achieve financial and institutional sustainability and undertook various measures during the period towards this target. These included development of a framework for sustainable business models and development of a Revenue Generation Policy. Further, the Fund undertook a feasibility study to review and refine the Loan Facility model. WaterFund has continued to engage Government, Development Partners, Commercial Banks and Implementing Partners in order to garner support for the proposed Loan Facility. The facility will enable WaterFund to issue loans blended with commercial financing from the banks, which, when repaid, will form a sustainable revolving facility.

Further, WaterFund has continued with efforts to secure land and budget for an office Complex, which will enhance the work environment, promote the brand of the Institution, and serve as a high value asset to enhance bankability of the Fund. This will pave way for participation in investment activities of high and sustainable returns, including the Capital Markets.

In its business models, WaterFund envisages additional income from realizing the proposed water levy, implementing a proposed carbon trading project, and research and innovation activities that result in monetizing the Fund's knowledge hub, providing knowledge exchange forums on Sector financing and investments, among other initiatives.

ENVIRONMENTAL PERFORMANCE

Following the declaration H.E. Dr. William Samoei Rutto, C.G.H., The President of the Republic of Kenya launched a nation-wide tree planting activity in the year 2022 through a declared national tree-growing campaign, anchored in the National Landscape and Ecosystem Restoration Program, with a goal of planting 15 billion trees by 2032, raising tree cover from around 12 % to 30 % by 2050. Multiple ministries and agencies have been assigned specific annual or decade-long tree-growing targets, coordinated through a whole-of-government strategy. County-level chiefs, schools, civil society, and the private sector are essential implementation partners, supported by digital tracking via the JazaMiti app.

In order to support the National Government Initiatives of increasing forest cover, including support of the Presidential Directive Circular Ref No. OP/CAB/26/1.3A dated 4th June 2018 on inclusion of tree planting in CSR activities of public institutions, WaterFund has participated in several tree planting activities so as to satisfy the anticipated outputs of the presidential directives.

To achieve the above the WaterFund Ministry undertook the following tree planting activities in the FY 2024/2025 which are further detailed in this report.

- Tree Planting during the 2024 13th Edition WASCO Games
- Tree planting Campaign in Kirisia, Samburu County
- Tree Planting during the World Water Day Celebrations in Nanyuki, Laikipia County
- Tree Planting at Kimana Wetland in Kajiado County.
- Environmental support towards Greening and Tree planting at the Nyeri Golf Club.

Tree Planting during the 2024 13th Edition WASCO Games

The Water Sector Trust Fund (WaterFund) was invited by the Ministry of Water, Sanitation and Irrigation (MWSI) to participate in the 13th Edition of the WASCO Games, held from 18th to 23rd August 2024 at Mumbi Stadium in Murang'a County. Organized under the theme "Combating Climate Change through Sports," the games were hosted by Murang'a Water and Sewerage Services Company Limited. As part of the event's environmental advocacy, a tree planting exercise was held a week prior, graced by Principal Secretary Mr. Julius Korir, CBS, and supported by WaterFund, aligning with the national goal to grow 15 billion trees by 2032.

The tree planting activities, conducted from 13th to 18th August 2024 at Mbiri Primary School, saw the participation of key dignitaries including Cabinet Secretary Eng. Erick Muuga, PS Eng. SAO Alima, Governor Hon. Irungu Kang'ata, and managing directors of participating water companies. A total of 10,000 tree seedlings were planted, with WaterFund contributing 9,000 seedlings and various stakeholders joining hands to plant an additional 1,000. This collaborative initiative exemplified the strong partnership between government entities, water service providers, and development agencies in addressing environmental challenges.

10. ENVIRONMENTAL AND SUSTAINABILITY REPORTING (continued)

ENVIRONMENTAL PERFORMANCE (continued)

Tree Planting during the 2024 13th Edition WASCO Games (continued)

WaterFund's involvement in the WASCO Games extended beyond the tree planting, having previously supported Murang'a County under the Conditional Liquidity Support Grant (CLSG) programme. This programme ensures the financial and operational stability of water service providers, which is critical for sustaining service delivery, particularly in the post-pandemic context. The tree planting campaign and the games collectively served as platforms to demonstrate the critical link between environmental conservation, water service resilience, and sustainable socio-economic development.

Tree Planting at Kimana Wetland in Kajiado County

The Ministry of Water, Sanitation and Irrigation (MWSI) is spearheading a nationwide initiative to support the Government of Kenya's goal of increasing forest cover by 2032. In partnership with various water sector agencies, the Ministry aims to plant 50 million trees in the Financial Year 2024/2025. As part of this commitment, a week-long National Tree Planting Campaign took place from 24th to 28th April 2025 in the Kimana Wetlands, Kajiado County. This critical ecosystem, covering approximately 10 km², plays a significant role in sustaining local water sources and community livelihoods. The campaign involved each participating institution adopting a local school to engage communities in tree planting and environmental education.

WaterFund adopted Enchoro Enkai Primary School and, in collaboration with students and local residents, successfully planted 10,000 indigenous tree seedlings. The effort was not only about planting trees but also about creating awareness on nurturing and conserving them to ensure long-term ecological benefits. During the main event, Eng. SAO Alima, Water Secretary at MWSI, delivered a keynote address on behalf of Cabinet Secretary Eng. Eric Mugaa, emphasizing the importance of restoring degraded catchments. He stressed the need for stronger policy enforcement, community participation, and educational outreach to combat deforestation and unsustainable land use. Eng. Vincent Kabuti, OGW, Irrigation Secretary, further underscored the value of planting fruit trees to enrich biodiversity and improve livelihoods.

This campaign was a collaborative effort involving key water sector and conservation stakeholders, including WaterFund, WASREB, the Kenya Forest Service (KFS), the Water Police Unit (WPU), regional Water Works Development Agencies, and community-based organizations. Their united action demonstrated a strong commitment to protecting Kenya's water catchment areas and promoting climate resilience. WaterFund's involvement reflects its strategic role in supporting national environmental goals, particularly the restoration of forest ecosystems critical to water security and climate change mitigation.

Environmental support towards Greening and Tree planting at the Nyeri Golf Club

In alignment with the Government of Kenya's ambitious target to increase national forest cover by the year 2032, Water Sector Trust Fund (WaterFund) has remained steadfast in its commitment to promoting tree planting and tree-growing initiatives across the country. Recognizing the urgent need for environmental restoration and sustainable land management, WaterFund has partnered with numerous public institutions, county governments and community-based organizations to advance reforestation efforts. Through these strategic collaborations, WaterFund has facilitated the planting and nurturing of thousands of indigenous and fruit tree species in water catchment areas, riparian zones and public lands contributing significantly to climate change mitigation, improved water security, and biodiversity conservation.

Demonstrating its holistic approach to environmental sustainability, WaterFund participated in the Environmental Golf Tournament organized by Nyeri Golf Club. This unique initiative merged sports with conservation awareness, creating a platform for advocacy and action. WaterFund proudly sponsored the environmental tournament to a tune of KShs. 250,000 which went towards the purchase and planting of 12,000 tree seedlings. This support enabled the planting of trees within the club and its surrounding areas, reinforcing WaterFund's commitment to promoting environmental sustainability. In addition, WaterFund actively engaged in the golf tournament, fostering stakeholder relations while championing environmental stewardship.

WaterFund is proud to champion Kenya's bold initiative to plant 15 billion trees by 2032, a key step toward restoring our environment and increasing national forest cover. So far, WaterFund has supported tree planting initiatives in Murang'a, Samburu, Baringo, Laikipia, Kajiado, and Kiambu, demonstrating its unwavering commitment to climate action and environmental sustainability. These efforts go beyond planting, WaterFund is investing in long-term environmental restoration, ecosystem resilience, and community empowerment.

By engaging communities, schools, and institutions, and focusing on the protection of key water catchments and riparian areas, WaterFund continues to lead from the front in ensuring a greener, more climate-resilient Kenya.

9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING (continued)

ENVIRONMENTAL PERFORMANCE (continued)

Tree Planting during the World Water Day Celebrations in Nanyuki, Laikipia County

The Ministry of Water, Sanitation and Irrigation (MWSI) in collaboration with water sector institutions joined the rest of the world in celebrating the 2025 World Water Day at St. Joseph Tigithi Boys High School, in Nanyuki, Laikipia County. World Water Day is an annual United Nations (UN) observance day held on March 22nd since the year 1993 which serves as a platform to advocate for sustainable water management policies, aligning with Sustainable Development Goal 6 (clean water and sanitation for all).

This year's theme, "*Glacier Preservation*," highlighted the pressing need to safeguard these vital natural reservoirs, which store approximately 70 percent of the world's freshwater. To mark the occasion, WaterFund hosted an exhibition where staff educated the public about its mandate and ongoing interventions in Laikipia County under the Conditional Liquidity Support Grant (CLSG) II program. Representing the CEO, Mr. Isaac Kega, the General Manager Programmes, led the WaterFund team and received the Cabinet Secretary MWSI and a high-level delegation to the stand.

WaterFund played a key role in the success of World Water Day by planting 8,000 tree seedlings and distributing branded T-shirts to participants and students. Additionally, staff sensitized the public on the Customer Service Delivery Charter, reinforcing WaterFund's commitment to stakeholder engagement through clear service standards, customer obligations, user charges, and timelines.

Tree planting Campaign in Kirisia, Samburu County

The Water Sector Trust Fund (WaterFund) was privileged to participate in a Tree Planting Campaign organized by the Ministry of Water, Sanitation, and Irrigation (MWSI). This event aligned with the Presidential initiative to plant 15 billion trees by 2030, aimed at combating deforestation, enhancing food security, conserving forests, and mitigating climate change. The campaign was led by CPA Andrew Rage Eysimkele, CEO of the Northern Water Works Development Agency (NWWDA), and highlighted the critical role of environmental conservation.

As part of its contribution to the campaign, WaterFund procured and planted 5,000 indigenous trees, including *Olea Africana* and *Acacia* species. Renowned for their water efficiency, adaptability to local conditions, and resilience, these species are instrumental in promoting water conservation and fostering sustainable forest ecosystems. This tree-planting initiative is a vital step toward restoring ecosystems and addressing pressing environmental challenges.

WaterFund's active participation underscores its steadfast commitment to protecting water catchment areas, restoring forests, and safeguarding water resources for future generations.

10. MARKET PLACE PRACTICES

Responsible Marketing and Advertisement

Water Sector Trust Fund (WaterFund) continues to facilitate financial support to the 47 counties through conditional and unconditional grants, targeting Water Supply, Sanitation, and Water Resources Management for under-served and marginalized communities in both rural and urban settings. As part of its commitment to transparency and professionalism, WaterFund promotes ethical communication and marketing through its Corporate Communication and Corporate Affairs Unit.

Key Areas of Responsible Advertisement and Visibility

1. **Consistency in Branding:** Adherence to national government and internal branding standards, as outlined in the Communication Policy, is maintained to ensure uniformity. All communication materials consistently feature the Coat of Arms, WaterFund, donor, and implementing partner logos to promote a cohesive identity.
2. **Compliance with Advertisement Placement Guidelines:** All advertisements are placed through the MyGov newspaper pull-out in accordance with the Government Advertisement Agency directive, as guided by the relevant National Government Circular.
3. **Commitment to Transparency and Accountability:** Advertising materials incorporate channels for public engagement, including information on how to report corruption, seek access to information, and submit complaints, supported by functional feedback and redress mechanisms.

4. Engaging the Public: The Communication and Corporate Affairs Unit continues to provide detailed information on available services, the funding application process, and access opportunities for marginalized communities, encouraging informed participation in WaterFund's programs.

Achievements

- WaterFund's commitment to responsible communication is reflected in the following performance metrics:
- Social Media: 767,765 impressions and interactions through earned media; 851 new followers across platforms
- Television Viewership: 2.4 million viewers
- Newspaper Readership: 680,000 readers
- Online Platforms: 0.6 million views and engagements

Looking Ahead

To strengthen visibility and outreach efforts, the following strategic actions will be undertaken:

- Utilize integrated visibility and publicity channels including TV, radio, and digital media
- Expand focus on Swahili and vernacular radio stations to enhance community-level engagement
- Capitalize on the established social media presence, particularly through the WaterFund and WASIC Facebook pages
- Reduce reliance on print media and adopt approaches aligned with emerging stakeholder engagement trends

WaterFund remains committed to responsible, ethical, and policy-compliant marketing practices. Through strategic brand alignment, regulatory adherence, and proactive public engagement, the organization continues to uphold high standards of integrity and transparency in all communication initiatives.

11. REPORT OF THE TRUSTEES

The Trustees submit their report together with the audited financial statements for the year ended 30 June 2025, which shows the state of Water Sector Trust Fund's affairs.

REGISTRATION

The Water Sector Trust Fund (WSTF) is a state corporation established under the Water Act, 2016, Section 113 (1) with a mandate to assist in financing the provision of water services to areas of Kenya which are without adequate water services. WSTF operates under the Ministry of Water and Irrigation and is guided by the Trust Deed of 26 April 2004.

PRINCIPAL ACTIVITIES

The WSTF is a basket fund through which the Government of Kenya, through appropriations by Parliament, development partners and other funds, channels financial assistance towards the implementation of water, sanitation and water resources projects throughout the country with special emphasis on the poor, marginalized communities and working with the County Governments in delivering these services.

RESULTS

The results of the entity for the year ended 30 June 2025 are as set out on page 44.

TRUSTEES

The members of the Board of Trustees who served during the year are as shown on page 4.

AUDITOR

The Auditor General is responsible for the statutory audit of the entity in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015. PricewaterhouseCoopers LLP was appointed by the Auditor General to carry out the audit for the year ended 30 June 2024 in accordance with section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on her behalf.

FOR AND ON BEHALF OF THE BOARD OF TRUSTEES



Dr Erick K. Rutto
Chairman, Board of Trustees
Water Sector Trust Fund (WaterFund)

4 DECEMBER 2025

12. STATEMENT OF TRUSTEES' RESPONSIBILITIES

Section 81 of the Public Finance Management (PFM) Act, 2012, Section 14 of the State Corporations Act, and the Water Act 2016, require the trustees to prepare financial statements in respect of Water Sector Trust Fund which give a true and fair view of the state of affairs of the WaterFund at the end of the financial year and the operating results of the Water Sector Trust Fund for the year. The trustees are also required to ensure that Water Sector Trust Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of WaterFund. The trustees are also responsible for safeguarding the assets of WaterFund.

The Trustees are responsible for the preparation and presentation of the WaterFund's financial statements which give a true and fair view of the state of affairs of the Water Sector Trust Fund for and as at the end of the financial year ended 30 June 2024. This responsibility includes:

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

The Trustees accept responsibility for the Water Sector Trust Fund'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, the State Corporations Act and the Water Act 2016. The Trustees are of the opinion that the WaterFund's financial statements give a true and fair view of the state of WaterFund's transactions during the financial year ended June 30, 2025, and of the WaterFund's financial position as at that date.

The Trustees further confirm the completeness of the accounting records maintained for WaterFund, which have been relied upon in the preparation of WaterFund's financial statements as well as the adequacy of the systems of internal financial control.

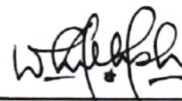
Nothing has come to the attention of the Trustees to indicate that WaterFund will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The WaterFund's financial statements were approved by the Board on 4 DECEMBER 2025 and signed on its behalf by:



Dr Erick K. Rutto
Chairman, Board of Trustees
Water Sector Trust Fund (WaterFund)



Mr. Willis Ombai
Chief Executive Officer
Water Sector Trust Fund (WaterFund)



13. REPORT OF THE INDEPENDENT AUDITOR TO THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF WATER SECTOR TRUST FUND FOR THE YEAR ENDED 30 JUNE 2025

Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of Water Sector Trust Fund (“Water Fund”) set out on pages 44 to 72 which comprise the statement of financial position as at 30 June 2025, the statement of financial performance, changes in net assets, cash flows and comparison of budget and actual amounts for the year then ended and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Water Sector Trust Fund as at 30 June 2025, and of its financial performance and cash flows for the year then ended in accordance with the accrual basis accounting of the International Public Sector Accounting Standards (IPSAS) and the requirements of the Public Finance Management Act, 2012 and The Water Act, 2016.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the financial statements* section of our report.

We are independent of the Water Sector Trust Fund in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor’s report thereon. The Water Sector Trust Fund management are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Trustees for the financial statements

The Trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the accrual basis of accounting of the International Public Sector Accounting Standards and for such internal control as the Trustees determine 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, the Trustees are responsible for assessing the Water Sector Trust Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the Trust Fund or to cease operations, or have no realistic alternative but to do so.

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13. REPORT OF THE INDEPENDENT AUDITOR TO THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF WATER SECTOR TRUST FUND FOR THE YEAR ENDED 30 JUNE 2025 (CONTINUED)

Auditor's responsibilities for the audit of the financial statements

Our 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We 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 our 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustees.
- Conclude on the appropriateness of the Trustee'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 Trust Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern
- 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.

We communicate with the Trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



REPORT OF THE INDEPENDENT AUDITOR TO THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF WATER SECTOR TRUST FUND FOR THE YEAR ENDED 30 JUNE 2025 (CONTINUED)

Report on other legal and regulatory requirements

As required by the Public Finance Management Act, 2012 and The Water Act, 2016, we report to you based on our audit, that:

- a. In our opinion, proper books of account have been kept with the Water Sector Trust Fund, so far as appears from our examination of those books;
- b. The Water Sector Trust Fund accounts were audited in accordance with the provision of the Public Audit Act, 2015; and
- c. The Water Sector Trust Fund accounted for the donor funds separately in accordance with the applicable Development partner agreements

**CPA Francis Muriu, Practicing Number P/1821
Engagement partner responsible for the audit**

**For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi**

4 December 2025



UNIQUE CODE: 44862251204

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REPORT OF THE AUDITOR-GENERAL ON WATER SECTOR TRUST FUND FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

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

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

An Unmodified Opinion is issued when the Auditor-General concludes that the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management, and Governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Water Sector Fund set out on pages 44 to 83, which comprise of the statement of financial position as at 30 June, 2025 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, have

been audited on my behalf by PWC, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Water Sector Trust Fund as at 30 June, 2025 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 and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Water Sector Trust Fund Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

1.0 Long Outstanding Payables from Exchange Transactions

The statement of financial position reflects trade and other payables balance of Kshs.146,206,130 as disclosed in Note 20 to the financial statements. Included in this balance is a balance of Kshs.16,337,251 which has been outstanding for more one (1) year and should have been settled as a first charge. The accumulation and prolonged non-settlement of these obligations raises concerns regarding the Fund's commitment to prudent financial management and timely payment to suppliers.

Failure to settle payables during the year which they relate adversely affects subsequent budget implementation, unpaid bills from a first charge to that year's budget provisions.

2.0 Long Outstanding Projects Receivables

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.955,938,392 as disclosed in Note 14(a) to the financial statements which includes an amount of Kshs.173,871,874 relating to the provision for the project receivables which have been long outstanding. Although Management assessed these advances as doubtful and provided for them in the financial statements, adequate control measures and safeguards stipulated in the signed project funding agreements were not enforced to reduce the doubtful balances. This was contrary to Section 8.3 of the Finance Policy and Procedures Manual, which requires project advances to be accounted for on

a monthly basis and outstanding debts or receivables to be pursued through demand notices and other legal means.

In the circumstances, the recoverability of the receivables from non-exchange transactions balance of Kshs.955,938,392 as at 30 June, 2025 could not be confirmed.

3.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted and actual receipts on a comparable basis of Kshs.5,142,964,000 and Kshs.2,593,864,853 respectively resulting in an underfunding of Kshs.2,549,099,147 representing 50% of the approved budget. Similarly, the Fund spent an amount of Kshs.2,680,558,954 against actual receipts of Kshs.2,593,864,853 resulting to an underutilization of Kshs.86,694,101 of total receipts.

The underfunding and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of these matters.

Key Audit Matters

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

Other Matter

Unresolved Prior Years Audit Matters

In the previous year's audit report, several issues were raised under the Basis for Qualified Opinion, Report on Lawfulness and Effectiveness in the Use of Public Resources and the Report on Effectiveness of Internal Controls, Risk Management, and Governance. Review of Appendix 1; Implementation Status of Auditor General's Recommendations indicated that Management had not resolved seven (7) out of the eighteen (18) issues raised. However, there was no documentary evidence supporting how these issues were addressed, and Management did not submit a report detailing actions taken to implement the Auditor-General's recommendations as required under Section 31(1)(a) of the Public Audit Act, 2015. This is summarized below:-

S/no	Financial Year	Audit Issue
1	2006/2007	Manguva Community Water and Sanitation Project
2	2013/2014	Questioned costs
3	2015/2016	Outstanding ex-staff debtors
4	2015/2016	Long outstanding advances
5	2015/2016	Non-current Assets
6	2015/2016	Cash and cash equivalents
7	2015/2016	Information, Communication, Technology (ICT) policy

Other Information

The Management is responsible for the Other Information set out on page 2 to 40 which comprise of Key Entity Information and Management, Board of Trustees, Management Team, Chairperson's Statement, Report of the Chief Executive Officer, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Market Place Practices, Report of the Trustees, Statement of Trustees'; Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

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

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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

1.0 Employees Acting Beyond Stipulated Period

Review of the payroll and human resources records revealed that seven (7) employees appointed in acting capacities and paid acting allowances totalling Kshs.1,665,358 acted for more than six (6) months. As a result of the irregular acting the employees earned total acting allowances of Kshs.1,101,661. This was in contravention with Section 34(3) of the Public Service Commission Act, 2017 which provides that an officer may be appointed in an acting capacity for a period of at least thirty days but not exceeding a period of six (6) months.

In the circumstances, the Management was in breach of the law.

2.0 Failure to File Monthly Returns on Procurement Capacity Building Levy

During the financial year under review, the Fund entered into contracts with various suppliers for works, goods delivery and service provision. However, the Fund did not deduct and remit to the Public Procurement Regulatory Authority (PPRA) Levy, at the rate of zero point zero three per centum (0.03%) of the value of the signed contracts, exclusive of applicable taxes from the contract value at the time of making payments for such contracts. Further, the Fund did not submit returns, contrary to Section 9 of the Public Procurement Capacity Building Levy Order, 2023 which require procuring entities to maintain monthly records in Form SL.1 and submit the returns through the Public Procurement Information Portal.

In the circumstances, Management was in breach of the law.

3.0 Late Remittance and Non-remittance of Statutory Deductions

Review of Fund records revealed instances of non-compliance with statutory tax remittance requirements. Specifically, the Affordable Housing Levy (AHL) amounting to Kshs.597,828 for the month of September, 2024 was remitted late, contrary to Section 4 of the Affordable Housing Act, 2024, which requires the levy to be remitted to the Fund through the collector not later than the ninth working day after the end of the month. Further, the Fund deducted withholding tax on contracts amounting to Kshs.32,353,680 but failed to remit the tax within five (5) days as required by the Kenya Revenue Authority. In addition, the Fund delayed the filing and remittance of the additional 15% withholding tax on interest earned from project funds held in interest-bearing accounts, contrary to Section 8 of the Income Tax (Withholding Tax) Rules, which requires withholding taxes deducted to be remitted to the Kenya Revenue Authority by the 20th day of the month following that in which the tax was deducted.

In the circumstances, Management was in breach of the law.

4.0 Project Implementation Status

4.1 Loima, Lokichoggio & Nanaam Water Project – Turkana County

Water Sector Trust Fund entered into a financing agreement with the World Vision Kenya for implementation of Loima, Lokichoggio and Namaam Water Project in Turkana County, at a total contract sum of Kshs.95,032,128. This was to be financed at an amount of Kshs.79,838,629 by Water Sector Trust Fund being the Fund's budget contribution. The funds were intended for the implementation of the following sub-projects under the main project: Lorus Water Pan, Nakurio Water Pan, Tado Farm Water Project, Urum Water Supply, Kariuki Borehole, and Lokewan Borehole. Audit of the projects and physical inspection conducted in December, 2025 revealed the following:-

4.1.1 Lorus Water Pan- Turkana County

Contract was entered into for the excavation of a 30,000 m³ capacity water pan at Lorus Nanam Ward in Turkana West Sub-County at a contract sum of Kshs.10,238,745. The

contract period was sixteen (16) Weeks from 25 April, 2024. Two gates were installed as part of the works for the pan. However, the gates had not been painted and had fallen off, leaving the water pan unprotected, while the cattle water troughs were found to be non-operational and inaccessible due to clogging with muddy sludge and with no pumping works installed to supply water.

4.1.2 Nakurio Water Pan- Turkana County

Contract was entered into for the excavation of a 30,000 m³ capacity water pan at Nakurio Lokiriama–Lolengippi Ward in Loima Sub-County at a contract sum of Kshs.11,893,356. The contract period was sixteen (16) Weeks from 16 April, 2024. The water pan was dry with no evidence that the cattle water troughs had ever been used or that water levels had reached any significant level.

4.2 Unutilized Construction of 30,000m³ Namadak Water Pan and Drilled of borehole at Kadorkornyang in Kalokol Ward- Turkana County

Practical Action being the implementing partner entered into a contract on 25 March, 2024 for the excavation of a 30,000 m³ capacity water pan at Namadak and the drilling of a borehole at Kadokornnyang in Kalokol Ward, Turkana Central Sub-County, at a contract sum of Kshs.15,260,870 with an initial duration of eight (8) weeks. No-cost extension was subsequently granted, extending the completion date to 31 December, 2024. Review of the third payment certificate indicated that an amount of Kshs.14,853,370 had been paid as of 4 November, 2024. Physical inspection conducted in December, 2025 revealed that although this borehole had been drilled and water pan constructed it was not in use.

4.3 Equipping of Kadorkornyang Borehole with Associated Storage and Civil Works in Kalokol ward- Turkana County

Practical Action entered into a contract with on 28 August, 2024 for the equipping of one borehole, including associated storage and civil works, at Kadokornnyang in Kalokol Ward, Turkana Central Sub-County, at a contract sum of Kshs.12,000,000. The contract had a duration of two (2) months, with the completion certificate issued on 18 December, 2025. Review of the second payment certificates dated 31 December, 2024 indicated that the contractor was paid a total of Kshs.10,799,999 including half of the retention money. Physical verification conducted in December, 2025 and engagement with the local community revealed that the borehole and the two water kiosks were not in use.

4.4 Incomplete works for the Laisamis Integrated Project- Marsabit County

The Water Sector Trust Fund entered into a financing contract with Concern Worldwide on 7 December, 2022 for the implementation of the Laisamis Integrated Project in Marsabit County, with a duration of twenty-one (21) months and a total contract sum of Kshs.48,072,226. Contract was entered into on 15 April, 2024 for the desilting and expansion of Namarei Water Pan, as well as the rehabilitation of Olturot and Ngororoi Water Supply Projects, at a total contract sum of Kshs.33,948,788, with an intended

completion date of 7 June, 2024. Physical inspection conducted in December, 2025 revealed that two (2) cattle ramps had not been constructed as required in the bill of quantities.

In the circumstances, the value for money for the expenditure on the above projects could not be confirmed.

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

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

As required by Section 7(1)(a) of the Public Audit Act, 2015 and based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on the Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1.0 Late Surrender of Imprest

The statement of financial position reflects receivables from exchange transactions balance of Kshs.20,837,674 as disclosed in Note 14 (b) to the financial statements. Included in the balance is Kshs.3,432,697 in respect of staff receivables being outstanding imprest and staff salary advances. Review of the imprest system indicated that imprest totalling Kshs.3,515,550 was surrendered more than seven (7) days after return to duty station, contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015, which requires a holder of a temporary imprest to account for or surrender the imprest within seven working days after returning to duty station.

In the circumstances, internal controls over the management of imprest and staff advances could not be confirmed.

2.0 Weaknesses in Information, Communication and Technology (ICT) Governance

2.1 Inadequate Review of Privileged User Activity Logs

Monitoring and reviewing privileged user activity is a key control for detecting unauthorized or malicious actions by users with elevated access rights. Regular review

of these logs promotes accountability, supports timely incident detection, and strengthens overall system security.

Our review identified the following gaps in privileged user activity monitoring:

- i) Reports on privileged user activities were generated and reviewed only once during the audit period. This frequency is inadequate and does not comply with policy requirements for quarterly reviews. It increases the risk of delayed detection of anomalies or potentially malicious actions executed by privileged accounts.
- ii) The review covered only SAP BI. Other critical systems—AREN and Active Directory—were excluded, resulting in incomplete monitoring across the IT environment.

2.2 Inadequate Monitoring of Privileged User Activities Across System Layers

Privileged users possess elevated access rights that allow them to make critical changes to systems, applications, and databases. Continuous monitoring and alerting of their activities are essential to detect unauthorized or inappropriate actions, ensure accountability, and maintain the integrity and security of IT systems. Centralized monitoring and alerting tool was necessary to consolidate logs from multiple layers, enabling timely review and response to suspicious activities. The audit identified the following gaps in monitoring privileged user activities across the application, database, and operating system layers for AREN, SAP Business One, and Active Directory:

- i) The Fund does not have a centralized monitoring or alerting tool to track privileged user activities across the database, operating system, and application layers.
- ii) Privileged user activities are not monitored in real time at the application, operating system, or database layers for the above systems.

2.3 Gaps in the Periodic User Access Rights

Periodic review of user access rights was a critical control to ensure that privileges remain appropriate and aligned with job responsibilities. These reviews should have covered all relevant layers—application, database, and operating system—and include both individual and generic accounts to maintain accountability and prevent unauthorized access.

Audit review identified the following gaps in periodic access rights reviews and certifications: -

- i. AREN System: Access rights reviews were not conducted for the sampled quarters (Q1 and Q3) at both the operating system and application layers.

- ii. SAP Business One: While an access rights review was performed at the application layer for Q1, no reviews were conducted at the database and operating system layers for the same quarter. Additionally, no reviews were carried out at any layer (application, database, or operating system) for Q3.
- iii. Active Directory: Access rights reviews were not conducted at the application and operating system layers for the sampled Q1 and Q3.

2.4 Gaps in Password Parameters Configuration on Aren system

Password security configurations such as password history and account lockout thresholds were critical components of user access management, as they helped prevent unauthorized access by discouraging password reuse and mitigating brute-force or repeated login attempts. However, audit review noted that these configurations specifically password history and account lockout settings had not been implemented on the Aren system.

2.5 Gaps in the Change Management Process

Formal change management process was essential to ensure that all system changes were properly reviewed, tested, approved, and documented before implementation, thereby, minimizing the risk of system disruptions, unauthorized changes, or data integrity issues. An audit review noted several gaps in the change management process, including inadequate approvals for the sampled system change; insufficient documentation to evidence User Acceptance Testing (UAT), its scope, outcomes, individuals involved, and dates; absence of documented rollback plans; lack of a solution to log and track changes made to application programs, resulting in no central record or audit trail; and missing details of the change implementer for the sampled system change.

2.6 Gaps in Backup Restoration and Disaster Recovery Testing

Periodic restoration and disaster recovery (DR) testing are critical to validate the effectiveness of backup processes and ensure business continuity in the event of a system failure or disaster. These tests should have involved both IT and business process owners to confirm that restored systems and data adequately support business operations. However, audit review noted gaps in backup restoration and DR testing, including the absence of business process owner involvement in restoration testing conducted by the IT team, exclusion of the Aren system from restoration tests for Q1, and inadequate documentation to evidence execution of disaster recovery failover testing during the period under review.

In the circumstances, the effectiveness of the controls and safeguards on IT systems could not be confirmed.

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 controls, risk management and overall governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of the Management and the Board of Trustees

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 controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

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

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

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

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected

to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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


FCPA Nancy Gathungu, SBS
AUDITOR-GENERAL

Nairobi

22 December, 2025

14. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2025

	Notes	2025 KShs	2024 KShs
REVENUE			
Revenue from non-exchange transactions			
Government of Kenya grants	6	255,897,994	290,693,950
Restricted donor funds	7	2,320,313,652	1,637,704,790
		<u>2,576,211,646</u>	<u>1,928,398,740</u>
Revenue from exchange transactions			
Miscellaneous income	8	15,627,537	16,737,656
Finance income - external investments	9	2,025,670	48,270,557
		<u>17,653,207</u>	<u>65,008,213</u>
Total revenue		<u>2,593,864,853</u>	<u>1,993,406,953</u>
EXPENDITURE			
Staff costs	10	(272,882,269)	(279,304,364)
Remuneration of trustees	11 (a)	(21,293,292)	(29,470,507)
Repairs and maintenance	11 (b)	(102,839)	(188,400)
Depreciation and amortization expense	11 (c)	(23,629,812)	(16,930,496)
General expenses	11 (d)	(57,019,096)	(108,998,295)
Project expenses	12	(2,305,631,646)	(1,637,704,790)
Total expenditure		<u>(2,680,558,954)</u>	<u>(2,072,596,852)</u>
Deficit for the year		<u>(86,694,101)</u>	<u>(79,189,899)</u>

The notes set out on pages 49 to 72 form an integral part of these financial statements.

15. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2025

	Notes	2025 KShs	2024 KShs
ASSETS			
Current assets			
Cash and cash equivalents	13	2,774,430,456	3,466,557,567
Receivables from non-exchange transactions	14 (a)	955,938,392	1,310,865,979
Receivables from exchange transactions	14 (b)	20,837,674	17,559,041
Inventories	15	416,153	432,055
		<u>3,751,622,675</u>	<u>4,795,414,642</u>
Non - current assets			
Property and equipment	16	62,898,245	29,362,116
Intangible assets	17	10,646,592	9,660,072
		<u>73,544,837</u>	<u>39,022,188</u>
TOTAL ASSETS		<u>3,825,167,512</u>	<u>4,834,436,831</u>
LIABILITIES			
Current liabilities			
Deferred income from capital grants	18	581,271	662,502
Staff gratuity	19	19,869,027	2,921,483
Trade and other payables	20	146,206,130	175,463,665
		<u>166,656,428</u>	<u>179,047,650</u>
Non-current liabilities			
Deferred income from capital grants	18	-	581,271
Staff gratuity	19	40,167,801	45,907,153
		<u>40,167,801</u>	<u>46,488,424</u>
Net assets			
Accumulated (deficit)/ surplus	22	(238,792,191)	(137,131,444)
Unexpended grants	23	3,857,135,474	4,746,032,201
		<u>3,618,343,283</u>	<u>4,608,900,757</u>
TOTAL NET ASSETS AND LIABILITIES		<u>3,825,167,512</u>	<u>4,834,436,831</u>

The notes set out on pages 49 to 72 were signed on behalf of the Board of Trustees on 4 DECEMBER 2025 by:



Dr Erick K. Rutto
 Chairman, Board of Trustees



Mr. Willis Ombai
 Chief Executive Officer



Mr. Samwel Gitau Mbugua
 General Manager,
 Corporate Services
 ICPAK Member No. 2868

Date: 4 DECEMBER 2025 Date: 4 DECEMBER 2025 Date: 4 DECEMBER 2025

16. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2025

	Notes	Revenue reserves KShs	Unexpended grants KShs	Total KShs
Year ended 30 June 2024				
Balance at 1 July 2023		(57,941,545)	1,210,328,349	1,152,386,804
Deficit for the year		(79,189,899)	-	(79,189,899)
Funds received from development partners	23	-	4,929,731,808	4,929,731,808
GoK counterpart funding		-	-	-
Transfer to donor account		-	-	-
Donor refunds		-	-	-
Donor interest income	23	-	243,676,834	243,676,834
Total project expenditure	23	-	(1,637,704,790)	(1,637,704,790)
As at 30 June 2024		(137,131,444)	4,746,032,201	4,608,900,757
Year ended 30 June 2025				
Balance at 1 July 2024		(137,131,444)	4,746,032,201	4,608,900,757
Deficit for the year		(86,694,101)	-	(86,694,101)
Prior period adjustment	23	(14,966,646)	14,966,646	-
Funds received from development partners	23	-	1,201,621,821	1,201,621,821
GoK counterpart funding		-	-	-
Donor refunds	23	-	(88,607,473)	(88,607,473)
Donor interest income	23	-	303,435,931	303,435,931
UNICEF Expenditure	23	-	(14,682,006)	(14,682,006)
Total project expenditure	23	-	(2,305,631,646)	(2,305,631,646)
As at 30 June 2025		(238,792,191)	3,857,135,474	3,618,343,283

The notes set out on pages 49 to 72 form an integral part of these financial statements

17. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2025

	Notes	2025 KShs	2024 KShs
Cash flows from operating activities			
Receipts			
Government grants	6	255,897,994	290,693,950
Restricted revenue from development partners	23	1,201,621,821	4,874,479,794
Miscellaneous income	8	1,038,505	47,403,926
Finance income	9	1,125,670	1,840,929
Donor interest income	23	303,435,931	243,676,834
Total Receipts		1,763,119,921	5,458,095,433
Payments			
Employee costs	10	(272,882,269)	(279,304,364)
Remuneration of directors	11 (a)	(21,293,292)	(29,470,507)
Repairs and maintenance	11 (b)	(102,839)	(188,400)
General expenses	11 (d)	(57,019,096)	(108,998,295)
Disbursements to implementing partners		(1,142,694,057)	(1,898,774,537)
Refunds by implementing partners		16,664,376	5,112,395
Refunds to donors	23	(88,607,473)	-
Gratuity paid	19	(11,081,000)	(4,464,247)
Project expenses paid directly by WSTF		(820,061,518)	(612,673,691)
Total Payments		(2,397,077,168)	(2,928,761,646)
Net cash flows (used in)/ generated from operating activities	21	(633,957,247)	2,529,333,787
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	16 & 17	(58,398,546)	(11,325,420)
Proceeds from sale of property, plant, equipment		228,682	782,963
Net cash flows (used in) investing activities		(58,169,864)	(10,542,457)
Net (decrease)/Increase in cash and cash equivalents		(692,127,111)	2,518,791,330
Cash and cash equivalents as at 1 July		3,466,557,567	947,766,237
Cash and cash equivalents as at 30 June	13	2,774,430,456	3,466,557,567

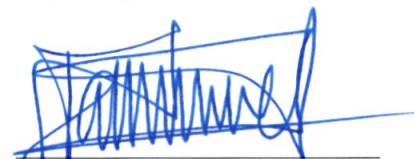
The financial statements on pages 44 to 72 were signed on behalf of the Board of Trustees on 2025 by;



Dr Erick K. Rutto
Chairman, Board of Trustees



Mr. Willis Ombai
Chief Executive Officer



Mr. Samwel Gitau Mbugua
General Manager, Corporate Services

ICPAK Member No. 2868

Date: 4 DECEMBER 2025

Date: 4 DECEMBER 2025

Date: 4 DECEMBER 2025

18. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2025

	Original budget 2025 KShs	Adjustments 2025 KShs	Final Budget 2025 KShs	Actual 2025 KShs	Performance difference 2025 KShs	% of Utilization	Notes
REVENUE FROM NON-EXCHANGE TRANSACTIONS							
Government of Kenya grants	292,600,000	(35,000,000)	257,600,000	255,897,994	1,702,006	99%	
Donor funds	6,200,364,000	(1,350,000,000)	4,850,364,000	2,320,313,652	2,530,050,348	48%	(a)
REVENUE FROM EXCHANGE TRANSACTIONS							
Miscellaneous income	33,000,000	-	33,000,000	16,527,537	16,472,463	50%	
Finance income – external investments	2,000,000	-	2,000,000	1,125,670	874,330	56%	
Total Revenue	6,527,964,000	(1,385,000,000)	5,142,964,000	2,593,864,853	2,549,099,147	50%	
EXPENSES							
Administration expenses	(528,577,000)	(12,041,000)	(540,618,000)	(374,927,308)	(165,690,692)	69%	(b)
Project expenses	(5,992,387,000)	(1,397,041,000)	(4,602,346,000)	(2,305,631,646)	(2,296,714,354)	50%	(c)
Total expenses	(6,527,964,000)	(1,385,000,000)	(5,142,964,000)	(2,680,558,954)	(2,462,405,046)	52%	
Deficit for the period	-	-	-	(86,694,101)	86,694,101		(d)

- a) WSTF had budgeted to finance projects to the tune of KShs. 4,602,346,000 using funds from development partners and the government (development budget). This target was however not met because not all the funds anticipated from development partners were received during the year. The actual amounts received from development partners in the year was KShs 1,201,621,821. Project funds held at Central Bank of Kenya amounted to KShs. 94,705,733 and have been recognized as cash-in-transit. WSTF's policy is to recognize funds from development partners as income when utilized for project expenditure hence funds disbursed at the end of the year were not recognized as expenditure for the year because the projects had not accounted for the use of these funds. They were recognized as receivables. Total project expenditure for the year amounted to KShs. 2,305,631,646 which was financed directly by the development partners.
- b) The underspend is as a result of approvals that were required by the Ministry and the World bank for ESIA and NEMA construction permits that took longer than was anticipated. The matter has since been resolved.
- c) The variance between budget and actual project expenses is as a result of less funds realised in the year for project implementation also captured in a) above.
- d) The deficit for the period is attributable to the excess of the expenditure over the income of the recurrent funding from Government of Kenya. The part of the expenditure reported is attributable under budgeted administration costs.
- e) There were changes between the initial and final budget as a result of the supplementary budget process.

19. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Water Sector Trust Fund (WSTF) is a body corporate established under the Water Act, 2016, Section 113 (1) and the object of the Fund as provided by Section 114 of the Act is to *provide conditional and unconditional grants to counties, in addition to equalisation fund and to assist in financing the development and management of water services in marginalised areas or any area which is considered by the Board of Trustees to be underserved including:-*

- a) community level initiatives for the sustainable management of water resources;
- b) development of water services in rural areas considered not to be commercially viable for provision of water services by licensees;
- c) development of water services in the under-served poor urban areas; and
- d) research activities in the area of water resources management and water services, sewerage and sanitation.

As one of the institutions under the Ministry of Water and Sanitation, WSTF is guided by the Trust Deed of 26 April 2004 executed by the Cabinet Secretary. The Trust Deed is currently under review to align it with the Water Act 2016.

The WSTF is a basket fund through which the government, through appropriations by Parliament, development partners and other funds, channels financial assistance towards the implementation of water, sanitation and water resources projects throughout the country with special emphasis on the poor and marginalized communities.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

Statement of compliance

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 WaterFund'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 Note 5 of these financial statements.

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, Water Act 2016, 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

i. New and amended standards and interpretations in issue effective in the year ended 30 June 2025

There were no new and amended standards in issue that were effective in the financial year.

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. ADOPTION OF NEW AND REVISED STANDARDS (continued)

i New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2025 (Continued)

IPSAS 43: Leases: Applicable for periods beginning or after 1st January 2025

The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.

The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.

The standard will materially impact Water Fund in the next financial reporting period.

IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations; Applicable for periods beginning or after 1st January 2025

The Standard requires assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.

The standard will not materially impact Water Fund in the next financial reporting period.

IPSAS 45: Property Plant and Equipment; Applicable for periods beginning or after 1st January 2025

The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure assets and measurement. Heritage assets were previously excluded from the scope of IPSAS 17 in IPSAS 45, heritage assets that satisfy the definition of PPE shall be recognised as assets if they meet the criteria in the standard. IPSAS 45 has an additional application guidance for infrastructure assets, implementation guidance and illustrative examples. The standard has clarified existing principles e.g. valuation of land over or under the infrastructure assets, under- maintenance of assets and distinguishing significant parts of infrastructure assets.

The standard will materially impact Water Fund in the next financial reporting period.

IPSAS 46: Measurement; Applicable for periods beginning or after 1st January 2025

The objective of this standard was to improve measurement guidance across IPSAS by:

- i. Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used.
- ii. Clarifying transaction costs guidance to enhance consistency across IPSAS.
- iii. Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement related disclosures.

The standard also introduces a public sector specific measurement bases called the current operational value.

The standard will materially impact Water Fund in the next financial reporting period.

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. ADOPTION OF NEW AND REVISED STANDARDS (continued)

ii New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2025 (Continued)

IPSAS 43: Revenue; Applicable for periods beginning on or after 1st January 2026 (Continued)

This standard supersedes IPSAS 9 - Revenue from exchange transactions, IPSAS 11 - Construction contracts and IPSAS 23 - Revenue from non-exchange transactions. This standard brings all the guidance of accounting for revenue under one standard. The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.

The standard will materially impact Water Fund when it becomes effective.

IPSAS 48: Transfer Expenses; Applicable for periods beginning on or after 1st January 2026

The objective of the standard is to establish the principles that a transfer provider shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenses and cash flow arising from transfer expense transactions. This is a new standard for public sector entities geared to provide guidance to entities that provide transfers on accounting for such transfers.

The standard will have no material impact on Water Fund when it becomes effective.

IPSAS 49: Retirement Benefit Plans; Applicable for periods beginning on or after 1st January 2026

The objective is to prescribe the accounting and reporting requirements for the public sector retirement benefit plans which provide retirement to public sector employees and other eligible participants. The standard sets the financial statements that should be presented by a retirement benefit plan.

The standard will have no material impact on Water Fund when it becomes effective.

IPSAS 50: Exploration For & Evaluation of Mineral Resources; Applicable for periods beginning on or after 1st January 2027

The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources. The Standard requires:

- i. Limited improvements to existing accounting practices for exploration and evaluation expenditures.
- ii. Entities that recognize exploration and evaluation assets to assess such assets for impairment in accordance with this Standard and measure any impairment in accordance with IPSAS 26.
- iii. Disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognized.

The standard will have no material impact on Water Fund when it becomes effective.

iii Early adoption of standards

WaterFund did not early – adopt any new or amended standards in year 2024/2025

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Assets and liabilities denominated in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at the end of reporting period. Transactions during the year are translated at the rates ruling on the transaction dates. Gains or losses on translation are dealt with in the surplus or deficit.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the fund and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognized.

- (i) Government grants are recognized as income when there is reasonable assurance that the grants will be received, and the entity is in compliance with the conditions attached to the grants.
- (ii) Grants from donors are recognized as income when there is reasonable assurance that the grants will be received. The grants are recognized as income on a systematic and rational basis over the period necessary to match them with the related costs.
- (iii) Grants related to depreciable assets are recognized as income over the periods and in the proportions in which depreciation on those assets is charged.
- (iv) Other income comprises of funds other than the grants from the development partners and the Government of Kenya. Other income is recognized when there is reasonable assurance that it will be received.
- (v) Funds received for specific purposes (conditional grants) are treated as unexpended grants and credited to the surplus or deficit when the activities for which they were provided for have been undertaken. Specific grant pledges that have not been received but for which expenditure has been incurred, as well as the excess of expenditure over receipts for specific grants are recognized as revenue and included in the financial statements as grants receivable from donors.

Expenditure

Expenditure comprises expenses incurred directly for programme and administrative activities. These are recognized on the accrual basis.

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:

- i. Raw materials: purchase cost using the weighted average cost method.
- ii. Finished goods and work in progress: cost of direct materials and labour 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 Entity.

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

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 Entity

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Property and equipment donated to the fund or purchased using specified donor funds are recognized as deferred income from capital grants. Donated assets are recorded at a reasonable estimate of their fair value to the fund at the date of receipt as determined by the trustees.

Depreciation

Depreciation is calculated on a straight-line basis to write down the cost of each asset to its residual value over its estimated useful life at the following rates:

	% per Annum
Furniture	20
Motor vehicles	25
Computer equipment	30
Equipment	25
Fittings and fixtures	20

Gains and losses on disposal of items of equipment are determined by comparing the proceeds to their carrying amounts and are included in the statement of financial performance.

Intangible assets

All costs attributable to the purchase of computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortization and accumulated impairment losses. Amortization is calculated on a straight-line basis over the estimated useful lives not exceeding a period of 5 years. It is charged to the surplus or deficit under the expenditure line, amortization of intangible assets.

Impairment of tangible and intangible assets

At end of each reporting period, WaterFund reviews the carrying amounts of its financial assets, tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. Any impairment losses are recognized as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount.

Deferred income

Grants received for the purchase of fixed assets or donated assets are recognized as deferred income and transferred to the surplus or deficit over the expected useful lives of the respective assets. 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 in relation to any other income received out of the ordinary course of business.

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budget information

The original budget for FY 2024-2025 was approved by the National Assembly on 30 June 2024. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The reduction in appropriations is deducted from the original budget by the Entity upon receiving the respective approvals to conclude the final budget. Accordingly, the Entity recorded reduction in appropriations by KShs 1,385 million on the 2024-2025 budget following the governing body's approval.

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

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

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section 18 of these financial statements.

Taxation

Water Sector Trust Fund is exempt from income tax under the First Schedule, paragraph 10 of the Income Tax Act. As a result, no provision for taxation has been made in these financial statements.

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.

Provisions

Provisions are recognized when WaterFund 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 WaterFund 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

WaterFund 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.

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contingent assets

WaterFund 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 WaterFund 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.

Employee benefits

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an Entity pays fixed contributions into a separate Entity (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.

i. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

ii. Other post-employment benefits

Employees on three-year employment contracts are entitled to service gratuity at 31% of their annual salary. Service gratuity and outstanding leave days are recognized when they accrue to employees. A provision is made for the estimated liability for services rendered by employees up to end of the reporting period. The estimated monetary liability for employees' accrued leave and service gratuity entitlements at the end of reporting period is recognized as an expense accrual. Service gratuity is paid at the end of the employment contract.

Provisions are also made in respect of outstanding leave days accruing to staff at the end of the year.

Related parties

The Entity 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 entity, or vice versa. Members of key management are regarded as related parties and comprise of the General Managers and the CEO.

Financial instruments

a) Classification of financial assets

The entity classifies its financial assets as subsequently measured at amortised cost, fair value through net assets/equity or fair value through surplus and deficit based on both the entity's management model for financial assets and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost when the financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. A financial asset is measured at fair value through net assets/equity if it is held within the management model whose objective is achieved by both collecting contractual cashflows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset shall be measured at fair value through surplus or deficit unless it is measured at amortized cost or fair value through net assets/equity unless an entity has made irrevocable election at initial recognition for particular investments in equity instruments.

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

Subsequent measurement

Based on the business model and the cash flow characteristics, the entity classifies its financial assets into amortized cost or fair value categories for financial instruments. Movements in fair value are presented in either surplus or deficit or through net assets/ equity subject to certain criteria being met.

Amortized cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at fair value through surplus or deficit, are measured at amortized cost. A gain or loss on an instrument that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is de-recognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through net assets

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through net assets/ equity. Movements in the carrying amount are taken through net assets, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in surplus/deficit. Interest income from these financial assets is included in finance income using the effective interest rate method.

Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. Trade and other receivables are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end.

Fair value through surplus or deficit

Financial assets that do not meet the criteria for amortized cost or fair value through net assets/ equity are measured at fair value through surplus or deficit. A business model where the entity manages financial assets with the objective of realizing cash flows through solely the sale of the assets would result in a fair value through surplus or deficit model.

Impairment

The entity recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the entity expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For all the entity's financial assets, the entity applies a simplified approach in calculating ECLs. Therefore, the entity does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The entity considers a financial asset in default when contractual payments are 365 days past due. However, in certain cases, the entity may also consider a financial asset to be in default when internal or external information indicates that the entity is unlikely to receive the outstanding contractual amounts in full before considering any credit enhancements held by the entity.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

a) Financial liabilities

Classification

The entity classifies its liabilities as subsequently measured at amortized cost except for financial liabilities measured through profit or loss.

Comparative figures

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

Subsequent events

There were no material adjusting and non-adjusting events after the reporting period.

5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity'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.

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 Entity 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 Entity. Such changes are reflected in the assumptions when they occur.

Useful lives and residual value

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

- a) The condition of the asset based on the assessment of experts employed by the Entity.
- b) The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- c) The nature of the processes in which the asset is deployed.
- d) Availability of funding to replace the asset.
- e) Changes in the market in relation to the asset.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 14.

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 GOVERNMENT OF KENYA GRANTS

The Fund as currently set up, receives grants from the Government of Kenya for two purposes:

- (i) Financing to various water and sanitation projects.
- (ii) Operational (recurrent) needs.

During the year, the split for the two functions was as follows:

	2025	2024
	KShs	KShs
Development	98,297,998	95,150,000
Recurrent	157,599,996	195,543,950
	<u>255,897,994</u>	<u>290,693,950</u>

7 RESTRICTED DONOR FUNDS

WaterFund received restricted donations from several development partners. The grants are recognized as income on a systematic and rational basis over the period necessary to match them with the related project costs. Details of the donor funds are tabulated below:

	2025	2024
	KShs	KShs
European Union	546,175,013	581,669,217
Government of Germany – KfW/BMGF	67,736,547	32,854,101
Government of Germany – KfW Phase IV	236,034,793	307,303,501
Government of Denmark – WLP and GGEP	38,340	214,041
Government of Denmark – Covid 19	338,848	112,311
International Fund for Agricultural Development - IFAD	-	2,498
World Bank - WSDP	589,882,271	298,656,831
World Bank - HOA	443,132,987	158,912,310
Government of Denmark - SWASAP	422,292,606	257,979,296
Sweden/Finland – J6P	241	684
Subtotal (Note 19)	<u>2,305,631,646</u>	<u>1,637,704,790</u>
United Nations International Children Emergency Fund (UNICEF) – Writeback of unexpended grants (Note 19)	14,682,006	-
Total (Note 19)	<u>2,320,313,652</u>	<u>1,637,704,790</u>

8 MISCELLANEOUS INCOME

Management fee earned on disbursement to some projects*	14,826,530	15,100,856
Deferred income recognized (note 20)	662,502	662,502
Other income **	155,909	191,335
Net (loss)/gain on disposals of assets	(17,404)	782,963
	<u>15,627,537</u>	<u>16,737,656</u>

*Management fee represents the administration cost recovered as a percentage of funds disbursed to projects as per the respective donor agreements currently at 5% of funds disbursed for Danida. Management fee earned from the development partners is as tabulated below:

** Other income relates to fees charged to insurance policy providers for administration of insurance policies held by the staff in which WaterFund deducts and remits the premium to the insurance companies.

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 FINANCE INCOME AND EXTERNAL INVESTMENTS

	2025	2024
	KShs	KShs
Finance income		
*Bank interest	1,125,670	1,840,929
**Kenya Water and Sanitation Conference	900,000	46,429,628
	<u>2,025,670</u>	<u>48,270,557</u>

*This relates to interest earned on the GoK interest bearing current account balances.

**This relates to sponsorship income towards the 2024 Kenya Waters and Sanitation conference

10 STAFF COSTS

	2025	2024
	KShs	KShs
Salaries and wages	220,998,095	224,673,107
Staff pension and gratuity	42,978,312	42,097,462
Staff training expenses	3,343,580	7,337,519
NSSF contribution	2,795,472	1,331,120
Other staff expenses	2,766,810	3,865,156
Total	<u>272,882,269</u>	<u>279,304,364</u>

11. ADMINISTRATION EXPENSES

(a) Remuneration of Trustees

Chairman's Honoraria	960,000	966,372
Trustee emoluments	18,003,390	22,906,519
Other allowances	2,329,902	5,597,616
Total	<u>21,293,292</u>	<u>29,470,507</u>

(b) Repairs and maintenance

Furniture and fittings	102,839	188,400
Total	<u>102,839</u>	<u>188,400</u>

(c) Depreciation and amortization expense

Property, plant and equipment	21,163,414	14,464,100
Intangible assets	2,466,398	2,466,396
Total	<u>23,629,812</u>	<u>16,930,496</u>

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. ADMINISTRATION EXPENSES (Continued)

	2025	2024
	KShs	KShs
(d) General expenses		
Communications expenses	34,218	1,155,246
Printing and stationery	105,075	146,653
Resource centre expenses	-	-
Traveling and accommodation	3,235,595	9,548,483
Motor vehicle expenses	1,221,702	2,196,780
Computer expenses	153,710	165,648
Consultancy and professional fees	593,439	330,370
Audit fees	8,269,188	7,718,159
Resource Mobilization expenses	-	2,432,907
Planning	-	2,749,840
Advocacy	(40)	48,322,247
Office running expenses	2,040,805	1,992,851
Insurance	26,557,866	26,367,454
Office rent & land rates	17,673,490	-
Bank charges	495,639	715,827
Other Expenses	943	-
Movement in provision for bad and doubtful debts (note 16)	(3,362,534)	5,155,830
Total	<u>57,019,096</u>	<u>108,998,295</u>

12. PROJECT EXPENSES

These are funds utilized in various water and sanitation and water resources projects in various counties. The funds are disbursed to Water Utilities (WUs), Community Based Organisations (CBOs), Community Forest Associations (CFAs), Water Service Providers (WSPs), Water Resources Authority (WRAs) and Water Resources Users Associations (WRUAs) in line with proposals received and approved in accordance with documented processes of funding the rural and urban investments projects.

	2025	2024
	KShs	KShs
Rural Programme		
Water and Sanitation	1,300,587,489	904,248,731
Water Resources	111,051,698	94,522,041
Total – Rural Programme (Note 19 (b))	<u>1,411,639,187</u>	<u>998,770,772</u>
Urban Programme		
Water and Sanitation	244,234,563	283,599,988
Up-scaling Basic Sanitation for the Urban Poor (UBSUP)- Bill & Melinda Gates Foundation (BMGF)	59,875,625	56,557,614
Water and Livelihood	-	112,312
Conditional Liquidity Support Grant (World Bank)	589,882,271	298,656,831
Note 19(a)	<u>893,992,459</u>	<u>638,926,745</u>
Water and Sanitation – Direct funding from GOK	-	7,273
Total – Urban Programme	<u>893,992,459</u>	<u>638,934,018</u>
Total project expenses*	<u>2,305,631,646</u>	<u>1,637,704,790</u>

*Project expenditure is funded by development partners and the Government of Kenya funds.

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. CASH AND CASH EQUIVALENTS

	2025 KShs	2024 KShs
NCBA KFW PHASE II KES	15,937,114	23,415,040
NCBA KFW PHASE II EURO	-	11,494,802
NCBA BMGF KES	65,783,213	81,989,173
NCBA BMGF USD	18,892,162	18,772,529
NCBA KFW PHASE IV	52,907,788	97,777
National Bank of Kenya	3,612,913	4,750,479
Kenya Commercial Bank - Recurrent	8,080,221	3,182,597
National Bank	294	34,179
Kenya Commercial Bank - Staff	60,024,864	37,378,585
NCBA Bank - EU SHARE	-	1,601,808
NCBA Bank - GGEP	-	30,432,010
National Bank of Kenya - SWASAP	330,306,365	206,084,928
Kenya Commercial Bank - J6P	-	133,979
NCBA - EU CPIRA	113,857	341,520,316
Co-operative Bank - WLP	-	18,439,458
Equity - WSDP	2,033,188,921	2,384,111,059
Equity - Covid 19	-	20,368,892
Kenya Commercial Bank - HOA	77,715,216	226,343,808
Cash in hand	28,462	45,532
Cash in transit	107,839,066	56,360,616
	<u>2,774,430,456</u>	<u>3,466,557,567</u>

*Cash in hand includes amounts received from staff after surrender of imprest totalling to KShs 22,323 and petty cash balance of KShs 6,139. The balance as at 30 June 2025 represents the amounts that had not yet been deposited in the bank.

** Cash in transit represents funds released by the donors before the end of the year, but at year end were still held in the project designated bank accounts at the Central Bank of Kenya (CBK). These funds had not reflected in Water Fund's bank account as at 30 June 2025.

14. (a) RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2025 KShs	2024 KShs
Project receivables – Urban Investments	870,050,575	940,383,035
- Rural Investments	255,147,279	543,104,940
- GoK priority projects	4,612,412	4,612,412
Provision for bad debts	<u>(173,871,874)</u>	<u>(177,234,408)</u>
	<u>955,938,392</u>	<u>1,310,865,979</u>

Urban project receivables relate to unaccounted for disbursements by the Water Service Providers carrying out the implementation of the Urban investments.

- Rural project receivables relate to unaccounted for funds by various partners under the Rural investments. The project disbursements are expected to be accounted for within one year. Prepayments relate to payment of insurance and rent paid in the period for which the value is derived across two financial periods. Rural project receivables relate to unaccounted for funds by various partners under the Rural investments. The project disbursements are expected to be accounted for within one year.

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. (a) RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Movements on the provision for impairment of receivables are as follows:

	2025	2024
	KShs	KShs
At start of year	177,234,408	172,078,579
Provision in the year	37,990,686	18,804,043
Amounts recovered/ accounted for	<u>(41,353,220)</u>	<u>(13,648,214)</u>
At end of year	<u>173,871,874</u>	<u>177,234,408</u>

Provisions for impairment of receivables are made for the outstanding absolute balances above 365 days.

14. (b) RECEIVABLES FROM EXCHANGE TRANSACTIONS

	2025	2024
	KShs	KShs
Prepayments and deposits	17,404,977	16,752,027
Staff receivables	<u>3,432,697</u>	<u>807,014</u>
	<u>20,837,674</u>	<u>17,559,041</u>

- Prepayments relate to payment of insurance and rent paid in the period for which the value is derived across two financial periods.
- Staff receivables represent funds given to staff as imprest but not accounted for and staff salary advances.

15. INVENTORIES

	2025	2024
	KShs	KShs
Office stationery and consumables	<u>416,153</u>	<u>432,055</u>

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

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. PROPERTY AND EQUIPMENT

	Furniture KShs	Motor Vehicle KShs	Computer Equipment KShs	Office Equipment KShs	Fixtures and Fittings KShs	Total KShs
COST						
At 1 July 2023	8,594,459	79,691,882	25,507,323	7,862,417	23,309,882	144,965,963
Additions	-	-	8,794,100	2,531,320	-	11,325,420
Disposal	-	(3,450,313)	(3,869,316)	(23,000)	-	(7,342,629)
At 30 June 2024	8,594,459	76,241,569	30,432,107	10,370,737	23,309,882	148,948,754
At 1 July 2024	8,594,459	76,241,569	30,432,107	10,370,737	23,309,882	148,948,754
Additions	3,026,347	34,178,000	1,641,000	8,150,612	7,949,670	54,945,629
Disposal	(601,680)	-	(5,494,516)	(240,000)	-	(6,336,196)
At 30 June 2025	11,019,126	110,419,569	26,578,591	18,281,349	31,259,552	197,558,187
DEPRECIATION						
At 1 July 2023	7,596,336	56,559,193	22,214,505	7,536,163	18,497,546	112,403,743
Charge for the year	542,299	8,778,270	3,142,113	402,545	1,598,875	14,464,102
Disposal	-	(3,450,313)	(3,807,894)	(23,000)	-	(7,281,207)
At 30 June 2024	8,138,635	61,887,150	21,548,724	7,915,708	20,096,421	119,586,638
At 1 July 2024	8,138,635	61,887,150	21,548,724	7,915,708	20,096,421	119,586,638
Charge for the year	697,789	11,377,292	3,969,303	1,930,229	3,188,801	21,163,414
Disposal	(601,680)	-	(5,371,140)	(117,290)	-	(6,090,110)
At 30 June 2025	8,234,744	73,264,442	20,146,887	9,728,647	23,285,222	134,659,942
NET BOOK VALUE						
At 30 June 2024	455,824	14,354,419	8,883,383	2,455,029	3,213,461	29,362,116
At 30 June 2025	2,784,382	37,155,127	6,431,704	8,552,702	7,974,330	62,898,245

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. INTANGIBLE ASSETS

	SAP KShs	UPCIS KShs	Q-PULSE KShs	PMIS Software KShs	SIP Software KShs	WIP - HRMIS KShs	Total KShs
COST							
At 1 July 2023	3,749,392	12,729,739	588,312	8,264,426	12,332,000	-	37,663,869
Additions	-	-	-	-	-	-	-
At 30 June 2024	3,749,392	12,729,739	588,312	8,264,426	12,332,000	-	37,663,869
At 1 July 2024	3,749,392	12,729,739	588,312	8,264,426	12,332,000	-	37,663,869
Additions	-	-	-	-	-	3,452,917	3,452,917
At 30 June 2025	3,749,392	12,729,739	588,312	8,264,426	12,332,000	3,452,917	41,116,786
AMORTIZATION							
At 1 July 2023	3,749,392	12,729,739	588,312	8,264,426	205,533	-	25,537,402
Charge for the year	-	-	-	-	2,466,395	-	2,466,395
At 30 June 2024	3,749,392	12,729,739	588,312	8,264,426	2,671,928	-	28,003,797
At 1 July 2024	3,749,392	12,729,739	588,312	8,264,426	2,671,929	-	28,003,798
Charge for the year	-	-	-	-	2,466,396	-	2,466,396
At 30 June 2025	3,749,392	12,729,739	588,312	8,264,426	5,138,325	-	30,470,194
CARRYING VALUE							
At 30 June 2024	-	-	-	-	9,660,072	-	9,660,072
At 30 June 2025	-	-	-	-	7,193,675	3,452,917	10,646,592

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. DEFERRED INCOME FROM CAPITAL GRANTS

	2025 KShs	2024 KShs
As at 1 July	1,243,773	1,906,275
Additions	-	-
Transfer to income - expensed	-	-
Transfer to income – depreciation	(662,502)	(662,502)
	<u>581,271</u>	<u>1,243,773</u>
As at 30 June	<u>581,271</u>	<u>1,243,773</u>
Current	581,271	662,502
Non – current	-	581,271
	<u>581,271</u>	<u>1,243,773</u>
As at 30 June	<u>581,271</u>	<u>1,243,773</u>

The portion transferred to income represents depreciation charge for 12 months at the year-end on the donated assets during the year.

19. STAFF GRATUITY

At start of year	48,828,636	31,153,498
Provision for the year	22,289,192	22,139,385
Paid during the year	(11,081,000)	(4,464,247)
	<u>60,036,828</u>	<u>48,828,636</u>
As at 30 June	<u>60,036,828</u>	<u>48,828,636</u>
Current	19,869,027	2,921,483
Non-current	40,167,801	45,907,153
	<u>60,036,828</u>	<u>48,828,636</u>
As at 30 June	<u>60,036,828</u>	<u>48,828,636</u>

This refers to the estimated monetary liability for contractual employees' accrued service gratuity entitlement at the end of the reporting period. Gratuity is accrued at the rate of 31% of annual basic salary. The current portion is payable within one year.

20. TRADE AND OTHER PAYABLES

	2025 KShs	2024 KShs
Trade payables	131,029,989	160,579,397
Staff leave accrual	6,597,424	6,961,364
Withholding tax payable	8,578,717	7,922,904
	<u>146,206,130</u>	<u>175,463,665</u>
	<u>146,206,130</u>	<u>175,463,665</u>

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. NOTES TO THE STATEMENT OF CASH FLOWS

	2025 KShs	2024 KShs
Reconciliation of Net Cash Flows from Operating Activities to the deficit		
Deficit from ordinary activities	(86,694,101)	(79,189,899)
Non-cash movements		
Depreciation	21,163,414	14,464,101
Amortization	2,466,398	2,466,396
(Increase)/ decrease in receivables from non-exchange transactions	351,648,954	(964,421,587)
Decrease in inventories	15,902	98,202
Increase/ (decrease) in unexpended grants	(888,896,727)	3,535,703,852
(Decrease) in deferred income	(662,502)	(662,502)
Increase in staff gratuity	11,208,192	17,675,138
Increase/(decrease) in trade and other payables	(29,257,535)	3,921,628
Gain/ (loss) on disposal of assets	17,404	(721,542)
PY Adjustment	(14,966,646)	-
Net cashflows (used in)/ generated from operating activities	<u>(633,957,247)</u>	<u>2,529,333,787</u>

Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and balances with banks. Cash and cash equivalents included in the cashflow statement comprise of the following statement of financial position amounts

	2025 KShs	2024 KShs
Cash on hand and balances with banks	<u>2,774,430,456</u>	<u>3,466,557,567</u>

22. ACCUMULATED SURPLUS

This is composed of the excess of revenue over expenditure relating to funds that have no conditions attached to them. It forms the pool from which future expenses will be drawn. The movement is shown below:

	2025 KShs	2024 KShs
Opening accumulated surplus	(137,131,444)	(57,941,545)
Prior period adjustment	(14,966,646)	-
Deficit for the year	(86,694,101)	(79,189,899)
Closing accumulated (deficit)/surplus	<u>(238,792,191)</u>	<u>(137,131,444)</u>

23. UNEXPENDED GRANTS

Unexpended grants – Urban investments	3,150,269,449	3,430,161,749
Unexpended grants – Rural investments	706,866,025	1,315,870,451
	<u>3,857,135,474</u>	<u>4,746,032,200</u>

The unexpended grants movement for each investment is presented below:

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. UNEXPENDED GRANTS (Continued)

(a) Unexpended Grants - Urban investments

	Government of Germany-KfW/BMFG KShs	World Bank-WSDP KShs	KfW Phase IV KShs	Government of Denmark (DANIDA) KShs	Total KShs
As at 1 July 2023	205,243,624	285,513,697	44,765,009	20,131,155	555,653,485
Funds received from development partners	-	2,983,467,400	331,595,892	-	3,315,063,292
GoK Counterpart funding	-	-	-	-	-
Interest income	3,396,806	194,700,729	(360,610)	634,792	198,371,717
Refund to donor	-	-	-	-	-
Refund from WSPs	-	-	-	-	-
Total project expenditure	(32,854,101)	(298,656,831)	(307,303,501)	(112,311)	(638,926,744)
As at 30 June 2024	175,786,329	3,165,024,995	68,696,790	20,653,636	3,430,161,750
As at 1 July 2024	175,786,329	3,165,024,995	68,696,790	20,653,636	3,430,161,750
Prior period adjustments*	17,103,790	-	-	1,358	17,105,148
Funds received from development partners	-	-	352,128,393	-	352,128,393
GoK Counterpart funding	-	-	-	-	-
Interest income	1,866,226	263,145,470	171,067	148,106	265,330,869
Refund to donor	-	-	-	(20,464,252)	(20,464,252)
Refund from WSPs	-	-	-	-	-
Total project expenditure	(67,736,547)	(589,882,271)	(236,034,793)	(338,848)	(893,992,459)
As at 30 June 2025	127,019,798	2,838,288,194	184,961,457	-	3,150,269,449

Donor income recognized in the year (note 7) - Total project expenditure less GoK counterpart funding, interest income and foreign exchange gain/(loss)

	2025	2024	2023	2022	2021
2025	67,736,547	589,882,271	236,034,793	338,848	893,992,459
Represented by:					
Cash and cash equivalents	100,612,488	2,033,188,921	52,907,788	-	2,186,709,197
Cash in transit	-	-	94,705,733	-	94,705,733
Other receivables	6,907,051	-	3,916,029	-	10,823,080
Assets	-	32,463,083	-	-	32,463,083
Project Receivables	32,811,969	793,100,505	44,138,102	-	870,050,576
Payables	(13,311,710)	(20,464,315)	(10,706,195)	-	(44,482,220)
Total	127,019,798	2,838,288,194	184,961,457	-	3,150,269,449

*Prior period adjustment relates to: i) Refunds back to the KfW III and BMGF programme as directed by the donor (KfW) for long outstanding project receivables. The KShs 17,103,790 represents refunds for 4 projects totalling KShs 4,849,633 for BMGF and refunds for 10 projects under KfW III totalling KShs 12,254,157. The error has been corrected in the current period balances for the KfW programme. ii) A reversal of expenditure under SWASAP of KShs 2,138,502 relating to cost for the purchase of computer equipment that was disputed. The error has been corrected in the current period balances for the SWASAP programme.

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. UNEXPENDED GRANTS (Continued)

(b) UNEXPENDED GRANTS (Rural investments)

	UNICEF	Sweden/ Finland – J6P	European Union- EU (Rural)	Government of Denmark	Government of Denmark - SWASAP	IFAD	World Bank - HOA	Total
As at 1 July 2023	14,682,006	1,575,987	246,622,785	53,726,361	314,807,330	23,260,395	-	654,674,864
Funds received from development partners	-	-	896,895,915	-	300,000,000	-	417,772,602	1,614,668,517
GoK Counterpart funding	-	-	-	-	-	-	-	-
Refunds	-	-	-	-	-	-	-	-
Interest income	-	2,880	4,036,315	1,092,373	14,373,830	-	25,799,718	45,305,116
Total project expenditure	-	(684)	(581,669,217)	(214,041)	(257,979,296)	(2,498)	(158,912,310)	(998,778,046)
As at 30 June 2024	14,682,006	1,578,183	565,885,798	54,604,693	371,201,864	23,257,897	284,660,010	1,315,870,451
As at 1 July 2024	14,682,006	1,578,183	565,885,798	54,604,693	371,201,864	23,257,897	284,660,010	1,315,870,451
Prior period adjustment*	-	-	-	-	(2,138,502)	-	-	(2,138,502)
Funds received from development partners	-	-	29,916,188	-	500,000,000	-	319,577,240	849,493,428
GoK Counterpart funding	-	-	-	-	-	-	-	-
Refunds to development partners	-	-	-	(48,930,840)	(19,212,381)	-	-	(68,143,221)
Interest income	-	953	697,239	148,612	7,214,551	-	30,043,707	38,105,062
UNICEF Writeback	(14,682,006)	-	-	-	-	-	-	(14,682,006)
Total project expenditure (exclusive of UNICEF)	-	(241)	(546,175,013)	(38,340)	(422,292,606)	-	(443,132,987)	(1,411,639,187)
As at 30 June 2025	-	1,578,895	50,324,212	5,784,125	434,772,926	23,257,897	191,147,970	706,866,025
Donor income recognized in the year (note 7) - Total project expenditure less GoK counterpart funding, interest income and foreign exchange gain/(loss)								
2025	-	241	546,175,013	38,340	422,292,606	-	443,132,987	1,411,639,187
Represented by:								
Cash and cash equivalents	-	-	113,857	136,180	330,306,365	294	77,715,216	408,271,912
Project Receivables	-	365,824	26,707,911	-	117,072,468	23,235,318	73,410,834	240,792,355
Other Receivables	-	1,213,071	23,502,444	7,391,568	390,236	22,285	114,205	32,633,809
Assets	-	-	-	-	-	-	57,267,176	57,267,176
Payables	-	-	-	(1,743,623)	(12,996,143)	-	(17,359,461)	(32,099,227)
Total	-	1,578,895	50,324,212	5,784,125	434,772,926	23,257,897	191,147,970	706,866,025

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. CAPITAL COMMITMENTS

Capital Assets	2025 KShs	2024 KShs
Authorised for	87,800,000	72,600,000
Authorised and contracted for	-	-
Total	<u>87,800,000</u>	<u>72,600,000</u>

25. OPERATING LEASE ARRANGEMENTS

	2025 KShs	2024 KShs
Minimum lease payments under operating leases recognized through Statement of financial performance	<u>29,606,170</u>	<u>27,083,792</u>

At the end of the reporting period, WaterFund had outstanding commitments under operating leases, payable as follows:

	2025 KShs	2024 KShs
Within one year	30,152,080	29,606,170
In the second to fifth years inclusive	<u>24,444,107</u>	<u>54,701,072</u>
	<u>54,596,187</u>	<u>84,307,242</u>

Operating lease payments represent rentals payable by WaterFund for its office premises. The lease will expire in November 2028.

26. RELATED PARTY TRANSACTIONS

i) Key management compensation

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

	2025 KShs	2024 KShs
Salaries and other short-term benefits	61,386,516	58,055,385
Gratuity	6,346,643	4,464,247
NSSF and Housing Levy	<u>1,314,278</u>	<u>220,320</u>
	<u>69,047,437</u>	<u>62,739,952</u>
Trustee's emoluments	8,640,000	10,266,372
Other emoluments (included in key management compensation above)	12,653,292	19,204,135

ii) WSTF is a State Corporation. Funds received from the Government of Kenya are disclosed under note 6.

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. CONTINGENT LIABILITIES

As at 30 June 2025, the Trustees were not aware of any contingent liabilities.

28. FINANCIAL RISK MANAGEMENT POLICIES

Water Fund's financial risk management objectives and policies are detailed below:

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in note 2 to the financial statements.

(b) Financial risk management objectives

Water Fund's activities expose it to a variety of financial risks including credit and liquidity risks and the effects of changes in foreign currency. The fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. In the current year the management met and drafted a risk management manual that will guide in the management of the risks affecting the fund.

(c) Credit risk

Water Fund's credit risk is primarily attributable to its liquid funds with financial institutions, staff receivables as well as funds advanced to projects. The credit risk on the liquid funds with financial institutions is low because the counter parties are banks with high credit-ratings. The financial assets are fully performing as the fund continues to enjoy the services secured by these balances. The default rate is low.

The amount that best represents the Fund's maximum exposure to credit as at 30 June is made up as follows:

	Total KShs	Fully performing KShs	Past due KShs	Impaired KShs
Cash at bank	2,774,401,992	2,774,401,992	-	-
Project receivables	1,137,219,478	963,347,604	173,871,874	-
Staff receivables	3,432,697	3,432,697	-	-
Prepayments and other trade debtors	17,404,977	17,404,977	-	-
At 30 June 2025	<u>3,932,459,144</u>	<u>3,758,587,270</u>	<u>173,871,874</u>	<u>-</u>
Cash at bank	3,466,512,035	3,466,512,035	-	-
Project receivables	1,488,100,387	1,310,865,979	177,234,408	-
Staff receivables	807,014	807,014	-	-
Prepayments and other trade debtors	16,752,027	16,752,027	-	-
At 30 June 2024	<u>4,972,171,463</u>	<u>4,794,937,055</u>	<u>177,234,408</u>	<u>-</u>

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. FINANCIAL RISK MANAGEMENT POLICIES (Continued)

(d) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the trustees, who have built an appropriate liquidity risk management framework for the management of WaterFund's short, medium and long-term funding and liquidity management requirements. The WaterFund manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows and developing a risk management policy manual to guide in risk assessment and management in the fund.

The table below analyses the WaterFund's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at year end to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows as the impact of discounting is not significant.

	Less than 1 month KShs	Between 1-3months KShs	Over 5 Months KShs	Total KShs
Trade payables	78,390,394	34,566,147	18,073,448	131,029,989
Withholding tax payable	8,578,717	-	-	8,578,717
Staff leave	-	6,597,424	-	6,597,424
Staff gratuity	-	-	60,036,828	60,036,828
Deferred income	-	-	581,271	581,271
At 30 June 2025	86,969,111	41,163,571	78,691,547	206,824,229
Trade payables	68,549,837	43,329,551	48,700,009	160,579,397
Withholding tax payable	7,922,904	-	-	7,922,904
Staff leave	6,961,364	-	-	6,961,364
Staff gratuity	48,828,636	-	-	48,828,636
Deferred income	-	-	1,243,773	1,243,773
At 30 June 2024	132,262,741	43,329,551	49,943,782	225,536,074

(e) Market risk management

WaterFund takes on exposure to market risk, which is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the fund's surplus or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. Monitoring of market risk is done by management in conjunction with the Board of Trustees. Market risk exposures are measured by the use of sensitivity analyses. The market risk exposure for the Fund relates primarily to currency risk.

Foreign Currency Risk

The fund undertakes certain transactions denominated in foreign currencies mainly the USD and Euro. This results in exposures to exchange rate fluctuations. The Fund does not hedge its foreign currency risk.

In light of the above, any adverse movements in exchange rates may result in either exchange gain or loss, with the latter having a negative impact on earnings, as the Fund reports its financial performance in Kenya Shillings.

19. NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL RISK MANAGEMENT POLICIES (continued)

The carrying amount of the Fund's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

Foreign currency Denominated Balances	2025	2024
NCBA Bank - KfW Phase II Euro	-	82,776
NCBA Bank – BMGF USD	146,185	144,931

Foreign currency sensitivity analysis

The following table demonstrates the effect on the entity's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant. The USD rate used as at June 2025 is 129.23.

	Change in currency rate	Effect on financial performance	Effect on Equity/Net assets
	KShs	KShs	KShs
2025			
USD	10%	1,889,149	1,889,149
2024			
Euro	10%	1,149,480	1,149,480
USD	10%	1,877,252	1,877,252

29. CAPITAL RISK MANAGEMENT

WaterFund manages its funds to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and fund balance.

The capital structure of the WaterFund consists of revenue reserves and unexpended grants. The Fund was not geared as at 30 June 2025 and 30 June 2024 as follows:

	2025 KShs	2024 KShs
Revenue reserve	(238,792,195)	(137,131,444)
Unexpended grants	3,864,544,686	4,746,032,201
Total Funds	3,625,752,491	4,608,900,757
Total Borrowings	-	-

30. Events after the Reporting Period

There were no material adjusting and non- adjusting events after the reporting period.

31. Currency

The financial statements are presented in Kenya Shillings (KShs) rounded to the nearest KShs.

20. APPENDICES

APPENDIX I: – IMPLEMENTATION STATUS OF PRIOR AUDIT RECOMMENDATIONS

S/ No.	Observation by the auditor	Management comments	Status	Responsibility	Time frame
2.0	<p>Issues Raised in the previous Report 2020/2021 not Resolved by Management as Directed by Parliament</p> <p>Parliament had directed the State Department to resolve seven issues which were listed in the report of 2020/2021 report as shown below:</p> <ul style="list-style-type: none"> i. Manguva Community Water and Sanitation Project (FY 2006/207) ii. Questioned costs FY 2013/2014 iii. Outstanding ex-staff debtors FY 2015/2016 iv. Long outstanding advances FY 2015/2016 v. Non-current assets FY 2015/2016 vi. Cash and cash equivalents FY 2015/2016 vii. Information, Communication technology (ICT) policy (FY 2015/2016) <p>Review of records revealed that there was no implementation report provide by the Fund for the implementation of prior years' reports by both the internal and external auditors. It was therefore difficult to ascertain if the Fund implemented the prior year's audit recommendations by the external audit and by the internal auditors which is contrary to section 31(1) of the Public Audit Act, 2015 which requires that within three months after Parliament has debated and considered the final report of the Auditor General and made recommendations, a State Organ or a public entity that had been audited shall, as a preliminary step, submit a report on how it has addressed the recommendations and findings of the previous year's audit.</p>	<p>The management presented the issues raised above to the various Committees of Parliament specifically Public Investment Committee (PIC) and Special Funds Committee which considered WaterFund responses and presented the same to Parliament for consideration and adoption hence closing the matters as per the details below:</p> <p>The National Assembly through the Office of Clerk wrote to WaterFund forwarding its report on the Examination of Financial Statements for State Corporations as presented by Public Investment Committee. REF NA/DLP/TBO/RES.12/2022 dated 22nd June, 2022 on Auditor General Report on Audited Financial statements for the period FY 2004/2026 to FY 2018/2019</p> <p>In addition, the National Assembly through the Office of Clerk wrote to WaterFund forwarding its report on the Examination of Financial Statements for Agricultural Settlement Fund Trustees, Universal Service Fund and Water Sector Trust Fund as presented by Special Funds Committee REF NA/DLP/TBO/RES.01/2020 dated 2nd March, 2020 covering Auditor General Reports for the period ended 30th June, 2017</p>	<p>The matters were considered cleared by Parliament and therefore closed.</p>	-	-

S/ No.	Observation by the auditor	Management comments	Status	Responsibility	Time frame
		It is worth noting that the above issues were cleared up by Parliament as per the reports shared with WaterFund as referenced above.			
2.1	<p>Manguva Community Water and Sanitation Project (FY 2006/2007)</p> <p>The Committee heard that on 1st August 2005, the Fund signed a funding agreement with an international water and sanitation Non-Governmental Organization as the implementing agency to finance a water project situated in Mwingi District which fell within Tana Water Services Board area of jurisdiction. The implementing agency was to undertake and supervise the physical works for the dam construction from 23rd March to 23 September 2006. Records held by the Fund indicated that the project was expected to cost Kshs.28,905,520 out of which Kshs.27,327,520 was to be financed by the Fund and the balance of Kshs.1,578,000 by the local community. As at 30th June 2007, a total of Kshs.19,585,543 had been disbursed by the Fund as part of the financing cost.</p> <p>However, a site visit to the project on 10th October 2007 established that the dam did not physically exist despite the Fund having disbursed Kshs.19,585,843 towards the project. It was explained that the dam was, on 11th November 2006, washed away by heavy rains due to the poor workmanship.</p> <p>A dam expert commissioned to determine the cause of dam failure recommended that the dam be redesigned and reconstructed and supervised by licensed experienced dam contractors and designers. The Fund thereafter terminated the funding agreement and demanded a refund of Kshs.9,163,479 which had not been utilized in the project. The implementing agency had not refunded the unaccounted funds amounting to Kshs.9,163,479 and the matter had been referred to a lawyer for necessary action. In these circumstances, it was not possible</p>	<p>The matter was forwarded to Ethics and Anti-Corruption Commission (EACC), and investigation was undertaken and matter forward to Office of Director of Public Prosecution. DPP responded to EACC and recommended the matter for closure as per letter REF EACC/6/8/3/VOL.II(3) dated 12th February, 2016 from EACC.</p>	<p>The matter was considered closed by the EACC and thus we closed at WSTF.</p>	-	-

S/ No.	Observation by the auditor	Management comments	Status	Responsibility	Time frame
	to confirm that the fund obtained value for its money in this project.				
2.2	<p>Questioned costs FY 2013/2014</p> <p>During the year under review, there were questioned costs from past audits amounting to Kshs.43,865,465 which had not been cleared. Though the management had disclosed these costs as contingent liabilities in the financial statements, it was not clear whether these would eventually crystallize.</p>	<p>Management continues to institute actions on the resolution of Questioned costs with the entities concerned including issuance of demand letters for refunds as per the attached. These actions by management has borne fruits with some entities repaying the questioned cost.</p> <p>Matter was presented to the Special Funds Committee of the National Assembly for deliberation with a presentation to Parliament.</p> <p>Parliament has since shared its report with WaterFund vide letter REF NA/DLP/TBO/RES.01/2020 dated 2nd March, 2020 covering Auditor General Reports for the period ended 30th June, 2017.</p>	<p>The management draws action plans to assist in the follow up of unresolved queries. These plans are reviewed quarterly.</p> <p>For the questioned costs from past audits as from the FY 2014/2015 and before have all been resolved.</p>	GM-Programmes	Continuous
2.3	<p>Outstanding ex-staff debtor's FY 2015/2016</p> <p>Included in the receivables from non-exchange transactions balance of Kshs.572,000,817 as at 30 June 2016 was an amount of Kshs.1,776,342 being staff receivables of which ex-staff owe the Fund un-surrendered imprest of Kshs.329,169. The recoverability of the balance was remote and management had not explained how the ex- staff were cleared before surrendering the said imprest.</p>	<p>The management presented the outstanding ex-staff receivables to the Public Investment Committee of Parliament for consideration and a report by Parliament approving write off through letter REF NA/DLP/TBO/RES.12/2022 dated 22nd June, 2022 on Auditor General Report on Audited Financial statements for the period FY 2004/20026 to FY 2018/2019 was shared with WaterFund.</p>	<p>The management has expensed off the outstanding staff receivables.</p> <p>The matter is therefore considered as closed.</p>	-	-

S/ No.	Observation by the auditor	Management comments	Status	Responsibility	Time frame
		The management has since expensed off the outstanding staff receivables as per the attached Staff receivable ledgers.			
2.4	<p>Long outstanding advances FY 2015/2016</p> <p>Included in the receivables from non-exchange transaction balance of Kshs.572,000,817 as at 30 June 2016 were long outstanding advances to the project implementing agencies amounting to Kshs.13,682,100. The amount comprised of advances to projects which have since come to an end. The recoverability of the outstanding amount was doubtful. In the circumstances, the recoverability of the receivables from non-exchange transaction balance of Kshs.572,000,817 as at 30 June 2016 could not be ascertained.</p>	The management continues to engage with the entities on the long outstanding advances as per the demand letters issued with the aim of recovering the balances.	The WSTF is following up on the long outstanding advances.	GM, Corporate Services, GM Programmes	31 st Dec 2025
2.5	<p>Non-current assets FY 2015/2016</p> <p>The non-current assets balance stood at Kshs.42,537,913 as at 30 June 2016. However, the Fund did not maintain an up-to-date fixed asset register as at 30 June 2016. Further, the audit revealed cases of assets disposed-off several years ago still being reflected in the assets register, some assets without code numbers in the system and some assets were not tagged.</p> <p>Additionally, assets worth Kshs.59,891,611 as at 30 June 2016 were fully depreciated and were therefore not depreciated during the year contrary to IPSAS. Management had not put in place a policy to guide on how to deal with such assets in terms of either revaluing them or disposing them. In addition, though notes to the financial statements stated that intangible assets were amortized on a straight-line basis, the fund did not amortize its intangible assets on that basis, since it would have resulted to Kshs.4,062,976 instead of Kshs.2,928,926 currently used.</p> <p>In view of the forgoing, it was not possible to ascertain the correctness and completeness of the non-current assets balance of Kshs.42,537,913 as at 30 June 2016.</p>	The management has tagged all its assets and continues to maintain up-to-date assets register in line with IPSAS as per the attached asset tag report. In addition, the management developed and reviewed the Finance Procedures manual that includes asset management policy as attached.	<p>The WaterFund has an up-to-date fixed asset register. All assets have also been tagged and the code numbers on the tags make part of the entries in the asset register.</p> <p>A reviewed asset management policy is part of the Finance Procedures Manual. This provides guidance on asset management as per the IPSAS guidelines.</p>	-	-

S/ No.	Observation by the auditor	Management comments	Status	Responsibility	Time frame
			The matter has since been considered closed.		
2.6	<p>Cash and cash equivalents FY 2015/2016</p> <p>Included in the cash and cash equivalents balance of Kshs.736,802,229 as at 30 June 2016 was the cash book balance of Kshs.2,213,520 for the dormant National Bank recurrent account. However, management did not prepare bank reconciliation statement for the bank account during the period. Further, management had not explained why it retained Kshs.2,213,520 in a dormant account for over three (3) years without earning interest. Consequently, it was not possible to ascertain the accuracy and completeness of cash and cash equivalents balances of Kshs.736,802,229 as at 30 June 2016.</p>	The management undertakes bank reconciliations on a monthly basis with all accounts being up to date as per the attached monthly reconciliations.	The WSTF does bank reconciliations on a monthly basis without exception. The matter has been considered closed.	-	-
2.7	<p>Information, Communication, Technology (ICT) policy (FY 2015/2016)</p> <p>The Fund ICT operations were based on a 2012 ICT policy which was considered obsolete considering dynamic changes in the sector. Further, the IT controls on password settings, system audit logs, sharing of system files/ updates and monitoring of super users' activities were not functional. Lack of control increases the risk of data integrity. In addition, use of dormant accounts must be approved as well as system changes and or upgrades.</p>	The management has developed a new ICT policy that is regularly reviewed to accommodate the emerging issues with regards to ICT as attached. Additionally, the management has instituted measures of IT controls that safeguards sharing of documentation with password protection.	A new ICT policy has been effected after being approved by the Board of Trustees. This policy has taken into consideration recommendations from various stakeholders and experts including the external auditors and the ICT Authority.	-	-
3.0	<p>Failure to Remit Withholding TAX</p> <p>The statement of financial position reflects trade and other payables of Kshs.175,463,665 as disclosed under Note 22 to</p>	The management has provided for the outstanding KRA payment.	The management has provided for	-	-

S/ No.	Observation by the auditor	Management comments	Status	Responsibility	Time frame
	<p>the financial statements which includes withholding tax payables totaling to Kshs.7,922,904 relating to withholding taxes on interest income earned from project accounts that was not remitted to KRA. Failure to remit withholding taxes on interest income deducted by the payee at 15% and remit to KRA by 20th of the following months contravenes the Income Tax Act and could result in penalties and interest being levied by KRA.</p> <p>In the circumstances, Management was in breach of the law.</p>		the outstanding KRA payment.		
4.0	<p>Long Outstanding Receivables</p> <p>The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.1,328,425,020 as disclosed under Note 16 to the financial statements which includes Kshs.177,234,408 that has been long outstanding with no movement during the year under review. Though these advances were assessed as doubtful and provided for in the financial statements, adequate control measures and safeguards to the signed agreements to repay the debts were not provided for audit.</p> <p>In the circumstances, adequate, control measures and recoverability of the receivables from non-exchange transactions balance of Kshs.177,234,408 could not be confirmed.</p>	The management has since issued demand letters to the entities with the long outstanding receivables indicating recovery measures as per attached correspondences.	The WSTF is still following up on the outstanding receivables, with an action plan having been drawn to track the status.	GM, Corporate Services, GM Investments	31 st Dec 2025
5.0	<p>Long Outstanding Donor Payables</p> <p>The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.175,463,665 and as disclosed in Note 22 to the financial statements. Review of documents provided for audit revealed the Fund implemented a project financed by UNICEF. As at 30 June 2019, the project had an unexpended grant amount of Kshs.14,682,006 that had not been utilized or refunded to UNICEF subsequently and hence was still in the Fund books</p>	The Hulugho reverse Osmosis project was funded through Government of Kenya however, due to development budget rationalization and insecurity in the project area, the management presented the project to the Board for guidance for which the Board directed that the project be implemented upon availability of funds and as when the security situation improves as per Board	For Hulugho the Board resolved to cancel the contract due to security reasons as the project could not be fully implemented. UNICEF has communicated that	-	-

S/ No.	Observation by the auditor	Management comments	Status	Responsibility	Time frame
	<p>as at 30 June 2024. In addition, Kshs.5,249,200 relating to the Hulugho Reverse Osmosis Water Project financed under the GoK Priority project has been outstanding since 30 June 2020 without subsequent expenditure.</p> <p>In the circumstances, the completeness and accuracy of the trade and other payables from exchange transactions balance of Kshs.175,463,665 could not be confirmed.</p>	<p>Committee meeting held on 13th April, 2023 under agenda Min/37/ARC/04/202-2023.</p> <p>Management wrote to UNICEF (Ref WSTF/7/FIN/VOL.VII/66/ (50) dated 27th September 2023 (copy attached for ease of reference) seeking reconciliation of accounts and records to aid in project closure. UNICEF is yet to respond to the correspondence despite several management follow-up efforts. The balances are still held in the WSTF accounts.</p>	<p>WaterFund does not owe any outstanding balance to UNICEF.</p> <p>The matter is now closed.</p>		
6.0	ICT Policy Deficiencies	<p>This financial year 2023/24, the management commenced review of the ICT policy that incorporates the above recommendations. The ICT policy was approved by the Board in May, 2024 (see attached policy document). The approved policy has sections that clearly define controls, processes, and procedures in regard to network administration, backup management and user creation in application systems.</p>	<p>The new ICT policy has been effected.</p> <p>The matter is now closed.</p>	-	-
7.0	Password Deficiencies in the Aren Register Application	<p>Aren password configuration was enhanced by the vendor in the FY2022/23, and now follows password complexity requirements. Password history and lockout threshold have not been configured on Aren Register and Management will propose these changes to the Aren vendor for</p>	<p>Proposed changes have been effected.</p> <p>Matter is now closed.</p>	-	-

S/ No.	Observation by the auditor	Management comments	Status	Responsibility	Time frame
	<p>unauthorized access to the system therefore exposing the Fund to possible loss or manipulation of its data.</p> <p>In the circumstances, the controls in place to prevent unauthorized access to the system could not be confirmed.</p>	consideration in future versions of the application.			
8.0	<p>Lack of IT Training</p> <p>There is an IT skills gap analysis performed every year. This forms the IT training plan for the financial year. However, we noted the IT trainings indicated in the IT training plan were not carried out in the period under review.</p>	Management through the HR function will rationalize the training proposals to ensure that IT staff are trained as appropriate.	Some staff have been trained during the financial year. Other will be trained in the current year.	Manager HR & Admin, Manager, ICT	31 st Dec 2025
9.0	<p>Lack of independent Vulnerability Assessment and Penetration Testing</p> <p>There was an internal audit plan documented for the year 2023/2024. The plan scoped in ICT reviews which included: confirming status of updating ICT policies, review of deactivation of user accounts and assessing ICT investment against the approved budget.</p> <p>However, we noted that security reviews such as vulnerability assessment and penetration testing (VAPT) and core infrastructure reviews were not included in the scope. VAPT was not performed in the period under review.</p>	Management will consider having security reviews such as vulnerability assessment and penetration testing (VAPT) and core infrastructure reviews as part of the scope of ICT reviews.	The management will have VAPT as part of its plan in the FY 2025/26.	Manager, ICT	30 June 2026
10.0	<p>Gaps in Data Backup and Disaster Recovery</p> <p>The organization has a Business Continuity & Disaster Recovery policy in place which provides an approach for responding to unplanned incidents that threaten a company's IT infrastructure, including hardware and software, networks, procedures and people. However, we noted the following gaps:</p> <p>i. The disaster recovery plan does not provide guidance on periodic disaster recovery (DR) testing. Details about the scope, frequency, roles and responsibilities for DR testing have not been outlined in the plan.</p>	The Business Continuity and Disaster Recovery Plan will be updated during the next review to address disaster recovery (DR) testing requirement, including the scope and frequency of DR testing. Management had already budgeted this FY for a DR warm site and this will be followed up to ensure it is set up. Data backup for active directory replicates automatically across AD servers. Management deems this sufficient for now. However, when the DR warm site is	With availability of funds during the FY 2025/26 a DR warm site will be set up.	Manager, ICT	31 Dec 2025

S/ No.	Observation by the auditor	Management comments	Status	Responsibility	Time frame
	<p>ii. There were no disaster recovery (DR) tests performed in the period under review.</p> <p>iii. There is no data backup for Active Directory.</p> <p>In the circumstances, the Fund risks losing its data in case of a disaster.</p>	<p>set up, it will also be used for AD backup.</p>			
11.0	<p>Non-compliance with PSC Act on acting roles</p> <p>In the period under review, we noted the Principal Monitoring and Evaluation Officer, and the Senior Program Officer had been acting in their capacities for a period exceeding six months.</p>	<p>Principal Monitoring and Evaluation Officer The case was presented to the Board for confirmation after he had acted for more than six months. The case was presented for confirmation but the board declined and recommended for competitive recruitment with approval from relevant government agencies.</p> <p>The National Treasury Circulars on budget preparation guidelines prohibited recruitment of staff. The austerity measures through Circular No. 8/23 from National Treasury and Economic Planning referenced ES01/03'U' (15) dated 7th August 2023 on guidelines for the preparation of FY 2023-2024 and medium-term budget prohibited recruitment.</p> <p>Secondly, the WaterFund HR policy of 2019 provides for acting in a position for 6 months or until the position is substantially filled. This is contained in section 4.5.5 as per the attached extract from policy.</p> <p>Senior Programme officer The officer has acted for more than 6 months. This is because he is a</p>	<p>The management will follow up on the matter.</p>	<p>Manager, HR</p>	<p>31 Dec 2025</p>

S/ No.	Observation by the auditor	Management comments	Status	Responsibility	Time frame
		<p>programme based (EU-CPIRA) staff with a fixed employment contract based on project period. The EU-CPIRA programme was supposed to end in February 2024 yet he was appointed with effect from 1st December 2023 <i>as per attached copy of acting appointment letter</i>. It was extended to August 2024. For recruitment of the substantive position, the time taken for recruitment process would have been overtaken by events to fill the position.</p> <p>In reference to the WSTF HR Policy section 4.5.5 quoted above, an officer may act for six months or until the position is filled.</p> <p>The management acknowledges the finding and therefore staff salary increments for the past two years had not been implemented due to final challenges faced by the Fund. This was due PE budget cuts by the NT that affected implementation. The same was presented to the Board on 13th February, 2024. The board deliberated and resolved to set aside the commitment to increase staff salary as previously indicated in the respective employment contracts until the Government avails resources which be paid in arrears.</p>			
12.0	<p>Non-compliance with contractual provisions in the staff contracts</p> <p>In the period under review, we noted that all the staff had not had annual salary increases as stipulated in the signed staff contracts.</p>	<p>The National Treasury through its circulars on preparation of budget and implementation issued circulars guiding state corporations to seek approval from the National Treasury on salary</p>	<p>The management will follow up on the matter.</p>	<p>Manager, HR & Admin</p>	<p>31 Dec 2025</p>

S/ No.	Observation by the auditor	Management comments	Status	Responsibility	Time frame
		adjustments among other issues pertaining to staff costs. The National Treasury Circular No. 10/2024 on implementation of budget FY2024/2025 and Circular No. 08/2023 on budget preparation for the same year guided that Agencies are required to confirm availability of funds and to obtain approval on the same. At the same time, WaterFund has had a reduction of 30% of its recurrent budget.			



Mr. Willis Ombai
 Chief Executive Officer
 Date

APPENDIX II: PROJECTS IMPLEMENTED BY WATER SECTOR TRUST FUND, FUNDED BY DEVELOPMENT PARTNERS AND THE GOVERNMENT

Project title	Project Number	Donor	Period/ duration (Year)	Donor commitment Million (KShs)	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
Up-scaling of Basic Sanitation for the Urban Poor (UBSUP)	1109104900	Development Bank of Germany (KfW) and Gate Foundation	13	942	Yes	Yes
Water Sector Development (Support WSTF)	1109100900	Development Bank of Germany (KfW)	8	1,234	Yes	Yes
Kenya Urban Water and Sanitation OBA Project	1109101900	World Bank	7	1,185	Yes	Yes
Water Supply and Sanitation for the Urban Poor -KfW-Phase IV	1109105000	German Development Bank-KfW	4	1,265	Yes	Yes
Ending drought Emergencies Support to drought Risk Management	1109112300	European Union	8	2,200	Yes	Yes
Water and Sanitation Programme (PIF)		Government of Finland	6	2,800	Yes	Yes
Sustainable Management and Access to Water and Sanitation in the ASALS	1109122600	Royal Danish Embassy-DANIDA	5	1,210	Yes	Yes
Horn of Africa for Ground Water Resilience	1109126003	World Bank	5	8,000	Yes	Yes

APPENDIX III: STATUS OF PROJECTS COMPLETION

No	Project	Total programme Cost (KShs '000)	Total expended to date (KShs '000)	Completion % to date	Budget (KShs '000)	Actual Receipt (KShs '000)	Sources of funds
1	1109104900 Up-scaling of Basic Sanitation for the Urban Poor (UBSUP)	1,242	990	99%	1,242	1,232	Development Bank of Germany (KfW) and Bill Malinda Gates Foundation
2	1109100900 Water Sector Development (Support WSTF)	1,707	1,397	98%	1,707	1,519	Development Bank of Germany (KfW)
3	1109105000 Water Supply and Sanitation for the Urban Poor -KfW-Phase IV	1,771	829	67%	747	879.6	Development Bank of Germany (KfW)
4	1109112300 Ending drought Emergencies Support to drought Risk Management	2,653	1,631	99%	2,653	1159.9	European Union
5	1109114201 The Saudi Programme for Drilling of Wells and Rural Development in Africa	600	22	10%	600	48	Government of Kingdom of Saudi Arabia
6	Water and Sanitation Programme (PIF)	3,300	30	0%	3,300	0	Government of Finland
8	Sustainable Management and Access to Water and Sanitation in the ASALs (SWASAP)	1,400	771	92%	1,400	905	Royal Danish Embassy-DANIDA
9	Horn of Africa for Ground Water Resilience	8,000	568	10%	8,000	637.6	World Bank

APPENDIX IV – TRANSFERS FROM OTHER GOVERNMENT ENTITIES

The table below shows funds received during the year from the Government of Kenya and Development Partners.

Name of the MDA/ Donor Transferring the funds	Date received as per bank statement	Nature:	Total Amount - KShs	Statement of Financial Performance	Where Recorded/ recognized				Total Transfers during the Year
					Capital Fund	Deferred Income	Recei vables	Others – Accounted /Expensed	
MOWSI	30.08.2024	Recurrent	13,133,333	13,133,333	-	-	-	13,133,333	13,133,333
MOWSI	23.09.2024	Recurrent	13,133,333	13,133,333	-	-	-	13,133,333	13,133,333
MOWSI	28.10.2024	Recurrent	13,133,333	13,133,333	-	-	-	13,133,333	13,133,333
MOWSI	18.11.2024	Recurrent	13,133,333	13,133,333	-	-	-	13,133,333	13,133,333
MOWSI	19.12.2024	Recurrent	13,133,333	13,133,333	-	-	-	13,133,333	13,133,333
MOWSI	09.01.2025	Recurrent	13,133,333	13,133,333	-	-	-	13,133,333	13,133,333
MOWSI	10.02.2025	Recurrent	13,133,333	13,133,333	-	-	-	13,133,333	13,133,333
MOWSI	12.03.2025	Recurrent	13,133,333	13,133,333	-	-	-	13,133,333	13,133,333
MOWSI	03.04.2025	Recurrent	13,133,333	13,133,333	-	-	-	13,133,333	13,133,333
MOWSI	14.05.2025	Recurrent	13,133,333	13,133,333	-	-	-	13,133,333	13,133,333
MOWSI	10.06.2025	Recurrent	13,133,333	13,133,333	-	-	-	13,133,333	13,133,333
MOWSI	30.06.2025	Recurrent	13,133,333	13,133,333	-	-	-	13,133,333	13,133,333
Sub-total			157,599,996	157,599,996	-	-	-	157,599,996	157,599,996
MOWSI	25.09.2024	Development	11,250,000	11,250,000	-	-	-	11,250,000	11,250,000
MOWSI	04.10.2024	Development	11,250,000	11,250,000	-	-	-	11,250,000	11,250,000
MOWSI	20.11.2024	Development	11,250,000	11,250,000				11,250,000	11,250,000
MOWSI	22.11.2024	Development	11,250,000	11,250,000				11,250,000	11,250,000
MOWSI	15.01.2025	Development	11,250,000	11,250,000				11,250,000	11,250,000
MOWSI	19.05.2025	Development	33,714,666	33,714,666				33,714,666	33,714,666

Water Sector Trust Fund
Annual Report and Financial Statements
For the year ended 30 June 2025

Name of the MDA/ Donor Transferring the funds	Date received as per bank statement	Nature:	Total Amount - KShs	Statement of Financial Performance	Where Recorded/ recognized				Total Transfers during the Year
					Capital Fund	Deferred Income	Recei vables	Others – Accounted /Expensed	
MOWSI	17.06.2025	Development	8,333,332	8,333,332				8,333,332	8,333,332
Sub-total			98,297,998	98,297,998	-	-	-	98,297,998	98,297,998
World Bank - CLSG		Development	-	283,821,410	-	2,699,645,990	-	283,821,410	2,983,467,400
Sub-total			-	283,821,410	-	2,699,645,990	-	283,821,410	2,983,467,400
World Bank - HOA	14.02.2025	Development	479,577,240	158,808,860	-	258,963,743	-	158,808,860	417,772,603
Sub-total			479,577,240	158,808,860	-	258,963,743	-	158,808,860	417,772,603
DANIDA -SWASAP	17.03.2025	Development	500,000,000	251,389,334		48,610,666		251,389,334	300,000,000
Sub-total			500,000,000	251,389,334	-	48,610,666	-	251,389,334	300,000,000
EU CPIRA	22.10.2024	Development	29,916,188	493,290,033	-	403,605,882	-	493,290,033	896,895,915
Sub-total			29,916,188	493,290,033	-	403,605,882	-	493,290,033	896,895,915
KfW Phase IV	13.09.2024	Development	91,008,783	328,165,256	-	49,049,584	-	328,165,256	377,214,840
	23.06.2025	Development	106,400,944	-	-	-	-	-	-
Sub-total			197,409,727	328,165,256	-	49,049,584	-	328,165,256	377,214,840
Total			1,462,801,149	1,771,372,887	-	3,459,875,865	-	1,806,168,843	5,266,044,708

APPENDIX V: REPORTING OF CLIMATE RELEVANT EXPENDITURES

Project Name	Project Description	Project Objectives	Project Activities					Source Of Funds	Implementing Partners
				Q1	Q2	Q3	Q4		
Ending Drought Emergencies: Climate Proofed Infrastructure Programme (EDE-CPIRA)	Ending Drought Emergencies: Climate Proofed Infrastructure for Improved Water Supply and Sanitation in the Arid and Semi -Arid Land (ASAL) areas.	Sustainable management of Water Resources in ASALs is improved	Financing of WRUAs to undertake catchment conservation activities and implement climate proofed water resources infrastructure projects	12	21	7	0	European Union/ GoK at KShs. 39.32 million for FY 2023/2024.	WRUAs/WSPs (Water Service Providers)