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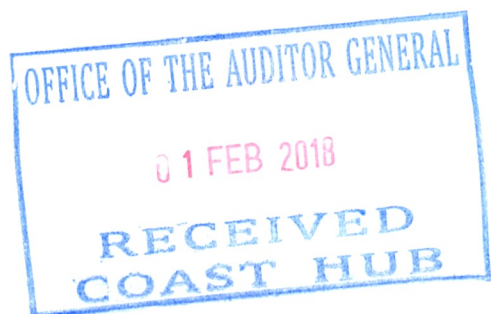
**THE FINANCIAL STATEMENTS OF
COAST WATER SERVICES BOARD**

**FOR THE YEAR ENDED
30 JUNE 2017**

COAST WATER SERVICES BOARD



ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017



COAST WATER SERVICES BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

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BOARDS INFORMATION

Establishment

The Coast Water Services Board is a corporate body established under the Provisions of the Water Act 2002 of the laws of Kenya and it is domiciled in Kenya.

Registered Office and Principal Place of Business

Mikindani Street
Off Nkrumah Road
P.O Box 90417,80100
MOMBASA

Bankers

KCB Bank
Treasury Square
P.O. Box 90254, 80100
MOMBASA

Co-operative Bank
Digo Road
P.o Box
Mombasa

Consolidated Bank of Kenya
Nkrumah Road
P.o Box
Mombasa

Independent Auditors

Auditor - General
Anniversary Towers
P.O Box 30084-00100
NAIROBI

Principal Legal Advisor

The Attorney - General
State Law Office
Harambee Avenue
P .O BOX 40112
City Square 00200
NAIROBI

DIRECTORS DURING THE FINANCIAL YEAR

CHAIRMAN

Granton Samboja
P.o box
Nairobi

Up to 6.2.2017

Mrs. Sureya Hersi
P. O. Box 848-00621
NAIROBI

Acting. Chairman From February 2017

MEMBERS

Mr .Gharib S. Gharib
P. O. Box 97-80500
LAMU

From 17th April 2015

Mrs Jane M. kibati
P. O. Box 379-00517
NAIROBI

Up to 19.9.2016

Faustin M. Mghendi
P.O Box 204-80300
VOI

From 17th April 2015

Hon. Joseph Kingi Kahindi
P.O Box 1004
KILIFI

Up to 6.2.2017

Mrs. Mary Chiriba
P.O Box 275-80108
KILIFI

From 17th April 2015

Dr Mathis Kai
P.O Box
Malindi

From 3rd December 2015

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Permanent Secretary
Ministry of Water and Irrigation
P.O Box 49720
NAIROBI

Permanent Secretary
The National Treasury
P. O Box 30007
NAIROBI

Joseph Omwange
Ag.Chief Executive Officer
P.O Box 90417
MOMBASA

Up to 30.4.2017

Jacob Torutt
Chief Executive Officer
P.o Box 90417
Mombasa

MANAGEMENT TEAM

- | | | | |
|----|-----------------------|---|-------------------------|
| 1. | Mr. Jacob Torrut | - | Chief Executive Officer |
| 2. | Mr. Martin Tsuma | - | Technical Manager |
| 3. | Mrs. Harriet Ngeera | - | Finance Manager |
| 4. | Mr. Simon Charo | - | Human Resource Manager |
| 5. | Miss .Fatma Gakuria | - | Corporate Manager |
| 6. | Mr. Alex Masake | - | Company Secretary |
| 7. | David Kanui | - | Project Engineer |
| 8. | Mr. Stanstanslus Jira | - | procurement Manager |

CHAIRMANS STATEMENT

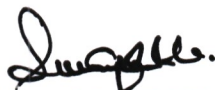
The mandate of CWSB is to efficiently and economically provide water and sanitation services within its area of jurisdiction as provided by section 53(1) of the Water Act 2002. One of the priorities of the Kenya Government within the overall policy framework in the Kenya Vision 2030 is increasing accessibility to sustainable, quality and affordable water services. In performing its mandate CWSB has continued to improve the water situation in the region.

The future seems promising after the finalization of the Water Supply Master Plan for Mombasa and other towns within the Coast Region. This will see the gap between demand and supply tremendously narrowed.

The government has increasingly been funding the drought mitigation projects to counter the adverse effects generated by the vagaries of our Kenyan climate. Though the UNICEF programme that has been successfully implemented since 2008 is coming to an end we are remain hopeful that other donors will come on board to fund other stand-alone programs in drought hit areas and those without piped water.

Coast Water Services Board have been implementing the strategic plan and they are now revising the next phase 2019/2022

On behalf of the Board of Directors, I would like to extend our sincere gratitude to all our stakeholders who have reposed great trust in us and in our Work. I also thank the various central and county governments for supporting us in our activities and helping us achieve our mandate.



SUREYA ALI HERSI
ACTING. CHAIRPERSON

REPORT OF THE CHIEF EXECUTIVE OFFICER

During the year under review, strategies aimed at securing adequate water supply, expanding water access to Coast region consumers, improving the quality of supply and service to our customers, as well as the financial performance, took the centre-stage of our operations. Accordingly, the Board fast tracked a World Bank funded project (WaSSIP-AF) investment activities with an aim of raising the production and distribution

Financing

To meet our strategic objectives and capacity expansion plan, we have continued to engage various development financial institutions to acquire affordable long-term financing to fulfil CWSB's vision of providing quality water and sewerage services. In this regard we wish to record our appreciation to the Government for its continued support to secure concessional loans from the development Partners.

Outlook

I am greatly encouraged as I reflect on the strides we have made this year, and the pace at which they have been achieved. We shall continue implementing the Water Supply Master Plan for Mombasa and other towns within the Coast Region. This will see the gap between demand and supply tremendously narrowed.

I extend my appreciation to the Government including National Treasury, the National Assembly and our parent Ministry, the Ministry of Environment, Water and Natural Resources for their continued support and insights. I would also like to thank the CWSB Board of directors and the staff and management for their determination and commitment to the company.

Above all, I extend my thanks to all staff of CWSB, WSPs and the county water officers who have made it possible to keep the water flowing and are continuously working to ensure we bring more water projects in the pipeline. Over the next year, Kenya will rely on this highly talented team to use all the skills and resources at our disposal to ensure that we meet our targets.


JACOB TORUTT

CHIEF EXECUTIVE OFFICER

CORPORATE GOVERNANCE STATEMENT

Coast Water Services Board is committed to the values and principles of good corporate governance. Good Corporate governance requires that The Board of Directors governs the State Corporation with integrity and enterprise in a manner that entrenches and enhances its mandate.

Board of Directors

The Board of Directors exercises leadership, enterprise, integrity and judgment in directing Coast Water Services Board. The Board is mandated with determining the purpose and values of coast Water Services Board, the strategy to achieve that purpose, and the implementation of its values.

The Board of Directors is expected to enhance the corporate governance practices in running of coast Water Services Board and to bring the level of governance in the corporation in line with international standards. The essence of corporate governance is to protect stakeholder interests including the Government, water services providers during the transition period, consumers and the communities during the transition period.

The Board of Directors has been trained on Corporate Governance and procurement procedures to ensure that the board is run effectively and efficiently.

Role of the Chairperson and Chief Executive

Local and international best practices require a separation of the roles of the Board and the Management.

The Board is headed by the chairperson who is appointed by the Cabinet Secretary in charge of Environment Water and Natural resources under the Water Act 2002 for a period not exceeding three years as specified in the instrument of his appointment and is eligible for reappointment from time to time. All the directors are also appointed by the Cabinet Secretary in charge of Environment Water and Natural resources according to the Water Act 2002.

COAST WATER SERVICES BOARD
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The responsibility for execution of the Board's policies and resolutions lies with the management headed by the Chief Executive Officer. The Chief Executive Officer's role is to provide the strategic leadership for the organization and act as the link between staff and the Board of Directors.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

At Coast Water Services Board, we are committed to conducting our business in a socially responsible and ethical manner. We recognize our responsibility to contribute positively to the community that supports us.

Coast Water acts beyond its legal obligations and integrates social, environmental and ethical concerns into business process. It recognizes our corporate and social responsibilities to our employees, customers and suppliers and ensures that Coast Water is committed to conducting business in a way which will achieve sustainable growth, in line with legal and moral obligations. We aim to achieve our business objectives in a caring and responsible manner taking into account economic, social and environmental impacts.

Through stakeholder engagement, we have listened to and talk with employees, customers, investors, regulators, suppliers, Non-governmental Organizations (NGOs) and community representatives, who have helped us to identify and tackle our key issues and ensure that we are dealing with what matters most to our business and those involved with it.

Coast Water has re-considered its CSR priorities and further structured the approaches to three principal areas that this policy will focus on:

- **Environment:** Taking good care of our planet, Climate change, Health and Hygiene, Water and Waste Management and Sustainability.
- **Society:** Taking good care of our customers, colleagues (employees), communities, work and neighbors. This also includes offering scholarships to students in our area of jurisdiction and employees
- **Business:** Taking good care as we go about our business (sourcing, supply, engagement)

REPORT OF DIRECTORS

The Directors submit their report together with the audited Boards financial statements for the year ended 30 June 2017 which show the state of the Corporation's affairs.

Activities

The core business of the parastatal continues to be the Bulk production and distribution of water to the Water Service Providers who sale to the final consumers on retail and construction and rehabilitation of new and old water infrastructure in the Coast Region.

Results

The results of the 2016/2017 financial year's performance are set out on pages 15-16. Investment Activities which involve the construction and rehabilitation of water sources and infrastructure are usually funded by the government and donors while the recurrent expenditures are met from funds generated by the board.

Directors

The members of the Board of Directors who served during the year are shown on page 4 and 5. In accordance with regulations given by Water Regulatory Board and State Corporation guidelines directors serve for a period of 3 years that can be renewed.

Auditors

The Auditor General is responsible for the statutory audit of the Boards books of accounts in accordance with Sections 35 of the Public Audit Act, 2015, which empowers the Auditor-General to nominate other auditors to carry out the audit on his behalf. This year's financial statements will be audited by Auditor General Kenya.

STATEMENT OF BOARD MEMBERS RESPONSIBILITIES

The Board Members are required to prepare financial statements which give a true and fair view of the state of affairs of the Board as at the end of each financial year and of its surplus or deficit for that year. The Board Members are required to ensure that the Board maintains proper accounting records which disclose, with reasonable accuracy, the financial position of the Board. They are also responsible for safeguarding the assets of the Board.

The Board Members accept responsibility for annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with International Public Sector Accounting Standards - Accrual

The Board Members are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Coast Water Services Board as at 30th June 2016 and of its surplus for the year then ended. The Board Members further confirm the accuracy and completeness of the accounting records maintained by the Board which have been relied upon in the preparation of financial statements, as well as adequacy of the internal controls.

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

This statement is approved by the Board Members and is signed on their behalf by:


SUREYA ALI HERSI
ACTING CHAIRPERSON

Date 25/1/2018


Mr. JACOB TORUTT
CHIEF EXECUTIVE OFFICER

Date 25/1/2018

REPUBLIC OF KENYA

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E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COAST WATER SERVICES BOARD FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Coast Water Services Board set out on pages 15 to 31, which comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Coast Water Services Board as at 30 June 2017, 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, 2002.

In addition, as required by Article 229(6) of the Constitution, except for the matter described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Property, Plant and Equipment - Excluded Assets

As previously reported, the property, plant and equipment balance of Kshs.2,862,504,166 as at 30 June 2017 (2015/2016 – Kshs.1,356,447,793) excludes assets of undetermined value transferred to the Board from the Ministry of Water and Irrigation, and National Water Conservation and Pipeline Corporation pursuant to Legal Notice No.101 of 12th August, 2005. Further, the land and office buildings acquired while undertaking various Water and Sanitation Services Improvement Project (WaSSIP) and institutional projects such as Mkanda Dam of at least 53.79 hectares and acquired at a

Report of the Auditor-General on the Financial Statements of Coast Water Services Board for the year ended 30 June 2017

cost of Kshs.10,832,423 have been excluded in these financial statements and have also not been updated in the fixed assets register. In addition, scrutiny of land status report revealed that approximately more than one third of Coast Water Services Board land has been encroached by private developers, including 22 acres of land occupied by staff houses in Shanzu, Mombasa. The land has been apportioned into 42 title deeds and issued to private developers. This is an indicative that the management has not played its custodial role and the Board's assets have not been properly safeguarded in accordance with Section 72(1) (a) (b) of Public Finance Management Act, 2012 which states that the Accounting Officer for National Government entity shall be responsible for the management of the entity's assets and liabilities and manage those assets in a way which ensures that the national entity achieves value for money in acquiring, using and disposing of those assets.

In the circumstances it has not been possible to ascertain the accuracy, validity and completeness of Kshs.2,862,504,166 as at 30 June 2017 and that the property, plant and equipment balance is fairly stated.

2. Trade and Other Receivables

As previously reported, the trade and other receivables balance of Kshs.3,100,800,147 as at 30 June 2017 (2015/2016 Kshs.2,532,953,026) includes Kshs.5,386,485 relating to overdue outstanding imprest. As reported previously, no reason has been provided for the failure to have the receivables recovered. Further and as previously reported, the Water Service Providers balances reflected in the Board's financial statements as at 30 June 2017 differ by Kshs.720,375,283 from the books of the respective water service providers as detailed below:

Water Service Provider	Balance as per Board (Kshs)	Balance as per Water Company (Kshs)	Difference (Kshs)
Mombasa Water and Sewerage Company	1,319,455,995	1,079,672,847	239,783,148
Malindi Water and Sewerage Company	466,207,577	414,349,446	51,858,131
Kilifi-Mariakani Water and Sewerage Company	526,107,235	440,561,048	85,546,187
Kwale Water and Sewerage Company	354,543,112	87,866,104	266,677,008
Taita/Taveta Water and Sewerage Company	411,412,349	337,711,817	73,700,532
Lamu Water and Sewerage Company	8,356,686	5,546,409	2,810,277
Total	3,086,082,954	2,365,707,671	720,375,283

The total variances amounting to Kshs.720,375,283 has not been reconciled or explained.

In the circumstances, the accuracy and valuation of the trade and other receivables balance of Kshs.3,100,800,147 as at 30 June 2017 could not be ascertained.

3. Trade and Other Payables

As previously reported, included in the trade and other payables balance of Kshs.1,129,754,947 as at 30 June 2017 (2015/2016 –Kshs.961,148,142) are unremitted statutory and other deductions totaling to Kshs.54,587,916 and Kshs.92,741,592 in respect of the Paymaster General and Ukulima Sacco Society Limited and other deductions respectively. No explanation has been provided for the non-settlement of these statutory deductions.

In addition, no provision in respect of penalties and interest resulting from non-payment of these deductions have been provided for in these financial statements.

Consequently, the accuracy and completeness of the trade and other payables balance of Kshs.1,129,754,947 as at 30 June 2017 could not be confirmed.

4. World Bank Loan

As previously reported, included in the statement of financial position as at 30 June 2017 is an amount of Kshs.9,191,715,426 (2015/2016 – Kshs.6,753,636,870) in respect of World Bank Loan as reported in note 18 to the financial statements.

In the year 2008, the Government of Kenya entered into a financing agreement with the World Bank to finance water and sanitation services in Coast Province through Coast Water Services Board and agreed to disburse Kshs.4,570,199,584.27 (USD 45,203,760) at an interest rate of 1.5 per cent per annum. The repayment period was given as thirteen (13) years with effect from 30 March, 2013, with an annual repayment being Kshs.495,570,236 (USD 4,906,636) for which the principal amount was Kshs.319,971,030 (USD 3,168,030) and interest of Kshs.175,599,206 (USD 1,738,606). Records confirming repayment of the loan were not provided for audit verification. In addition, during the year under review, it was observed that the loan under IDA-4376-KE credit was denominated in foreign currency. International Public Sector Accounting Standards (IPSAS) 4 paragraph 27 requires foreign currency monetary items to be translated using the closing rate. However, the loan balance of Kshs.9,191,715,426 was translated on transaction date rate hence foreign exchange gain/loss was not determined. Further, the accounting policy on translation of foreign denominated transactions and balances was not disclosed in the notes to the financial statements.

Consequently, it has not been possible to confirm whether the management is in conformity with the terms of the loan and that the loan balance of Kshs.9,191,715,426 as at 30 June, 2017 is fairly stated and disclosed.

5. Board Expenses

The statement of comprehensive income for the year ended 30 June 2017 reflects Kshs.24,656,710 as board expenses against a budget of Kshs.20,000,000. The approval of the excess expenditure of Kshs.4,656,710 was not availed for audit verification. Further, payment vouchers availed for audit verification amounted to Kshs.23,625,199, resulting to unsupported expenditure of Kshs.1,031,511.

Consequently, accuracy, regularity and completeness of the board expenses amount of Kshs.24,656,710 for the year ended 30 June 2017 could not be ascertained.

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matter described in the Basis for Qualified Opinion and Other Matter sections, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1.0. Budget Control and Performance

1.1. Revenue Budget

During the year under review, the Board's revenue budget was Kshs.1,411,185,216 against actual collections of Kshs.2,063,618,780 (146%), thus resulting to over collection of Kshs.652,433,564 as detailed below:

Item	Budgeted Amount for 2016/2017 (Kshs)	Actual Amount Collected for 2016/2017 (Kshs)	Over Collection in Kshs	Over Collection in%
Bulk Water Sales	876,000,000	918,687,205	42,687,205	5
Administration Fees	169,021,166	173,216,550	4,195,384	02
Grants from GoK	362,000,000	963,676,066	601,676,066	166
Total Other Income	4,164,050	8,038,959	3,874,909	93
Total	1,411,185,216	2,063,618,780	652,433,564	46

From the above table, grants received from the Government was more than double the budget amount by Kshs.601,676,066 or 166%. Also, total other incomes exceeded the budgeted amount by Kshs.3,874,909 or 93%. This is a rare occurrence where actual revenue exceeds the budgeted amount and this could point out to lack of proper budgeting. There is a need, therefore, to review the budgeting process to ensure that it is as realistic as possible.

1.2. Expenditure Budget

During the year under review, the Board had budgeted to spend a total of Kshs.1,487,463,891 on its various programs and activities. However, the Board spent Kshs.1,741,801,426, thus exceeding the overall budget expenditure by Kshs.254,337,535 or 17%. Below is a summary of over expenditures and under expenditures during the year under review:

1.2.1. Over Expenditure

During the year under review, the Board had budgeted to spend Kshs.15,948,000 on four (4) activities and programs but ended up actually spending Kshs.245,075,285, resulting to over absorption of Kshs.229,127,285 or 1,437% as detailed below:

Detail	Budget (Kshs)	Actual Expenditure (Kshs)	Over Absorption (Kshs)	Over Absorption (%)
Contracted professional services	6,000,000	182,940,486	176,940,486	2,949,008
World Bank operations	5,000,000	49,929,924	44,929,924	899
Employer WSIP Pension		6,329,840	6,329,840	100
Stationery office	3,000,000	3,528,035	528,035	18
Airtime Allowance	1,948,000	2,347,000	399,000	20
Total	15,948,000	245,075,285	229,127,285	1,437

The Board has not provided a revised budget for approval of the over expenditure of Kshs.229,127,285 or 1,437%

The over expenditure is an indication of poor planning and lack of oversight in budget implementation.

Consequently, the propriety of the excess expenditure of Kshs.229,127,285 for the year ended 30 June 2017 could not be ascertained.

1.2.2. Under-Expenditure

During the year under review, the Board had budgeted to spend Kshs.340,070,304 on twenty eight (28) activities and programs but ended up actually spending Kshs.227,995,225, resulting to under absorption of Kshs.112,075,079 or 33% as detailed below:

Detail	Actual Amount (Kshs)	Approved Budget Amount (Kshs)	Under Absorption (Kshs)	Under Absorption (%)
Employer NSSF Contributions	545,800.00	628,000.00	82,200.00	-13%
Membership Fees, dues and subscription	16,500.00	150,000.00	133,500.00	-89%
Special Duty Allowance	276,834.00	411,000.00	134,166.00	-33%
Office electricity	403,187.00	875,450.00	472,263.00	-54%
Honoraria	487,200.00	1,044,000.00	556,800.00	-53%
Maintenance of buildings & stations	736,612.00	1,318,723.00	582,111.00	-44%
Transfer Allowance	370,009.00	1,000,000.00	629,991.00	-63%
Acting Allowance	1,271,340.00	1,925,000.00	653,660.00	-34%
Top up Allowances	1,002,296.00	1,695,224.00	692,928.00	-41%
Fuel & lubricants	5,194,700.00	5,975,906.00	781,206.00	-13%
Hire of transport, equipment & machinery	166,500.00	1,000,000.00	833,500.00	-83%
Donations	400,000.00	1,250,000.00	850,000.00	-68%
Leave Allowance	2,235,556.00	3,106,509.00	870,953.00	-28%
Laboratory expenses	19,568.00	915,000.00	895,432.00	-98%
Gratuity	1,109,808.00	2,064,153.00	954,345.00	-46%
Training expenses	793,475.00	2,000,000.00	1,206,525.00	-60%
Resettlement Compensation	8,485,177.00	10,000,000.00	1,514,823.00	-15%
Hospitality	1,890,514.00	3,471,552.00	1,581,038.00	-46%
Travelling and accomm foreign	3,198,136.00	5,000,000.00	1,801,864.00	-36%
Bank charges & commissions	390,449.00	2,339,787.00	1,949,338.00	-83%
Advertising & publicity	13,610,236.00	16,000,000.00	2,389,764.00	-15%

Medical Cover	7,127,382.00	10,500,000.00	3,372,618.00	-32%
Legal fees & related expenses	5,964,055.00	10,000,000.00	4,035,945.00	-40%
Security expenses	10,202,701.00	15,000,000.00	4,797,299.00	-32%
Employer Pension Contributions	5,006,540.00	15,000,000.00	9,993,460.00	-67%
Trade show & exhibitions	3,828.00	10,000,000.00	9,996,172.00	-100%
World Bank staff Training	5,790,056.00	20,000,000.00	14,209,944.00	-71%
Bank interest	151,296,766.00	203,400,000.00	52,103,234.00	-26%
Total	227,995,225	340,070,304	112,075,079	33

The management has not provided satisfactory explanation for the failure to utilize all approved budgetary provisions. Underutilization of budget results in non-implementation of planned activities and programs, resulting to unfinished work/activities/programs to the detriment of delivery of goods and services to the citizens of the Coast region.

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

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

In preparing the financial statements, management is responsible for assessing the Board's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Board's or cease operations, or have no realistic alternative but to do so.

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

Those charged with governance are responsible for overseeing the Board's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement 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 conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

16 March 2018

COAST WATER SERVICES BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

Statement of Comprehensive Income
For the year ended 30th June 2017

Description	Notes	2017	2016
		Kshs.	Kshs.
REVENUE			
Operational Income	2	1,091,903,755	1,058,302,272
Grants	4	963,676,066	122,643,035
Other Incomes	3	8,038,959	10,041,485
TOTAL REVENUE		2,063,618,780	1,190,986,792
EXPENDITURE			
Administrative Expenses	10	495,543,297	209,520,113
Board Expenses	11	24,656,710	19,617,680
Staff Costs	6	200,729,231	181,300,056
General Expenses	7	25,687,679	22,521,774
Operational Expenses	5	457,401,799	467,913,377
Project Costs	8	386,485,945	177,579,959
Finance Costs	9	151,296,766	99,084,806
TOTAL EXPENDITURE		1,741,801,426	1,177,537,765
Surplus/(Loss)before Tax		321,817,354	13,449,027

COAST WATER SERVICES BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

Statement of Financial Position
As at 30th June 2017

ASSETS	Note	2017	2016
		Kshs	Kshs
CURRENT ASSETS			
Inventories	13	9,427,084	10,657,502
Trade and Other Receivables	16	3,100,800,147	2,532,953,026
Cash and Bank Balances	12	784,031,057	128,806,358
TOTAL CURRENT ASSETS		3,894,258,288	2,672,416,886
NON CURRENT ASSETS			
Property, Plant and Equipment	14	2,862,504,166	1,356,447,793
Work in Progress	15	5,158,385,917	4,957,780,977
TOTAL NON CURRENT ASSETS		8,020,890,083	6,314,228,770
TOTAL ASSETS		11,915,148,370	8,986,645,656
CURRENT LIABILITIES			
Trade and other Payables	17	1,129,754,947	961,148,142
TOTAL CURRENT LIABILITIES		1,129,754,947	961,148,142
NON-CURRENT LIABILITIES			
World Bank Loan	18	9,191,715,426	6,753,636,870
TOTAL NON CURRENT LIABILITIES		9,191,715,426	6,753,636,870
TOTAL LIABILITIES		10,321,470,372	7,714,785,012
NET ASSETS		1,593,677,998	1,271,860,644
ACCUMULATED SURPLUS		1,593,677,998	1,271,860,644
TOTAL NET ASSETS AND LIABILITIES		1,593,677,998	1,271,860,644

The Financial Statements set out on pages 15 and 16 were signed on behalf of Directors by:


MRS. SUREYA A. HERSI
ACTING CHAIRPERSON


MR. JACOB TORUTT
CHIEF EXECUTIVE OFFICER

Date: ... 25/1/2018

Date: ... 25/1/2018

**Statement of Changes in Net Assets
For the Year Ended 30 June 2017**

Attributable to the owners of the controlling entity

	Accumulated surplus Kshs	Reserves Total Kshs
Balance as at 30.6.2016	1,258,411,754	1,258,411,027
Surplus for the period	13,449,027	13,449,027
Balance as at 1.7.2017	1,271,860,644	1,271,860,644
Surplus for the period	321,817,354	321,817,354
Balance as at 30.6.2017	1,593,677,998	1,593,677,998

Statement of Cash Flows
For the Year Ended 30th June, 2017

Cash flows from operating activities	Notes	2017	2016
		Kshs.	Kshs.
Surplus for the year		321,817,354	13,449,027
Adjust for:			
Depreciation	14	172,173,020	135,757,078
		493,990,373	222,336,533
Changes in Working Capital			
Decrease/(increase) in Inventory		1,230,418	5,955,430
Decrease/Increase) in Trade and Other Receivables		(567,847,120)	(410,981,996)
(Decrease)/increase in Trade and Payables		168,606,804	110,648,677
		(398,009,898)	(294,377,889)
Net cash flows from operating activities		95,980,476	(145,171,784)
Cash flows from investing activities			
Projects/Work in Progress		(200,604,939)	(1,051,356,739)
Purchase of Computers, Furniture and Equipment		(1,678,229,393)	(99,589,180)
Net cash flows from investing activities		(1,878,834,332)	(1,150,356,739)
Cash flows from financing activities			
World Bank Loan		2,438,078,556	998,978,217
Net cash flows from financing activities		2,438,078,556	998,978,217
Net increase in cash and cash Equivalents		655,224,699	(297,139,487)
Cash and Cash Equivalent at 1.07.2015		128,806,358	425,945,844
Cash and Cash Equivalent at 30.06.2017		784,031,057	128,806,358

COAST WATER SERVICES BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
For the Year Ended 30th June, 2017

DETAIL	ACTUAL kshs	BUDGET kshs
Bulk Water Sales	918,687,205	876,000,000
Administration Fees	173,216,550	169,021,166
Grants from GoK Development	963,676,066	362,000,000
Total Grants	963,676,066	362,000,000
Tender Sales	293,000	448,350
Rent Income	414,000	1,463,175
Miscellaneous Income	7,184,959	2,152,775
Laboratory Income	147,000	99,750
Total Other Income	8,038,959	4,164,050
Gross Total	2,063,618,780	1,411,185,216
Telephone, Fax, Internet, Courier and email	2,854,237	3,000,000
Travelling and accommodation	37,793,331	40,000,000
Travelling and accomm foreign	3,024,436	5,000,000
Subscription to newspaper	496,855	500,000
Advertising & publicity	13,614,064	16,000,000
Trade show & exhibitions	3,828	10,000,000
World Bank operations	49,929,924	5,000,000
Hire of transport, equipment & machinery	166,500	1,000,000
General office supplies	3,876,739	3,930,209
Laboratory expenses	19,568	915,000
Hospitality	1,890,514	3,471,552
Fuel & lubricants	5,194,700	5,975,906
Donations	400,000	1250,000
Legal fees & related expenses	5,964,055,	10,000,000
Fines and penalties	0	
Contracted professional services	182,940,486	6,000,000
Audit fees	1,172,760	1,172,620
Maintenance expenses- vehicles	7,414,614	7,500,000
Maintenance of office furniture & equipment	1,222,399	1,250,000
Maintenance of buildings & stations	736,612	1,318,723
Baricho clinic expenses	740,000	720,000
Stationery office	3,528,035	3,000,000
Depreciation of Motor Vehicles	48,484,298	48,484,298
Depreciation of Furniture	1,435,387	1,435,387
Depreciation of Office Equipment	4,843,988	4,843,988
Depreciation of Plant and Machinery	17,360,125	17,360,125

COAST WATER SERVICES BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

Depreciation of Computers	734,253	734,253
Depreciation expense for pipelines	67,621,329	67,621,329
Depreciation of Pumps	2,808,387	2,808,387
Depreciation of Motors	7,250	7,250
Depreciation of Bulk Meters	23,749,001	23,749,001
Depreciation of Water Tanks	5,129,000	5,129,000
Board expenses	24,169,510	25,000,000
Honoraria	487,200	1,044,000
Basic Salary	103,054,936	103,318,936
Medical Allowance	6,504,900	7,020,000
Commuter Allowance	11,872,800	11,658,000
Top up Allowances	1,002,296	1,695,224
Leave Allowance	2,235,556	3,106,509
Hardship Allowance	5,095,485	5,315,076
Acting Allowance	1,271,340	1,925,000
Airtime Allowance	2,347,000	1,948,000
Training expenses	793,475	2,000,000
World Bank staff Training	5,790,056	20,000,000
Transfer Allowance	370,009	1,000,000
Special Duty Allowance	276,834	411,000
Employer NSSF Contributions	545,800	628,000
Employer Pension Contributions	5,006,540	15,000,000
Employer WSIP Pension	6,329,840	
Medical Cover	7,127,382	10,500,000
Gratuity	1,109,808	2,064,153
Membership Fees, dues and subscription	16,500	150,000
House Allowance	35,203,500	35,000,000
Pc cross cutting	4,775,175	5,000,000
Office electricity	403,187	875,450
Motor Vehicle Insurance	6,596,614	6,196,063
Resettlement Compensation	8,485,177	10,000,000
Security expenses	10,202,701	15,000,000
Electricity – Operations	356,550,190	360,362,556
Chemicals & other related	27,174,631	30,000,000
Bank interest	151,296,766	203,400,000
Maintenance of water assets	52,554,140	55,000,000
Water user charges	21,122,838	22,220,000
Lamu Projects	27,174,631	27,174,631
Mariakani – KIDDP Project	4,499,542	4,499,631
Mkanda Dam	98,128,384	98,128,384
Drought mitigation expenses	82,089,843	82,089,843
Small dams and pans	18,881,719	18,881,719
Bank charges & commissions	390,449	2,339,787
TOTAL	1,741,801,426	1,487,463,891

**Notes to the Financial Statements
For the Year Ended 30th June 2017**

1. Accounting Policies

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

a) Basis of Preparation

The Financial Statements have been prepared in accordance with International Public Sector accounting Standards - Accrual

b) Revenue Recognition

The Board adopts the modified accrual basis of accounting for grants. Revenue is recognized when grants are received from the Government of Kenya or other donor agencies. Self-generating income is recognized when it is earned. Expenses are recognized when incurred.

c) Property, Plant and Equipment

Property, Plant and Equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated on reducing balance basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

	% per Annum
Equipment	12.5
Furniture, Fittings	12.5
Computers	33.33
Water Infrastructure	2.5
Water Equipment	2.5
Motor Vehicles and Motor Cycles	25

Notes to the Financial Statements, Continued
Receivables

Accounts receivable are recognized and carried at original cost less any unrecoverable amounts.

d) Reporting Currency

All transactions are reported in Kenya Shillings

NOTE 2.

Revenue	2017	2016
	Kshs.	Kshs.
Bulky Water Sales	918,687,205	880,163,226
Administrative Fees	173,216,550	178,139,046
Total	1,091,903,755	1,058,302,272

The Board's major sources of revenues are the water sales which are earned from the sale of water to the Water Service Providers and Administrative fees that is earned from the lease of its assets to the Water Service Providers. The Board does not sale water directly to the customers.

NOTE. 3

Other Income

The Board earned miscellaneous income from Laboratory, rent collection from its houses at Baricho, Shanzu and from sale of tender documents.

	2017	2016
	Kshs	Kshs
Laboratory	147,000	118,000
Rental Income	414,000	971,000
Tender Sales	293,000	400,500
Miscellaneous income	7,184,959	8,551,985
Total	8,038,959	10,041,485

Notes to the Financial Statements, Continued

NOTE 4

Grants

	2017	2016
	Kshs	Kshs
Government of Kenya Development	963,676,066	122,643,035

TOTAL	963,676,066	122,643,035
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NOTE .5

Operating Expenses

	2017	2016
	Kshs	Kshs
Electricity	356,550,190	364,183,202
Water Use Charges	21,122,838	21,122,838
Cost of Specialized Materials	27,174,631	29,685,375
Maintenance Of Water Assets	52,554,140	52,921,962
Total	457,401,799	467,913,377

COAST WATER SERVICES BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

Notes to the Financial Statements, Continued

NOTE 6

Staff Cost	2017	2016
	Kshs	Kshs
Salaries and Wages	183,026,111	154,421,850
Staff Leave Allowance	2,235,556	1,679,900
Other Staff Allowances	7,774,225	6,444,051
Staff Training	6,583,531	17,119,369
Gratuity	1,109,808	1,634,886
Total	200,729,231	181,300,056

NOTE 7

General Expenses	2017	2016
	Kshs	Kshs
Office Electricity	403,187	579,140
Motor Vehicles Insurance	6,596,614	5,580,383
Resettlement compensation	8,485,177	5,714,291
Security Expense	10,202,701	10,647,960
Total	25,687,679	22,521,774

NOTE 8

Project Costs	2017	2016
	Kshs	Kshs
Lamu Projects	12,905,514	21,853,271
Small dams and Pans	18,881,719	61,152,234
Mkanda Dam	98,128,384	81,424,183
Drought mitigation	82,089,843	3,140,476
Unicef Activities	0	2,297,659
Marikani – Kiddp project	4,499,542	7,712,137
Taita Projects	52,856,621	
Priority Projects	27,824,792	
Kwale Projects	89,299,532	
Total	386,485,945	177,579,959

Notes to the Financial Statements, Continued

NOTE 9

Finance Cost	2017	2016
	Kshs	Kshs
Financing cost	151,296,766	99,084,806

NOTE 10

Administrative Expenses	2017	2016
	Kshs	Kshs
Telephone, Fax, Internet, Courier & Email	2,854,237	720,129
Travelling and accommodation- local	37,793,331	20,199,169
Travelling & accommodation foreign	3,024,436	0
Subscription to newspaper & magazine	496,855	237,960
Advertising & Publicity	13,614,064	15,715,249
Trade show and Exhibition	0	0
World Bank Operations	49,929,924	
Hire of transport equipment & machinery	166,500	118,200
General office supplies	3,876,739	3,664,262
Laboratory expenses	19,568	47,190
Hospitality	1,890,514	2,725,698
Donations	400,000	
Fuel & Lubricant	5,194,700	3,202,385
Legal fees & related expenses	5,964,055	3,944,000
Bank charges	390,449	1,697,001
Contracted professional services	182,940,486	12,662,540
Audit fees	1,172,760	1,172,760
Maintenance expenses – vehicles	7,414,614	3,375,590
Maintenance of office furniture & equipment	1,222,399	1,262,799

COAST WATER SERVICES BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

Notes to the Financial Statements, Continued

Maintenance of buildings & stations	736,612	741,208
Baricho Clinic Expense	740,000	720,000
Stationery office	3,528,035	2,276,895
Depreciation	172,173,020	135,757,078
TOTAL	495,543,297	209,520,113

NOTE 11

Board Expenses	2017	2016
	Kshs	Kshs
Board Allowances	24,169,510	18,573,680
Honoraria	487,200	1,044,000
TOTAL	24,656,710	19,617,680

NOTE 12

Cash and Cash Equivalent	2017	2016
	Kshs	Kshs
Development	257,009,577	903,660
Operations	931,616	747,031
KWSP	35,093	40,278
Administration	4,306,707	15,363,299
Projects	63,755,736	81,878,369
World Bank IDA – 4376KE	109,478	120,050
Drought Mitigation	42,069,434	980,689
Administration Fees	678,332	2,221,714
Unicef	187,472	191,432
World Bank – AF	385,205,114	2,830,001
Italy Debt	100,969	4,489,763
KCB KISSIP	29,641,528	19,040,070
Total	784,031,057	128,806,358

COAST WATER SERVICES BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

Notes to the Financial Statements, Continued

NOTE 13

Inventories	2017 Kshs.	2016 Kshs.
Machinery, Pipes and Fittings	4,081,798	3,594,164
Chemicals		3,534,750
Stationery	1,361,471	3,303,212
Telephone ,Fax		182,876
Maintenance Motor Vehicle	42,500	42,500
General Office Supplies	101,315	0
Drought Collapsible Tanks	3,840,000	0
Total	9,427,084	10,657,502

COAST WATER SERVICES BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

Notes to the Financial Statements, Continued

NOTE. 14

Property, Plant and Equipment

	Motor Vehicles	Computers	Office Equipment	Furniture and Fittings	Water Equipment	Water Infrastructure	Land	Total
Rates	25%	33.33%	12.5%	12.5%	12.5%	2.5%		
COST	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As at 1.7.2015	163,736,212	37,163,721	36,824,357	17,685,461	386,093,556	1,080,172,125	150,000	1,721,825,432
Additions	98,294,280	1,294,900						1,217,409,009
As at 30.6.2016	262,030,492	38,458,621	36,824,357	17,685,461	386,093,556	1,080,172,125	150,000	1,821,414,612
Additions		907,860	629,800		52,010,710	1,624,681,024		1,678,229,394
As at 30.6.2017	262,030,492	39,366,481	37,454,157	17,685,461	438,104,266	2,704,853,149	150,000	3,499,644,006
Depreciation								
As at 1.7.2015	88,667,306	30,855,535	11,866,594	7,816,325	162,999,679	27,004,303		329,209,742
Charge for the year	53,020,548	6,736,627	4,862,675	1,435,388	42,697,537	27,004,303		135,757,078
As at 30.6.2016	141,687,854	37,592,162	16,729,269	9,251,713	205,697,216	54,008,606		464,966,820
Charge for the year	48,484,298	734,254	4,843,988	1,435,387	49,053,764	67,621,329		172,173,020
As at 30.6.2017	190,172,152	38,326,416	21,573,257	10,687,100	254,750,980	121,629,935		637,139,840
Net Book Value								
As at 30.6.2016	120,342,638	866,459	20,095,088	8,433,748	180,396,340	1,026,163,519	150,000	1,356,447,792
As at 30.6.2017	71,858,340	1,040,065	15,880,900	6,998,361	183,353,286	2,583,223,214	150,000	2,862,504,166

COAST WATER SERVICES BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

Notes to the Financial Statements, Continued

NOTE 15

	2017	2016
Work In Progress	Kshs.	Kshs.
Balance b/f	4,957,780,977	3,906,424,238
World Bank Informal	115,031,232	121,315,117
World Bank – wsp	98,683,400	37,370,028
World Bank – Bulky	125,268,274	137,283,129
World Bank – Drought	244,846,957	186,190,963
World Bank –Capital Works	47,127,047	0
World Bank WSP	0	51,417,662
World Bank wip Baricho	288,979,679	58,453,740
World Bank wip msa lot .2	247,240,320	374,315,197
World Bank Taveta	75,928,274	7,953,920
World Bank Sewarage	97,795,283	70,383,681
World Bank Kibokoni	14,848,010	6,673,302
World Bank Bura	17,416,236	0
World Bank Baricho Lot 3	452,121,252	0
Transfer to Water Infrastructure	(1,624,681,024)	0
Total	5,158,385,917	4,957,780,977

Notes to the Financial Statements, Continued

NOTE.16

	2017	2016
	Kshs	Kshs
Trade and Other Receivables		
Mombasa Water and Sewerage Company Ltd	1,319,455,995	1,156,446,497
Malindi Water and Sewerage Company Ltd	466,207,577	388,885,168
Kilifi Mariakani Water and Sewerage Ltd	526,107,235	426,494,985
Kwale Water and Sewerage Company Ltd	354,543,112	221,378,556
Taveta Water and Sewerage Company Ltd	411,412,349	322,976,472
Lamu Water and Sewerage Company Ltd	8,356,686	6,593,586
Salary Advances	1,844,199	2,312,284
Prepaid Internet Services		
Prepaid Medical Cover	4,999,952	
Prepaid Motor Insurance	2,486,557	3,058,069
Staff Imprest	5,386,485	4,807,409
TOTAL	3,100,800,147	2,532,953,026

NOTE 17

	2017	2016
	Kshs	Kshs
Trade and Other Payables		
Creditors	977,105,719	799,622,219
Audit Fees payable	5,319,720	5,441,040
Paymaster General	54,587,916	61,587,916
Ukulima and Other Deductions	92,741,592	94,496,967
TOTAL	1,129,754,947	961,148,142

COAST WATER SERVICES BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

Notes to the Financial Statements, Continued

NOTE 18	2017.	2016.
World Bank Loan	Kshs	Kshs
Balance B/F	6,753,636,870	5,754,658,653
Disbursements	1,672,644,724	998,978,217
Disbursement Direct	765,433,832	0
TOTAL	9,191,715,426	6,753,636,870