

REPUBLIC OF KENYA



*Paper laid*  
*By Hon Katoo de Melito*  
*Majority Whip on*  
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*WN*

KENYA NATIONAL AUDIT OFFICE



**REPORT**  
**OF**  
**THE AUDITOR-GENERAL**  
**ON**  
**THE FINANCIAL STATEMENTS OF**  
**NATIONAL WATER CONSERVATION AND**  
**PIPELINE CORPORATION**

**FOR THE YEAR ENDED**  
**30 JUNE 2014**





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*NATIONAL WATER CONSERVATION AND PIPELINE  
CORPORATION*

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2014

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

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## **KEY INFORMATION AND MANAGEMENT**

### **Background information**

National Water Conservation & Pipeline Corporation is a state corporation established under the States Corporations' Act vide legal notice no. 270 of 24<sup>th</sup> June 1988 Cap 446 of the Laws of Kenya. Following the implementation of the Water Act 2002, the corporation who were previously retailing water in several water supplies across the country, is today the implementation arm of the Ministry of Water & Irrigation.

### **Principal Activities**

The core mandate of the corporation is to;

- Develop state schemes and spearhead dam construction for water supplies, flood control and other multi-purpose uses, land drainage and construction of dykes.
- Carry out ground water recharge using flood water.
- Develop, retain existing and expand bulk water supply to water service boards and other water services providers.
- Drill and equip boreholes

### **Key Management**

The Corporation's day-to-day management is under the following key organs:

- ❖ Managing Director;
- ❖ General Manager Construction & Electromechanical;
- ❖ General Manager Finance;
- ❖ General Manager Planning & Design;
- ❖ General Manager Legal Services;
- ❖ General Manager Human Resource & Administration;
- ❖ Chief Procurement Officer; and
- ❖ Chief Internal Auditor

## Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2014 and who had direct fiduciary responsibility were:

❖ Ag. Managing Director;	- CPA Evans Ngibuini
❖ Ag. General Manager Construction & Electromechanical;	- Mr. Ezekiah Kapkiai
❖ Ag. General Manager Finance;	- CPA Margaret Kithunzi
❖ Ag. General Manager Planning & Design;	- Eng. Benjamin Kiema
❖ General Manager Corporate & Legal Services;	- Mr. Justus Wabuyabo
❖ General Manager Human Resource & Administration;	- Mr. Solomon Assava
❖ Chief Procurement Officer;	- Mr. John Musyoka
❖ Ag. Chief Internal Auditor	- CPA Phillip Nzengu

## Fiduciary Oversight Arrangements Committees of the Board

### Human Resource & General Purposes Committee

The Committee comprises of four non-executive directors (one of them as Chairman) and the Managing Director as the Secretary.

The Board of Directors of the National Water Conservation and Pipeline Corporation has established the Human Resources and General Purposes Committee to review, and as appropriate, act on behalf of the Board, or make recommendations to the Board concerning staff, corporate communication, corporate social responsibility and legal issues.

The Committee has the following duties and responsibilities as directed by the Board:

- a) Human Resource Planning by ensuring there is a staff establishment; the right number and quality of staff with relevant skills; and succession planning
- b) Development of the Corporation's Organizational Structure
- c) Recruitment and selection and retention of staff with the relevant skills
- d) Training and development of employees to improve organizational productivity
- e) Ensure that the employees are rewarded through an Employee Merit Reward System and that the employees' salaries are constantly reviewed and they are provided with better incentives and benefits
- f) Ensure that there are disciplinary and grievance-handling procedures in place outlining how they are administered
- g) General Staff Welfare – Ensure that the employees have conducive work environment, health and safety
- h) Review and approve terms and conditions of service for Corporation employees;
- i) Handle policy issues on Human Resource and Administration; and performance management
- j) Oversee the implementation of change process plans in the organization;

- k) Ensure compliance with the State Corporations Act Cap. 446, Water Act of 2002, provisions of the Legal Notice No 270 of 1998 and any written law
- l) Interpret regulations that may be issued from time to time by the Ministry of Water and Irrigation and the Government;
- m) Handle policy issues on Corporate communications and corporate social responsibility
- n) Review all litigation matters.
- o) Promote effective communication within and with all stakeholders.

The Committee meets on quarterly or need basis.

#### **Finance Committee**

The Committee comprises of four non-executive directors (one of them as Chairman) and the Managing Director as the Secretary.

The Committee has the following duties and responsibilities as directed by the Board:

- a) Develop, review and monitor implementation of the resource mobilization strategy of the Corporation
- b) Review and make recommendations to the Board of Directors regarding the Corporation's annual financial plans;
- c) Review the financial condition of the Corporation and its requirements for funds.
- d) Review and make recommendations to the Board of Directors regarding any proposed capital project which is required to be approved by the Board of Directors;
- e) Review and make recommendations to the Board where appropriate regarding Corporation's financial and risk management policies and practices, including cash investment policies; debt limitations; annual and longer-term operating plans; long-term capital expenditure projects; financing plans; and other financial transactions or issues that management desires to have reviewed by the Committee;

#### **Risk & Audit Committee**

This Committee comprises of four non-executive directors (one of them as Chairman) excluding the Managing Director and the secretary is the Chief Internal Auditor

The Board of Directors of the National Water Conservation and Pipeline Corporation has established the Risk & Audit Committee to discharge duties related to safeguarding the Corporation's assets; operation of adequate systems; control processes and preparation of accurate financial reporting and statements in compliance with legal requirements and accounting standards

The Committee shall have the following duties and responsibilities, as well as such other duties and responsibilities as it deems appropriate to carry out its purposes or as directed by the Board:

- a) Deal with appointment and termination of the Chief Internal Auditor. The Committee shall recommend this to the Board of Directors for approval.

- b) Discuss problems and reservation arising from the final audits, and any matter the external auditor may wish to discuss (in the absence of management where necessary)
- c) Review the external auditor's report(s) to the Management and Management's response.
- d) Consider the major findings in internal investigations and Management's response.
- e) Have explicit authority to investigate any matter within its terms of reference, the resources that it needs to do so and full access to information,
- f) Obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary;
- g) Consider other topics as defined by the Board including regular review of the capacity of the internal audit function; and
- h) The Committee must ensure that all legal provisions are followed. In addition to the various statutes that apply to the corporation's operations, these should include:
  - Code of conduct
  - Water Act 2002
  - The Government's Rules and Regulations
  - State Corporations Act
  - Policies, Rules and Regulations established by the Board
- i) Establish an internal audit function and the Risk & Audit Committee's function in relation to Internal Audit functions, to include:
  - Review of the adequacy, scope, functions and resources of the Internal Audit function and ensure that it has the necessary authority to carry out its work.
  - Review the Internal Audit Program and results of the Internal Audit process and, where necessary ensure that appropriate actions are taken on the recommendations of the Internal Audit function.
  - Review any appraisal or assessment of the performance of members of the Internal Audit function.
  - Approve any appointment or termination of senior staff members of the Internal Audit function.
  - Ensure that the Internal Audit function is independent of the activities of the Corporation and is performed with impartiality, proficiency and due professional care.

### **Strategy, Technical & Business Development Committee**

The Committee comprises of five non-executive directors (one of them as Chairman) and the Managing Director as the Secretary.

The Board of Directors of the National Water Conservation and Pipeline Corporation has established the Strategy, Technical and Business Development Committee to review, and as appropriate, act on behalf of the Board, or make recommendations to the Board concerning planning, strategy, technical, ICT and business development issues.

The Committee has the following duties and responsibilities, as directed by the Board:

- a) Review strategies, plans and service charters for attaining the Corporation's Service Delivery Objectives.

- b) Give policy direction in the development of the Corporation's Strategic Plan/ Business Plan and monitoring its implementation
- c) Review ISO certification procedures manuals
- d) Give policy direction in development of pro-poor approaches and community involvement in projects
- e) Approval of project work plans and Performance Contract targets
- f) Approve the Quarterly Performance Contract Progress Reports.
- g) Review proposals and plans for infrastructure development and improvement.
- h) Consider, evaluate and review progress of implementation for infrastructure development programs.
- i) Consider, evaluate and review performance of outsourced works
- j) Consider and evaluate the use of new and appropriate technologies in provision of water storage facilities
- k) Ensure compliance by the Corporation with statutory regulations relating to the Environment and Water Resources Management
- l) Review and give policy direction on proposals for gazettment and implementation of state schemes
- m) To receive, examine and approve implementation of new/proposed projects as well as reports on the applications of new technologies.
- n) Where necessary on sample basis visit projects under implementation to access progress and recommend the way forward or any action plans.
- o) To receive deliberate on and give guidance on policy matters with respect to progress reports on the on-going projects;
- p) To discuss any other relevant matters that pertains to the technical operations of the company.
- q) To discuss any other business arising from the Strategy, Technical and Business Development committee.

#### **Procurement Oversight Committee**

The Committee comprises of five non-executive directors (one of them as Chairman) and the Managing Director as the Secretary. The Board of Directors of the National Water Conservation and Pipeline Corporation has established the Procurement Oversight Committee to review, and as appropriate, act on behalf of the Board, or make recommendations to the Board concerning procurement of goods, services and works as well as disposal of obsolete assets in line with the Public Procurement & Disposal Act as well as its Regulations.

The Committee has the following duties and responsibilities, as directed by the Board:

- a) Monitor progress of procurement and disposal
- b) Identifying and resolving issues related to procurement and disposal
- c) Ensure that procurement and disposal meets the requirements of the Public Procurement & Disposal Act, and Regulations
- d) Approve Procurement Plans
- e) Address Corporation's resource issues and procurement commitments
- f) Ensure that the appropriate development index (development versus recurrent budget) is maintained in the procurement of goods, services and works.

## **Headquarters**

P.O. Box 30173  
GPO 00100  
Dunga road, Industrial Area  
Nairobi, Kenya.

## **Contacts**

Telephone: (254) 020 65310, (020) 556600/1  
Hotline: (254) 020 6531047  
Fax: +254 020 531049  
E-mail: [info@nwpcp.go.ke](mailto:info@nwpcp.go.ke)  
Website: [www.nwpcp.go.ke](http://www.nwpcp.go.ke)

## **Bankers**

Kenya Commercial Bank Ltd  
KCB Moi Avenue  
P. O. Box 30081  
GPO 00100  
Nairobi, Kenya

## **Independent Auditors**

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

## **Principal Legal Adviser**

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

## THE BOARD OF DIRECTORS



Chairman  
Hon. Julius Kones

### Personal Information:

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Born

### Academic Qualifications:

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PhD in Mathematics  
Master and Bachelor of Science degrees in Mathematics and Statistics  
Kaboson Secondary School  
Kitalal Primary School

### Work Experience:

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The former statistics lecturer at the University of Nairobi is the immediate former MP for Konoin Constituency in Bomet County



Director  
Dr. Mukonyo Florence  
Musau

### Personal Information:

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Born

### Academic Qualifications:

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Master of Medicine in Paediatrics  
Medical Graduate  
Post graduate certification in Paediatric Haematology/Oncology  
Extensive training at the Department of Paediatric, Section of Paediatric Haematology/Oncology

### Work Experience:

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Her long experience includes being a Paediatrician at the Department of Paediatrics Athens Medical Centre; Resident Physician at Angia Sophia Children's National Hospital; Attending Physician at the Cardiology Section of Diagnostic & Therapeutic Institute of Piraeus, Athens as well as Red Cross International, Blood Transfusion & Thalassemia Anaemia Unit - Gastroenterology Section

She has many years of experience in the medical field and administration in Athens, Greece and Kenya. In particular, she was the Director of the Kenyatta National Hospital between 2003 and 2007.



Director  
**Mr. Mustafa Abdi Aman**

**Personal Information:**

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Born

**Academic Qualifications:**

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Masters degree  
 Post graduate diploma in Project Management  
 Bachelor of Science degree

**Work Experience:**

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He has been a Commercial Director of Laz-Boy Oakville in Canada; Director at Fresh & Nice Ltd., a commodity trading company; General Manager as well as Sales & Marketing Manager at the Eldoret mushrooms and horticultural produce company of Lonrho Africa Ltd, Plant Manager at Chibuku Products Ltd., Nairobi (part of Lonrho Group) and Supervisor at a soft drink manufacturing plant in Jeddah, Saudi Arabia (part of PepsiCo International).



Director  
**Ms. Faith Karimi Njeru**

**Personal Information:**

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Born

**Academic Qualifications:**

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Diploma in Business Education  
 Kenyatta College (presently Kenyatta University),  
 Alliance Girls High School

**Work Experience:**

---

Mrs Njeru is an experienced High School Teacher, a long serving guest lecturer of the Kenya Institute of Mass Communication in Business Education

She is a seasoned Banker, with an experience of over 21 years at the National Bank of Kenya Ltd. well versed in Information Technology, having served for several years as a Public Sector Manager for Computech Ltd., a preferred partner of HP International. She is an accredited sales professional by HP International



Director  
**Mr. Solomon Muthamia**

**Personal Information:**

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Born

**Academic Qualifications:**

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Masters degree in Business Administration, majoring in Strategic Management  
 Bachelor of Arts degree in International Business Administration, with a Management option

**Work Experience:**

---

Mr. Muthamia has extensive experience and expertise in planning, managing and implementing corporate and public processes and policies. He also has extensive education experience both as an administrator and learning facilitator.

He is a businessman per excellence and currently sits on the boards of various companies with interests spanning education, hospitality, finance and research & development. He has extensive multi-disciplinary management experience of over twenty five years in the banking industry, half of which were gained in senior level management and culminating with the position of Managing Director.



Director  
**Mr. James M. Bundi Morwabe**

**Personal Information:**

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Born

**Academic Qualifications:**

---

Bachelor of Arts degree in Economics, Sociology and Political Science. Diploma in Cooperative Management, Public Administration & Social work

**Work Experience:**

---

A career administrator and educator, Mr. Bundi has worked for Harbinger Insurance Brokers Ltd. as a Managing Director; Central Network Ltd. as Administrative Officer and General Manager; Freemark Kenya Ltd. as Administrative Officer as well as Operations Manager; and Mwasagwe Enterprises as Administrative Officer in charge of general administration & marketing services.

In his earlier years, Mr. Bundi was an adult educator in the Ministry of Culture and social Services, department of Adult education where he was in charge of adult literacy classes.



Director  
Mr. George Owino Sar

**Personal Information:**

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Born

**Academic Qualifications:**

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Kisumu Boys High School (East African Certificate of Education (EACE).  
Diploma in Management

He has attended several management courses during his working life. In particular, he obtained several certificates: Immigration Officers Course at the Kenya Institute of Administration, Nairobi in 2000 and Immigration & Customs Enforcement Course conducted by United State Homeland Security, Immigration & Customs in 2004 in addition to Basic computer training.

**Work Experience:**

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Mr. Sar has over thirty years experience in Government service delivery and has previously been an Immigration Officer, at the Jomo Kenyatta International Airport.



Director  
Eng. Robinson Kariuki  
Gaita

**Personal Information:**

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Born

**Academic Qualifications:**

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Master of Science in Engineering  
Bachelor of Science degree in Civil Engineering

**Work Experience:**

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The Ag. Director of Water Services in the Ministry of Environment, Water & Natural Resources. He is also the Director of Water Storage & Land Reclamation in the Ministry.

He is a registered engineer with Engineers Registration Board (ERB) and a member of the Institute of Engineers of Kenya (IEK). He has over 30 years experience in water infrastructure development, primarily in the public sector



Director  
Mr. Bernard Ndung'u

**Personal Information:**

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Born

**Academic Qualifications:**

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Bachelor of Commerce degree (finance option).  
Certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya (ICPAK)

**Work Experience:**

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Bernard has experience of over 19 years and is well exposed in both the public and private sectors. He has held senior consulting roles at Ernst and Young and PricewaterhouseCoopers. As an International Public Finance Management consultant, Bernard has handled major assignments in the areas of PFM reforms, IFMIS implementation, business process and systems review and re-engineering, training and institutional capacity building. He has also consulted for the Development Partners including the World Bank, GIZ, Danida, European Union, Sida, CIDA, and USAID among others. Bernard has worked in Kenya, Rwanda, Burundi, Uganda, Tanzania, Zambia, South Africa, Ethiopia, Sudan, Eritrea, Djibouti, Somalia and Democratic Republic of Congo.

Mr. Bernard Ndungu is currently the Accountant General for the National Treasury, Republic of Kenya.



Director  
Mr. David Jakaiti

**Personal Information:**

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Born

**Academic Qualifications:**

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**Work Experience:**

---

Alternate Director to the Permanent Secretary, Ministry of Environment, Water and Natural Resources.

He has wide experience in public affairs having worked with the Provincial Administration first as a District Commissioner and rising to Provincial Commissioner, Eastern Province

## MANAGEMENT TEAM



Ag. Managing Director  
CPA Evans J.W.C.  
Ngibuini

### Personal Information:

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Born

### Academic Qualifications:

---

Master of Business Administration - Finance  
Bachelor of Commerce (Accounting option)  
Certified Public Accountant CPA (K).

### Work Experience:

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He is the General Manager - Finance and a former Chief Internal Auditor.

He has previously worked with the Treasury (Internal Audit department); Attorney General Chambers; the Kenya National Audit office and Ministries of Co-operative, Agriculture, Housing & Information. He is affiliated to the Institute of Certified Public Accountants of Kenya (ICPAK).



General Manager,  
Corporate & legal Services  
Mr. Justus Ambutsi  
Wabuyabo

### Personal Information:

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Born

### Academic Qualifications:

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Master of Law (LL.M) degree (Public International Law)  
Bachelor of Law (LL.B (Hons.)  
Post graduate diploma in Law

### Work Experience:

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He is an Advocate of the High Court and a member of the Law Society of Kenya with experience of more than 15 years in legal affairs.

He has previously worked at various law firms; Kenya Railways Corporation; International Federation of Red Cross and Red Crescent Societies; and Kenya Broadcasting Corporation as a Senior Legal Officer. He has also been a lecturer at the Kenya School of Law and Mount Kenya University



General Manager, Human  
Resource & Administration.  
**Mr. Solomon Musiega  
Assava**

#### **Personal Information:**

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Born

#### **Personal Information:**

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He is a holder of a Master of Business Administration degree specializing in human resources management; a higher national Diploma in Human Resources Management and a Bachelor of Arts degree in Government.

Musiega is a full member of the Institute of Human Resource Management, Kenya (IHRM-K)

He has a total working experience of 15 years with the Corporation and five years gained elsewhere in manufacturing and engineering industries as a Human Resources practitioner.

He has previously worked at Alico Kenya Limited General Insurance Division, Mombasa (1998 - 1999) as a Sales Representative; Kaluworks Limited, Mombasa (1997 - 1998) as a Personnel Officer in-charge of Steel Division and Slapper Shoe Industries Ltd., Mombasa (1992 - 1997) also as a Personnel Officer where he honed his HR and administration skills.



Ag. General Manager,  
Construction & Electro-  
Mechanical.  
**Mr. Ezekiah Kipkorir  
Kapkiai**

#### **Personal Information:**

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Born

#### **Personal Information:**

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Kapkiai is the Chief Engineer in charge of Electro-mechanical Division and currently the Ag. General Manager - Construction & Electro-mechanical.

He holds a Bachelor of Science degree in electrical. He has a post graduate diploma in Electric Power Distribution. He has attended several professional short courses over the years.

Kapkiai joined the Corporation in 1989 on secondment from the then Ministry of Water Development and to date, he has performed various tasks rising to the Head of Electro-Mechanical Department before the implementation of the water reforms in 2005. Upon restructuring the Corporation, he was appointed as In-Charge of Electro-Mechanical Division and the Management Representative (MR) of the Quality Management Systems (QMS).



Ag. General Manager,  
Finance.  
**CPA Margaret Kithunzi**

**Personal Information:**

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Born

**Personal Information:**

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Kithunzi is the Chief Accountant, and currently the Ag. General Manager - Finance.

She holds a Master of Business Administration - and a Bachelor of Commerce (Accounting option). She is a Certified Public Accountant CPA (K).

She has previously worked with the Teachers Service Commission. She joined National Water Conservation & Pipeline Corporation as the Chief Accountant. She is affiliated to the Institute of Certified Public Accountants of Kenya (ICPAK).



Deputy General Manager,  
Planning & Design.  
**Eng. Benjamin Syengo  
Kiema**

**Personal Information:**

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Born

**Personal Information:**

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Eng. Kiema is the Ag. General Manager, Planning and Design..

He holds a Bachelor of Science degree in Civil Engineering and a Masters degree in Business Administration.

He is a registered engineer with Engineers Registration Board (ERB) and a member of the Institute of Engineers of Kenya (IEK). He has over 20 years experience in water infrastructure development, primarily in the public sector.

Eng. Kiema's experience has seen him traverse various aspects of civil engineering practice and management from design and supervision of construction of water supplies, operation & maintenance, to strategic level and long-term planning and corporate management.

He was Regional Manager for Rift Valley and Central regions before the implementation of the water reforms in 2005. He has previously been engaged with the Nakuru Water & Sanitation Company as the acting Managing Director for nine months.

He has participated in water sector reforms especially in the setting up of the Water Services Regulatory Board. He has had the opportunity to attend to a wide range of management courses both locally and internationally.



Chief Procurement Officer.  
**Mr. John Mwalya  
Musyoka**

**Personal Information:**

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Born

**Personal Information:**

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Musyoka is the Chief Procurement Officer. He holds a Bachelor of Commerce degree (Business Administration option) and has completed course work for an on-going Executive Masters of Business Administration. He is also a holder of a Post Graduate Diploma in Purchasing & Supplies.

Musyoka has vast experience as a Procurement Officer gained in Machakos and Muranga East districts. He has previously worked with Crane Securities, a member of the Nairobi Stock Exchange as a Purchasing Clerk/Dealer as well as Stanbic Bank Kenya Ltd where he was a Graduate Clerk/Management Trainee.



Ag. Chief Internal Auditor.  
**CPA Philip Ngovi Nzengu**

**Personal Information:**

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Born

**Personal Information:**

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Nzengu is the Senior Internal Auditor and currently the Ag. Chief Internal Auditor. Born in 1969, he is a self-made and educated professional having risen from a clerical officer to his current position. He is holder of a Bachelor of Business Administration and a Master of Arts in Procurement and Logistics. Apart from the advanced college education, he is CPA-K having gone through all the accounting training stages.

He started his career with M/s Njoroge & Musyoka Advocates; followed by a stint at the Mwingi County Council in various positions between 1995 to 2005 and finally at the defunct Kenya Anti-Corruption Commission before joining National Water Conservation & Pipeline Corporation.

## CHAIRMAN'S STATEMENT

The constitution of Kenya guarantees every citizen the right to clean and safe water in adequate quantities. This right comes at the back drop of a nation which is water scarce.

National Water Conservation and Pipeline Corporation which was formed in 1988 has over the years tried to stand in the gap by developing water infrastructure such as dams, pans and boreholes while at the same time mitigating the effects of floods by building dykes amongst other things.

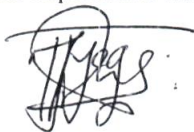
To achieve its mandate, the Corporation has fully embraced performance contracting which involves freely negotiated arrangements between the Board of Directors which I chair and the Government of the Republic of Kenya on Service delivery. The same performance Contract is cascaded to management whereby the Managing Director signed a contract with the Board and in turn signed similar contracts with the Heads of Departments. The Heads of Department on their part signed similar contracts with Divisional Heads.

The Performance Contracts have been useful tools to set targets and monitor performance of the Corporation's activities. In the last financial year, the Corporation performed well and met targets on most of the performance indicators.

The Corporation is fully committed to its vision of becoming a world class institution in water infrastructure development and management. By engaging with county governments, the Corporation will endeavour to increase the storage capacity of water especially in the arid and semi arid areas of the county with a view of enhancing water security nationally and mitigate against the effects of floods and drought in vulnerable areas.

My Board will continue to engage with Government, the public and other stakeholders to rebrand the Corporation and make it relevant under the new dispensation of devolution.

In conclusion, I wish to state that the organization is ready to face the future and that the activities captured in this Annual Report and Financial statements represent the true status of the Corporation.



Hon. Dr. Julius Kones  
Chairman

Date: 28/5/2015

## REPORT OF THE CHIEF EXECUTIVE OFFICER

I am pleased to present the Financial Statements of the Corporation for the period 2013/2014. During the year the institution depicted good financial health despite operating in a very challenging environment.

The electioneering period impacted drastically on the execution of some of the projects due to security concerns amongst others. The Corporation also faced budget constraints as it did not secure full funding from the Government as expected. Nonetheless, we managed to surmount the challenges to meet the annual targets.


In line with vision 2030, the Corporation continued to oversee construction of multi-billion large reservoirs namely, Kiserian Dam, Chemususu Dam, Kalundu Dam and Badasa Dam. The first three are substantially complete and will soon be handed over to respective Water Services Boards. A number of dams were planned for the year namely; Siyoi – Muruny, Rare, Rumuruti, Upper Narok and Koru. The dams form bulk of the operating expenses of the Corporation in line with its mandate.

Besides the dams, the Corporation drilled 93 No. boreholes over the period and managed to construct 58 No. small dams and pans and completed the construction of Kalundu and Kulan Pans. We also undertook flood control works across the country.

Recently, the Corporation fully implemented the Enterprise Resource Planning (ERP) accounting system which has synchronized the Corporation's activities. With this system the Corporation will be able to speed up its operations and service delivery in a secure environment.

Human Resources remain the greatest asset of the Corporation. In order to fully harness this important resource the Institution organized and managed to send a number of Directors and officers at all cadres to various trainings as a way of building capacity. Finally, on customer satisfaction, the Corporation continues to be attentive to our customers. In the previous financial year, the organization commissioned a customer satisfaction report which indicated that our customers were very pleased with our work and services.

The Report provides in summary the activities of the Corporation for the 2013/2014 financial year and provides a true and accurate status of the financial affairs of the Corporation for the period ending 30th June 2014.

  
Eng. Jacqueline K. Musyoki OGW, (Mrs)  
**Managing Director**

Date: 28.5.2015

## CORPORATE GOVERNANCE STATEMENT

Corporate governance is the process by which corporations are directed and controlled with the objective of increasing stakeholder's value and satisfying them. This is achieved by establishing a system of clearly defined authorities and responsibilities, which result in a system of internal controls that is regularly tested to ensure effectiveness.

The Board of Directors and Senior Management staff of the National Water Conservation & Pipeline Corporation have undergone a comprehensive 5 day Corporate Governance Training Course which broadened their knowledge and understanding of Corporate Governance and provided an insight into the importance of good Corporate Governance in Corporate performance and productivity. In addition, their capacity on strategic direction setting and the interpretation of the best principles and practices in Corporate Governance was enhanced.

With the above knowledge, Corporate Governance has been exercised to required standards resulting increasing the Stakeholder's values and stratifying them as confirmed in the customer satisfaction survey. At National Water Conservation and Pipeline Corporation, the Board places a high degree of importance on maintaining a sound control environment and applying the highest standards of business integrity and professionalism in all areas of the Corporation's activities. The Board has adopted the Code of Best Practice for Corporate Governance issued by the Centre of Corporate Governance (Kenya) as its benchmark in developing its corporate governance principles.

The Board of Directors have continuously embraced the values embodied in our Strategic Plan of the Corporation: Integrity, Accountability, Transparency, Professionalism, team work and Innovativeness. Consistent with these values, we take corporate governance seriously.

The Corporation has strengthened its corporate governance with more detailed Corporate Governance Principles, reviewed committee charters and provided multiple means for stakeholders to contact the Board.

Our Governance strengths include:

- Our board of directors consists of independent Directors with mix skills from the private sector, Directors from Government Institutions and the Managing Director.
- Our board holds quarterly scheduled meetings as provided for by the State Corporations Act Cap 446 and have access to information as required.
- All Committees of the Board have charters to guide their activities.

In conclusion the Board is responsible for the governance of the Corporation and conducts the business and operations of the Corporation with integrity and in accordance with generally accepted corporate practices, in a manner based on transparency, accountability and responsibility.

## REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2014 which show the state of the Corporation's affairs.

### Principal activities

The principal activities of the entity are to:

- Develop state schemes and spearhead dam construction for water supplies, flood control and other multi- purpose uses, land drainage and construction of dykes.
- Carry out ground water recharge using flood water.
- Develop, retain existing and expand bulk water supply to water service boards and other water services providers.
- Drill and equip boreholes

### Results

The results of the entity for the year ended June 30, 2014 are set out on page 20-35

### Directors

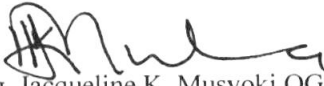
The members of the Board of Directors who served during the year are shown on page iv – vii. The directors are appointed by the Cabinet Secretary in charge of Ministry of Environment Water & Natural Resources on three year terms while the Chairman is appointed by The President of the Republic of Kenya through a gazette notice.

### Auditors

The Auditor General is responsible for the statutory audit of the Corporation in accordance with the Section 81 of the Public Finance Management (PFM) Act, 2012.

The Auditor General carried out the audit of the Corporation for the year ended June 30, 2014.

By Order of the Board

  
Eng. Jacqueline K. Musyoki OGW, (Mrs)  
**Managing Director**

Date: 28.5.2015

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

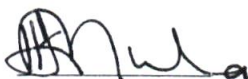
The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year (period) ended on June 30, 2014. This responsibility includes: (i) maintaining 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 Corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended June 30, 2014, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Corporation 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 Corporation's financial statements were approved by the Board on 28<sup>th</sup> September, 2014 and signed on its behalf by:

  
Director

  
Director

\_\_\_\_\_  
Director

**REPORT OF THE INDEPENDENT AUDITORS ON THE  
*NATIONAL WATER CONSERVATION & PIPELINE CORPORATION***

# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
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 NATIONAL WATER CONSERVATION AND PIPELINE CORPORATION FOR THE YEAR ENDED 30 2014

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of National Water Conservation and Pipeline Corporation set out at pages 1 to 19, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparative 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 14 of the Public Audit Act, 2003. 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.

#### **Management's Responsibility 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. The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003, and submit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statement.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **Basis for Qualified Opinion**

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

As previously reported, in previous years, the property, plant and equipment balance of Kshs.575,995,662 as at 30 June 2014 excludes various assets valued at Kshs.16,781,771,832 earmarked for transfers to various Water Services Boards. These agreements although drafted more than seven years ago, had not been signed as at 30 June 2014 by the respective parties.

In the circumstances, it has not been possible to confirm whether the carrying values of the property, plant and equipment stated in the financial statements at Kshs.575,995,662 reflect the fair values as at 30 June 2014.

### **2. Capital Work in Progress-Headquarters Building**

As reported in similarly years, the Corporation in March 2008 awarded a contract for construction of its Headquarters building to a firm at a contract sum of Kshs.485,400,820. However, the contractor abandoned the project after being paid a total of Kshs.80,660,480. The Corporation thereafter instituted a claim of Kshs.24,270,401 for damages against the contractor through an insurance firm in respect of 5% performance bond as provided for in the terms of the contract. The insurance firm however declined to honour the claim and the matter was still pending in a court of law as at 30 June 2014.

The Corporation may not have received value for money in the two contracts due to the delay in completion and the huge projects cost variations.

### **3. Receivables from Exchange Transactions**

As similarly reported in 2012/2013, the receivables from exchange transactions of Kshs.64,032,033 as at 30 June 2014 excludes water debtors of Kshs.1,377,265,026 and payment of Kshs.754,400 transferred to Water Service Boards through various unsigned agreements between the Corporation and the Water Service Boards in the year 2005/2006. These agreements had not been formalized and signed as at 30 June 2014.

Under the circumstances, the receivables from exchange transactions balance of Kshs.64,032,033 as at 30 June 2014 is not fairly stated.

### **4. Construction of Dams**

#### **4.1. Umaa Dam**

- i. As previously reported in 2012/2013, a contractor was paid Kshs.2,000,000 for the purchase of Yamaha motor cycles (125cc) and a further sum of Kshs.320,000 in respect of overheads and profit. The motor cycles were to be used by the contractor during the site visits to the dam due to the nature of the terrain. However, a market survey of the price in December 2010 for this type of motor cycle indicated that the purchase price may have been inflated by over 300%. Although the management explained that the payments would be reversed in the

subsequent interim payment certificate as provided for in clause 60.4 of the general conditions of contract, no reversal has been effected as at 30 June 2014.

- ii. As was further previously report, in September 2009, eight months after the commencement of the contract, the contractor submitted a request for variation of the contract price by Kshs.442,920,633. The variation requested by the contractor represented an increase of 53% of the original contract price of Kshs.824,457,120. The Corporation in turn declined to approve the variation or settle the contractor's claims on the ground that they were invalid and unjustifiable. The project, therefore, stalled due to the disagreement and the dispute was referred to a court of law. At the time of this report, the case had not been determined and no value for money has been obtained from the expenditure of Kshs.824,457,120 as at 30 June 2014.

## **4.2 Badasa Dam**

As reported in the previous year, the progress of work reported as at September 2010 indicated that the overall project completion was 33%, while 52% of contract period had elapsed. Available information indicates that in the year 2012/2013, the contractor was unable to complete the project within the contract period despite the Corporation having spent an amount of Kshs.1,853,757,235 as at 30 June 2013. The Corporation subsequently entered into an agreement with the contractor on 20 August 2013 which released both parties from the performance of the contract on the account of convenience, without the project being completed. No justification has been provided for this action.

## **5. Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalents balance of Kshs.1,933,983,290 as at 30 June 2014. However,

(i) The bank reconciliation statement as at 30 June 2014 for development account revealed long outstanding un-posted items amounting to Kshs.24,641,683, cash book under casts of Kshs.264,740 while long outstanding unrepresented cheques of Kshs.36,683,264 had not been reversed in the cash book.

### **(ii) Deposit Account**

The deposit account bank reconciliation statement reflects direct deposits cash book overcasts of Kshs.142,067 which has been recurring throughout the year under review.

### **(iii) Recurrent Account**

Recurrent account bank reconciliation statements reflects Kshs.18,220 for cash book over casts, Kshs.4,381,025 for unposted items, Kshs.2,000 for stale cheques, Kshs.2,174,220 for cash book under casts, Kshs.18,723,014 for unrepresented cheques.

### **(iv) Special Account**

The special account bank reconciliation include un-posted and unsupported items totalling Kshs.2,133,281 which relate to prior years.

In view of the foregoing, it has not been possible to confirm that the cash and cash equivalent balance of Kshs.1,933,983,290 as at 30 June 2014 is fairly stated.

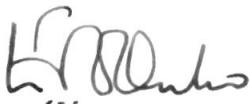
## **6. Board Expenses**

The statement of performance reflects that total board expenses declined from Kshs.27,859,914 as at 30 June 2013 to Kshs.21,473,888 as at 30 June 2014. However, the statement of budget comparison and actual amounts reflects actual expenditure of Kshs.20,866,741 against an approved budget of Kshs.31,294,774 the resulting difference of Kshs.607,147 between the two statements figures however has not been explained. In addition, the board incurred Kshs.7,016,027 on meetings that were not in the approved board activities for the year under review.

In the circumstances, it has not been possible to confirm the propriety of the unexplained activities and expenditure of Kshs.7,016,027 and unexplained difference of Kshs.607,147 as at 30 June 2014.

## **Qualified Opinion**

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion Paragraph, the financial statements present fairly, in all material respects, the financial position of the Corporation as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Water Act, 2002.



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

**Nairobi**

**9 July 2015**

**STATEMENT OF FINANCIAL PERFORMANCE**

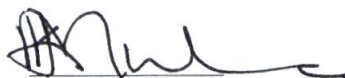
For the year ended 30 June 2014

		2013-2014 Kshs	2012-2013 Kshs
<b>Revenue from non-exchange transactions</b>			
Transfers from other governments	2	192,554,000	381,503,409
		<b>192,554,000</b>	<b>381,503,409</b>
<b>Revenue from exchange transactions</b>			
Rendering of services	3	102,696,983	53,916,556
Rental revenue from facilities and equipment	4	8,548,558	432,000
Finance income - external investments	5	94,563,877	61,355,708
Other income	6	6,187,537	6,215,563
		211,996,955	121,919,827
<b>Total revenue</b>		<b>404,550,955</b>	<b>503,423,236</b>
<b>Expenses</b>			
Employee costs	7	267,244,239	260,919,467
Board Members Remuneration & Related Costs	8	21,473,888	27,859,914
Depreciation and amortization expense	9	35,272,656	42,973,880
Repairs and maintenance	10	52,056,857	136,576,149
Rendering of services	11	32,533,804	68,362,010
General expenses	12	28,721,596	81,445,921
<b>Total expenses</b>		<b>437,303,040</b>	<b>618,137,340</b>
<b>Surplus before tax</b>		<b>(32,752,085)</b>	<b>(114,714,104)</b>
Taxation		0	0
<b>Surplus for the period</b>		<b>(32,752,085)</b>	<b>(114,714,104)</b>

**STATEMENT OF FINANCIAL POSITION**

As at 30 June 2014

		2013-2014 Kshs	2012-2013 Kshs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	13	1,933,983,290	750,757,253
Receivables from exchange transactions	14	64,032,033	41,223,456
Receivables from non-exchange transactions	15	58,826,138	57,477,544
Inventories	16	111,425,502	85,271,128
		<b>2,168,266,963</b>	<b>934,729,381</b>
<b>Non-current assets</b>			
Property, plant and equipment	17	575,995,662	608,797,681
Intangible assets	18	4,941,275	7,411,912
Capital Work in Progress	19	11,435,428,362	12,106,505,321
		12,016,365,299	12,722,714,914
<b>Total assets</b>		<b>14,184,632,262</b>	<b>13,657,444,295</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	20	638,209,573	853,707,524
Trade and other payables from non-exchange transactions	21	1,302,092	0
		<b>639,511,665</b>	<b>853,707,524</b>
<b>Non-current liabilities</b>			
Deferred income - Project Funds	22	12,538,045,610	11,763,909,700
		<b>12,538,045,610</b>	<b>11,763,909,700</b>
<b>Total liabilities</b>		<b>13,177,557,275</b>	<b>12,617,617,224</b>
<b>Net assets</b>			
Capital Reserves		848,612,700	848,612,700
Accumulated surplus		158,462,287	191,214,372
<b>Total net assets and liabilities</b>		<b>14,184,632,262</b>	<b>13,657,444,295</b>



Director

28.5.2015



Director

28/5/2015

**STATEMENT OF CHANGES IN NET ASSETS**  
For the year ended 30 June 2014

	Capital Reserves	Accumulated surplus	Total
	Shs	Shs	Shs
<b>Balance as at 30 JUNE 2012</b>	848,612,700	305,928,476	1,154,541,176
Surplus/(deficit) for the period	0	(114,714,104)	(114,714,104)
Transfers to/from accumulated surplus	0	0	0
<b>Balance as at 30 JUNE 2013</b>	<b>848,612,700</b>	<b>191,214,372</b>	<b>1,039,827,072</b>
Surplus for the period	0	(32,752,085)	(32,752,084)
Transfers to/from accumulated surplus	0	0	0
<b>Balance as at 30 JUNE 2014</b>	<b>848,612,700</b>	<b>158,462,287</b>	<b>1,007,074,988</b>

**STATEMENT OF CASH FLOWS**

For the year ended 30 June 2014

Note	2013-2014 Kshs	2012-2013 Kshs
<b>Cash flows from operating activities</b>		
<b>Receipts</b>		
Government grants and subsidies	192,554,000	381,503,408
Rendering of services - Private Works	59,377,602	63,697,700
Rental revenue from facilities and equipment	9,113,093	355,816
Finance income - external investments	112,515,201	74,746,174
Other income	6,187,537	6,215,563
	<b>379,747,434</b>	<b>526,518,661</b>
<b>Payments</b>		
Employee costs	267,244,239	258,659,835
Board Members Remuneration & Related Costs	21,473,888	28,247,914
Rendering of services - Cost of private works	32,533,804	51,952,760
Other payments	320,482,336	236,865,305
	<b>641,734,267</b>	<b>575,725,814</b>
<b>Net cash flows from operating activities</b>	<b>23</b>	<b>(261,986,833)</b>
<b>Cash flows from investing activities</b>		
Buildings	0	(1,762,225)
Purchase of Motor Vehicles	0	(4,165,000)
Purchase of Furniture and Office Equipment	0	(9,916,554)
Plant & Field Equipment	0	(9,967,400)
Increase in Capital Works in Progress	671,076,960	(2,993,252,283)
<b>Net cash flows used in investing activities</b>	<b>671,076,960</b>	<b>(3,019,063,462)</b>
<b>Cash flows from financing activities</b>		
Government Grants	774,135,910	2,372,851,627
<b>Net cash flows used in financing activities</b>	<b>774,135,910</b>	<b>2,372,851,627</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,183,226,037</b>	<b>(695,418,988)</b>
Cash and cash equivalents at 1 JULY	13	750,757,253
<b>Cash and cash equivalents at 30 JUNE</b>	<b>13</b>	<b>1,933,983,290</b>

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

For the year ended 30 June 2014

	Original budget 2013-2014 Kshs	Adjustments 2013-2014 Kshs	Final budget 2013-2014 Kshs	Actual on comparable basis 2013-2014 Kshs	Performance difference 2013-2014 Kshs
<b>Revenue</b>					
Government grants and subsidies - recurrent	172,554,000	20,000,000	192,554,000	192,554,000	0
Government grants and subsidies - Development	5,263,500,000	(712,812,573)	4,550,687,427	2,507,200,000	(2,043,487,427)
Other income A.I.A	100,000,000	30,000,000	130,000,000	211,996,956	81,996,956
<b>Total income</b>	<b>5,536,054,000</b>	<b>(662,812,573)</b>	<b>4,873,241,427</b>	<b>2,911,750,956</b>	<b>(1,961,490,471)</b>
<b>Expenses</b>					
Employee costs	218,119,073	46,351,256	264,470,329	267,234,239	(2,763,910)
Board Members Remuneration & Related Costs	15,854,000	15,440,774	31,294,774	20,866,741	10,428,032
General expenses	37,580,927	(11,792,029)	25,788,898	27,480,441	(1,691,543)
Finance costs	1,000,000	-	1,000,000	1,132,528	(132,528)
110020500- Dams & Pans	4,198,300,000	(773,812,573)	3,424,487,427	491,647,803	2,932,839,624
110020400- Drilling	707,200,000	(6,000,000)	701,200,000	255,290,491	445,909,509
110020300- Flood control	223,000,000	(33,000,000)	190,000,000	108,834,271	81,165,729
Construction of Buildings	135,000,000	100,000,000	235,000,000	94,257,086	140,742,914
<b>Total expenditure</b>	<b>5,536,054,000</b>	<b>(662,812,573)</b>	<b>4,873,241,427</b>	<b>1,266,743,600</b>	<b>3,606,497,827</b>
<b>Surplus for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,645,007,356</b>	<b>1,645,007,356</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Statement of compliance and basis of preparation

The Corporation's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity and all values are rounded to the nearest thousand (Ksh 000). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

### Summary of significant accounting policies

#### Revenue Recognition

##### i) Revenue from non-exchange transactions

##### Transfers from other government entities

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

##### ii) Revenue from exchange transactions

##### *Rendering of services*

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

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

##### *Interest income*

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

##### *Rental income*

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

### Budget information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

### Property, plant and equipment

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

The depreciation is recognized on a reducing balance basis with the applicable rates of:

- Buildings 2.5% per annum
- Plant & Equipment 3.0% per annum
- Motor Vehicles & Cycles 25.0% per annum
- Furniture, Fittings and Office Equipment 12.5% per annum
- Freehold Land & Capital Work in Progress *is not depreciated.*

Depreciation methods, useful lives and residual values, if not significant, are reassessed annually at each reporting date.

### Intangible assets

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

The intangible assets are amortized on a reducing balance basis at a rate of 33.3% per annum.

### 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 condition are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method

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

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

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

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

### **Provisions**

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

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

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

### **Contingent liabilities**

The Entity 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.

### **Changes in accounting policies and estimates**

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

### **Employee benefits**

#### *Retirement benefit plans*

The Entity provides retirement benefits for its employees and councilors. 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.

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

### **Cash and cash equivalents**

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

### **Comparative figures**

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

### **Significant judgments 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 values***

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

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

**Provisions**

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

**Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

**Related party transactions**

The remuneration of key management who received remuneration directly from the authority during the year is as follows:

	2013-2014	2012-2013
	Shs	Shs
Director's emoluments	21,473,888	27,859,914
<b>Key management compensation</b>		
CEO's salary and benefits	8,566,226	5,640,000
	<b>30,040,114</b>	<b>33,499,914</b>

**Financial Risk Management**

Exposure to currency, commodity, interest rate, liquidity and credit risk arises in the normal course of the authority's operations. This note presents information about the authority's exposure to each of the above risks, policies and processes for measuring and managing risk, and the authority's management of capital. Further quantitative disclosures are included throughout these financial statements.

**Fair values**

Set out below, is a comparison by class of the carrying amounts and fair value of the authority's financial instruments.

	Carrying amount	Fair value
	Shs	Shs
<b>Financial Assets</b>		
<b>As at 30th June 2014</b>		
Cash and cash equivalents	1,933,983,290	1,933,983,290
Receivables from exchange transactions	64,032,033	64,032,033
Receivables from non-exchange transactions	58,826,138	58,826,138
	<b>2,056,841,460</b>	<b>2,056,841,460</b>

	Shs	Shs
<b>Financial Assets</b>		
<b>As at 30th June 2013</b>		
Cash and cash equivalents	750,757,253	750,757,253
Receivables from exchange transactions	41,223,456	41,223,456
Receivables from non-exchange transactions	57,477,544	57,477,544
	<b>849,458,253</b>	<b>849,458,253</b>
	<b>Carrying amount</b>	<b>Fair value</b>
	Shs	Shs
<b>Financial Liabilities</b>		
<b>As at 30th June 2014</b>		
Trade and other payables from exchange transactions	638,209,573	638,209,573
Trade and other payables from non-exchange transactions	1,302,091	1,302,091
	<b>639,511,664</b>	<b>639,511,664</b>
	<b>Carrying amount</b>	<b>Fair value</b>
	Shs	Shs
<b>Financial Liabilities</b>		
<b>As at 30th June 2013</b>		
Trade and other payables from exchange transactions	853,707,524	853,707,524
Trade and other payables from non-exchange transactions	0	0
	<b>853,707,524</b>	<b>853,707,524</b>

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

#### *Credit risk*

Credit risk is the risk of financial loss to the authority if customers or counterparties to financial instruments fail to meet their contractual obligations. The authority's credit risk is primarily attributable to its receivables and cash and cash equivalents. The company's management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors before extending credit. The carrying amount of financial assets represents the maximum credit exposure. The credit risk on liquid funds with financial institutions is low, because the counter parties are banks with high credit-ratings. The maximum exposure to credit risk as at 30 Jun 2014 was:

<b>As at 30th June 2014</b>	<b>Fully performing</b>	<b>Past due</b>	<b>Impaired</b>	<b>Total</b>
	Shs	Shs	Shs	Shs
Cash and cash equivalents	1,933,983,290	0	0	1,933,983,290
Receivables from exchange transactions	47,941,717	11,754,432	4,335,884	64,032,033
Receivables from non-exchange transactions	39,768,478	5,376,639	13,684,021	58,829,138
<b>Maximum exposure to credit risk</b>	<b>2,021,693,484</b>	<b>17,131,071</b>	<b>18,019,905</b>	<b>2,056,844,460</b>

The average credit period on services rendered is 90 days from date of invoice. Debts above 90 days old are classified as past due. The authority provides fully for all receivables outstanding over 365 days where there is no evidence of expected recovery. The customers under the fully performing category are paying their debts as

they continue dealing with the authority. The default rate is low. The debt that is overdue is not impaired and continues to be paid.

#### *Credit quality*

Credit quality is assessed risk of default attached to counterparties to which the authority extends credit and also those parties with whom the authority invests. As such, the credit quality assessed extends to the customers and banks of the authority. For financial statement purposes, the investments and balances with banks are limited to the receivable and cash and cash equivalents line items in the statement of financial position. The authority determines credit quality of the banks from past dealings with them and from information readily available from the regulatory authority, the Central Bank of Kenya.

The client base of the authority is diverse and consists mainly of companies, individuals and government entities. For the purpose of determining the credit quality of clients, the authority applies its past experience with them in determining the risk of default they pose.

#### *Receivables*

Receivable amounts are owed by clients and the government of Kenya and are presented net of any impairment losses. There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The authority's exposure to credit risk is monitored on an ongoing basis. The authority's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial performance.

#### *Cash and cash equivalents*

The authority limits its exposure to credit risk by investing cash and cash equivalents with only reputable financial institutions that have a sound credit rating. Consequently, the authority does not consider there to be any significant exposure to credit risk.

#### *Liquidity risk*

Liquidity risk is the risk of the authority not being able to meet its obligations as they fall due. The authority's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the authority's reputation. Prudent liquidity risk management includes maintaining sufficient cash to meet the authority's obligations.

The table below analyses the authority's financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

Less than 1 month	Between 1-3 months	Over 3 months	Total
----------------------	-----------------------	------------------	-------

	Shs	Shs	Shs	Shs
<b>As at 30th June 2014</b>				
Receivables from exchange transactions	47,941,717	0	190,316	64,032,033
Receivables from non-exchange transactions	22,786,948	16,978,530	19,060,660	58,826,138
	<b>70,728,665</b>	<b>16,978,530</b>	<b>35,150,976</b>	<b>122,858,170</b>

### *Market risk*

Market risk is the risk of changes in market prices, such as foreign-exchange rates and interest rates, affecting the authority's income or the value of its financial instrument holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on the risk.

(i) *Price risk*

The authority does not hold investments that would be subject to price risk; hence this risk is not relevant.

(ii) *Interest rate risk*

The authority does not hold any interest bearing liabilities or assets; hence this risk is not relevant.

(iii) *Foreign currency risk*

The authority is exposed to foreign-currency risk through foreign currency denominated bank balances. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

### *Capital risk management policies*

The primary objective of managing the authority's capital is to ensure that there is sufficient cash available to support the authority's funding requirements, including capital expenditure, to ensure that the authority remains financially sound. The authority monitors capital using a gearing ratio, which is net debt, divided by total capital, plus net debt. As at the end of the year, the authority had no debt.

The capital structure of the authority consists only of a capital fund and accumulated general fund. The capital fund caters for replacement of assets and the general fund accommodates the surplus/deficit generated by the organization. The gearing ratio of the authority is therefore 0%.

### **Budget Analysis**

The budget changes between the original budget (Kshs.5, 536,054,000) and final budget (Kshs.4, 873,241,427) is as a result of budget reallocation by The National Treasury through the Revised Budget. The variance was Kshs. 662,812,573. Of the allocated budget, the Ministry of Environment Water and Natural Resources disbursed Kshs.2,507,200,000.00 during the Financial Year 2013/2014 thereby leaving a financing deficit of Kshs.2,366,041,427.00 hence the material differences in the budget expenditure/utilization.

**2. Transfers from GoK**

	2013-2014	2012-2013
	Shs	Shs
Unconditional grants		
Recurrent grant	192,554,000	202,817,394
Other grants	-	178,686,015
<b>Total Transfers from GoK</b>	<b>192,554,000</b>	<b>381,503,409</b>

**3. Rendering of services**

	2013-2014	2012-2013
	Shs	Shs
Drilling of Private Boreholes	102,696,983	53,916,556
<b>Total revenue from the rendering of services</b>	<b>102,696,983</b>	<b>53,916,556</b>

**4. Rental revenue from facilities and equipment**

	2013-2014	2012-2013
	Shs	Shs
Renting of Premises	572,819	432,000
Hire of Equipment	7,975,739	-
<b>Total rentals</b>	<b>8,548,558</b>	<b>432,000</b>

**5. Finance income - external investments**

	2013-2014	2012-2013
	Shs	Shs
Cash On-call & Fixed Deposits	94,563,877	61,355,708
<b>Total finance income – external investments</b>	<b>94,563,877</b>	<b>61,355,708</b>

**6. Other income**

	2013-2014	2012-2013
	Shs	Shs
Insurance recoveries	5,867,126	622,500
Commissions from check offs	183,111	184,063
Other income	5,300	-
Sale of Tenders	132,000	5,409,000
<b>Total other income</b>	<b>6,187,537</b>	<b>6,215,563</b>

**7. Employee costs**

	2013-2014	2012-2013
	Shs	Shs
Salaries and Wages	137,447,621	136,140,592
Contribution to Pension	18,317,416	16,888,189
Contribution to NSSF	542,800	1,375,198
Medical Insurance & Allowances	28,118,188	26,014,411
Commuter Allowances	12,750,623	12,715,141
House Allowance	50,944,035	51,602,425
Leave Allowance	4,172,503	3,513,486
Acting Allowance	854,236	-
Non-Practicing Allowance	596,129	318,085
Responsibility Allowance	2,476,447	3,016,015
Medical Refund - Exgratia	300,000	-
Special Duty Allowance	138,685	255,683
Performance and other bonuses	-	8,860,000
Gratuity to Employee on Contracts	10,585,555	220,242
<b>Total Employee costs</b>	<b>267,244,239</b>	<b>260,919,467</b>

**8. Board Members Remuneration & Related Costs**

	2013-2014	2012-2013
	Shs	Shs
Allowances	19,789,962	26,508,739
Catering	1,082,700	929,139
Honoraria	448,000	422,036
Others	153,226	-
<b>Total Board Members Remuneration &amp; Related Costs</b>	<b>21,473,888</b>	<b>27,859,914</b>

**9. Depreciation and amortization expense**

	2013-2014	2012-2013
	Shs	Shs
Property, plant and equipment ( <i>Ref Note 17</i> )	32,802,019	39,267,924
Intangible assets ( <i>Ref Note 18</i> )	2,470,637	3,705,956
<b>Total Depreciation and amortization</b>	<b>35,272,656</b>	<b>42,973,880</b>

**10. Repairs, running and maintenance**

	2013-2014	2012-2013
	Shs	Shs
Property	110,000	864,013
Office Equipment	169,318	-
Movable assets	51,777,539	135,712,136
<b>Total Repairs, running and maintenance</b>	<b>52,056,857</b>	<b>136,576,149</b>

**11. Rendering of services**

	2013-2014	2012-2013
	Shs	Shs
Cost of Private works	32,533,804	68,362,010
<b>Total Rendering of services</b>	<b>32,533,804</b>	<b>68,362,010</b>

**12. General expenses**

	2013-2014	2012-2013
	Shs	Shs
Communication	5,268,608	8,795,303
Travel	1,232,207	3,190,604
Utility Bills	-	1,624,234
Publicity and Advertising	3,000,226	9,382,281
Staff Training	1,770,223	11,199,167
ISO Certification	1,348,387	8,807,506
Rent and Rates	-	308,876
Staff Welfare	3,980,719	5,205,783
Computer	601,945	1,477,866
Office Stationery	-	12,419,550
Cleaning and Sanitation	141,513	208,167
Security	3,159,750	6,707,400
Membership Fees and Subscriptions	182,200	223,580
Legal	1,591,442	5,194,851
Audit	1,386,307	3,009,387
Corporate Insurance	2,358,038	1,194,736
Group Life	1,858,357	1,560,277
Bank Charges	841,672	936,353
<b>Total general expenses</b>	<b>28,721,596</b>	<b>81,445,921</b>

**13. Cash and cash equivalents**

	2013-2014	2012-2013
	Shs	Shs
Bank	1,915,983,290	450,715,940
Cash-on-hand and in transit	0	41,313
Short-term deposits	18,000,000	300,000,000
<b>Total cash and cash equivalents</b>	<b>1,933,983,290</b>	<b>750,757,253</b>

**14. Receivables from exchange transactions**

	2013-2014	2012-2013
	Shs	Shs
<b>Current receivables</b>		
Accrued K.C.B Interest Income	341,754	18,293,078
Rent Receivable	0	564,535
Prepaid Insurance & others	5,046,582	7,041,527
Business Unit Debtors	62,979,581	19,660,200
<i>Specific Provision for Bad Debts</i>	(4,335,884)	(4,335,884)
Net Business Unit Debtors	58,643,697	15,324,316
<b>Total receivables</b>	<b>64,032,033</b>	<b>41,223,456</b>

**15. Receivables from non-exchange transactions**

	2013-2014	2012-2013
	Shs	Shs
<b>Current receivables</b>		
Temporary Imprests to staff	60,608,558	62,757,786
<i>Specific Provision for Bad Debts</i>	(13,684,021)	(13,684,021)
Net Temporary Imprests to staff	46,924,537	49,073,765
Salary Advances to Staff	883,654	928,725
Furniture Advances to staff	14,472	14,472
Deposit with the Courts	11,003,475	7,460,582
<b>Total current receivables</b>	<b>58,826,138</b>	<b>57,477,544</b>

56,913,009

**16. Inventories**

	2013-2014	2012-2013
	Shs	Shs
Stocks	111,425,502	85,271,128
<b>Total inventories at net realizable value</b>	<b>111,425,502</b>	<b>85,271,128</b>

## 17 Property, Plant and Equipment

	Freehold Land Kshs.	Freehold Buildings Kshs.	Plant & Field Equipment Kshs.	Motor Vehicles & Cycles Kshs.	Furniture & Fittings Kshs.	Total Kshs.
<b>Depreciation Rate</b>	<b>0%</b>	<b>2.50%</b>	<b>3.00%</b>	<b>25%</b>	<b>12.50%</b>	
<b>Cost/Valuation</b>						
At 1 July 2012	84,000,000	65,711,539	452,182,975	279,886,090	40,567,825	922,348,429
Additions	0	1,762,225	9,967,400	4,165,000	9,916,554	25,811,179
<b>At 30 June 2013</b>	<b>84,000,000</b>	<b>67,473,764</b>	<b>462,150,375</b>	<b>284,051,090</b>	<b>50,484,379</b>	<b>948,159,608</b>
Additions	0	0	0	0	0	0
<b>At 30 June 2014</b>	<b>84,000,000</b>	<b>67,473,764</b>	<b>462,150,375</b>	<b>284,051,090</b>	<b>50,484,379</b>	<b>948,159,608</b>
<b>Depreciation and impairment</b>						
At 1 July 2012	0	9,969,080	75,852,385	194,383,087	19,889,451	300,094,004
Charge for the year	0	1,437,617	11,588,940	22,417,001	3,824,366	39,267,924
<b>At 30 June 2013</b>	<b>0</b>	<b>11,406,697</b>	<b>87,441,325</b>	<b>216,800,088</b>	<b>23,713,817</b>	<b>339,361,927</b>
Charge for the year	0	1,401,677	11,241,272	16,812,751	3,346,320	32,802,019
<b>At 30 June 2014</b>	<b>0</b>	<b>12,808,374</b>	<b>98,682,596</b>	<b>233,612,838</b>	<b>27,060,138</b>	<b>372,163,946</b>
<b>Net book Value</b>						
<b>At 30 June 2014</b>	<b>84,000,000</b>	<b>54,665,390</b>	<b>363,467,779</b>	<b>50,438,252</b>	<b>23,424,241</b>	<b>575,995,662</b>
<b>At 30 June 2013</b>	<b>84,000,000</b>	<b>56,067,067</b>	<b>374,709,050</b>	<b>67,251,002</b>	<b>26,770,562</b>	<b>608,797,681</b>

**18. Intangible assets - software**

<u>Cost/Valuation</u>	<u>Shs</u>
At 1 July 2012	27,101,555
Additions	0
<b>At 30 June 2013</b>	<b>27,101,555</b>
Additions – internal development	0
<b>At 30 June 2014</b>	<b>27,101,555</b>
<b>Amortization</b>	
At 1 July 2012	15,983,687
Amortization	3,705,956
<b>At 30 June 2013</b>	<b>19,689,643</b>
Amortization	2,470,637
<b>At 30 June 2014</b>	<b>22,160,280</b>
<b>Net book values</b>	
<b>At 30 June 2014</b>	<b>4,941,275</b>
<b>At 30 June 2013</b>	<b>7,411,912</b>

**19. Capital Work in Progress**

	<b>2013-2014</b>	<b>Adjustments</b>	<b>2012-2013</b>
	<b>Shs</b>	<b>Shs</b>	<b>Shs</b>
Large Dams	10,153,114,731	95,774,222	10,057,340,509
Small Dams & Pans	65,873,488	(44,199,492)	110,072,980
Boreholes	85,943,903	(950,042,026)	1,035,985,929
Dykes & Canals	494,098,599	116,377,574	377,721,025
Water Pipelines	138,663,520	16,755,677	121,907,844
Construction of Buildings	497,734,121	94,257,086	403,477,035
<b>Total</b>	<b>11,435,428,362</b>	<b>(671,076,960)</b>	<b>12,106,505,321</b>

**20. Trade and other payables from exchange transactions**

	<b>2013-2014</b>	<b>2012-2013</b>
	<b>Shs</b>	<b>Shs</b>
Trade payables	244,636,697	368,959,958
Payments received in advance	9,199,000	16,409,250
Third-party payments	(15,555,131)	3,177,504
Retentions held on behalf of suppliers	398,219,470	463,447,950
Accruals	1,709,537	1,712,862
<b>Total trade and other payables</b>	<b>638,209,573</b>	<b>853,707,524</b>

**21. Trade and other payables from non-exchange transactions**

	<b>2013-2014</b>	<b>2012-2013</b>
	<b>Shs</b>	<b>Shs</b>
Staff Claimables	1,302,092	0
<b>Total trade and other payables from non-exchange transactions</b>	<b>1,302,092</b>	<b>0</b>

**22. Deferred income - Project Funds**

	2013-2014	2012-2013
	Shs	Shs
Bal B/f from previous year	11,763,909,700	9,391,058,074
Grants received from GoK during year	2,507,200,000	2,918,698,285
Adjustments-Dams Transferred to Water Service Boards in year	(487,797,980)	(545,846,659)
Adjustments-Boreholes Transferred to Water Service Boards in year	(1,245,266,110)	0
<b>Total deferred income - project funds</b>	<b>12,538,045,610</b>	<b>11,763,909,700</b>

**23. Cash generated from operations**

	2013-2014	2012-2013
	Shs	Shs
<b>Surplus for the year before tax</b>	<b>(32,752,085)</b>	<b>(114,714,104)</b>
<u>Adjusted for:</u>		
Depreciation and Impairment	35,272,656	42,973,880
<b>Working capital adjustments:</b>		
Change in Inventories	(26,154,374)	66,428,764
Change in Receivables from exchange transactions	(22,808,577)	40,569,434
Change in Receivables from non-exchange transactions	(1,348,594)	41,376,308
Change in Trade and other payables from exchange transactions	(215,497,951)	(125,841,435)
Change in Trade and other payables from exchange transactions	1,302,092	0
<b>Net cash flows from operating activities</b>	<b>(261,986,833)</b>	<b>(49,207,153)</b>

## PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Capital work in progress for headquarter building of kshs 485400820 additional variations	Construction still ongoing	MD	Not resolved	15 <sup>th</sup> July 2015
2	Property Plant and Equipment had its carrying value not confirmed of kshs 575,995,662.00	The unsigned agreements were overtaken by the legal notice 101 and water Act 2002	MD	Not resolved	
3.1(i)	Umaa Dam inflated prices of motor cycles amounting to kshs 2000,000.00	The adjustments was to be effected as soon as court case is settled	MD	Not resolved	
3.1(ii)	Variation of the contract price by kshs 442,920,633.00	There was no justification of the claim by the Contractor	MD	Not resolved	
3.2	Badasa Dam kshs 1,853,757,235.04	The matter is in court and the contractor was granted preservatory orders	MD	Not resolved	
4	Cash and Cash Equivalents- Reconciliation Statements with unposted items involving three(3) accounts	The Finance Committee of the Board resolve to write off the same and it awaits the Full Board Resolution	MD	Not resolved	
5	Board Expenses- Expenditure of kshs 7,016,027.00 on	Need to sensitise board members on importance of budgetary controls	MD	Not resolved	

*Guidance Notes:*

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

  
Managing Director

Date: 28.5.2015



Chairman of the Board

Date: 28.5.2015