

REPUBLIC OF KENYA



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REPORT

DATE: 30 NOV 2023

DAY:

Thursday

TABLED

OF

CLERK-AT
THE-TABLE:

Hon Kimani Ichung'oro, CBS, MP
Leader majority party

Iuzofu muale

THE AUDITOR-GENERAL

ON

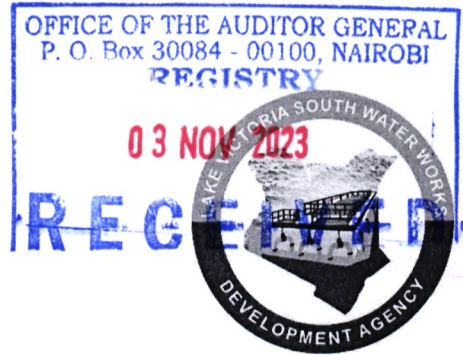
**TRILATERAL DEVELOPMENT
COOPERATION IN KENYA, WATER AND
SANITATION SECTOR PROJECT
(CREDIT NO. BMZ 201365352)**

**FOR THE YEAR ENDED
30 JUNE, 2023**

**LAKE VICTORIA SOUTH WATER
WORKS DEVELOPMENT AGENCY**



KFW



Project Name: TRILATERAL DEVELOPMENT COOPERATION IN KENYA, WATER AND SANITATION SECTOR

Implementing Entity: LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY

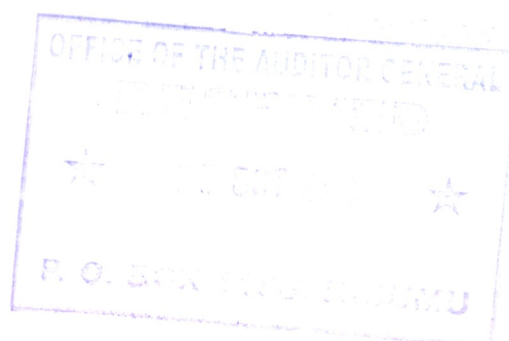
PROJECT CREDIT NUMBER BMZ No.2013 65 352

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2023

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



**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
Annual Report and Financial Statements
for the financial year ended June 30, 2023**

2023/24

**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
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**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
Annual Report and Financial Statements
for the financial year ended June 30, 2023**

1. Acronyms and Glossary of Terms

AIE	Authority to Incur Expenditure
CEO	Chief Executive Officer
GOK	Government of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
LVSWWDA	Lake Victoria South Water Works Development Agency.
NEMA	National Environmental Management Authority.
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
KfW	Kreditanstalt für Wiederaufbau

**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
Annual Report and Financial Statements for the financial year ended June 30, 2023**

PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Trilateral Development Cooperation in Kenya, Water and Sanitation Sector

Registered office

Address: The project headquarters offices are:
Lake Victoria South Water Works Development Agency
Lavictor's House, Ring Road Milimani
P. O. Box 3325 -40100
KISUMU CITY, KENYA.

Contacts: The following are the project contacts

Telephone: (254) (0)57 2025128

E-mail: info@lvswaterboard.go.ke

Website: www.lvswaterboard.go.ke

Objective: The key objective of the project is The Protection of Lake Victoria Urban Waste Discharges in Migori and Homa Bay Towns as contributions to Integrated Water Resources Management (IWRM)

Address: Lake Victoria South Water Works Development Agency
Lavictors House
Off Ring Road, Milimani
P. O. Box 3325
KISUMU KENYA.

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.2 Project Information

Project Start Date:	The project start date is 15/09/2015
Project End Date:	The project end date is 30/12/2022
Project Manager:	The project manager is Chrispine O. Juma, HSC
Project Sponsor:	The project sponsor is KFW and Government of Kenya

**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
Annual Report and Financial Statements for the financial year ended June 30, 2023**

1.3 Project Overview

Line Ministry	Ministry of Water and Sanitation.
Project number	BMZ No. 2013 65 352
Strategic goals of the project	<ul style="list-style-type: none"> (i) Conduct Feasibility study for management of liquid sludge and solid waste in the Lake Victoria Basin Towns Migori and Homa Bay (ii) Establishment of an Industrial Waste Management Information System (IWMIS) and management toolkit for Homa Bay and Migori Towns and their Environs (iii) Feasibility study of supplementary investments in the water distribution system of some arears of Homa Bay <p>Needs assessment and concept for a regional Training and Research Centre for holistic approach to waste Water Management.</p>
Attainment of strategic goals of the project	The project feasibility study was completed and development phase which includes hydrological studies, topographical survey has been done. The resettlement action plan is under development
Current situation that the project was formed to intervene	The project was formed to intervene in the following areas: <ul style="list-style-type: none"> (i) Protection of Lake Victoria from (ii) the Urban discharges in Migori Homa Bay Towns
Project duration	The project started on 15 th September 2015 and is expected to run until 30 December 2022

**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
Annual Report and Financial Statements for the financial year ended June 30, 2023**

Project Information and Overall Performance (Continued)

1.4 Bankers

The following are the bankers for the current year:

Kenya Commercial Bank Limited

P. O. Box 17 -40100

KISUMU, KENYA

1.5 Auditors

The Auditor General

Office of the Auditor General

P. O. Box 30084 -00100

NAIROBI.

1.6 Roles and Responsibilities

List the different people who will be working on the project. This list would include the project manager and all the key stakeholders who will be involved with the project. Also, record their role, their positions, and their contact information.

Names	Title designation	Responsibilities
Mr. Chrispine O. Juma, HSC	Ag. Chief Executive Officer	Overall responsibility for the organisation
Mr. Paul Agwanda	Project Coordinator	Coordinate the activities of the Project
Eng. Michael Opany	Project Engineer	Supervising the Project
CPA. Alex Chale	Accountant	Project Accountant
Mr. George Ageng'o	Principal environmentalist	Environmentalist
Ms. Miriam Siwa	Monitoring and Evaluation	Mobilize the community for the Project

1.7 Funding summary

The Projects initial duration was for Four years from 2011 to 2015 but has been extended to 30th December 2022 with an approved budget of EUR 700,000 equivalent to Ksh. 76,600,000 as highlighted in the table below: -

**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
Annual Report and Financial Statements
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Project Information and Overall Performance (Continued)

Below is the funding summary:

A. Source of Funds

Source of funds	Donor Commitment-		Amount received to date – (30-06-2023)		Undrawn balance to date	
	Donor currency (Euro)	KShs	Donor currency Euro	KShs	Donor currency euro	KShs
	(A)	(A')	(B)	(B')	(A)-(B)	(A)-(B)
(i) Grant						
KFW	700,000	76,600,000	521,095	66,332,758	178,905	10,267,242
(ii) Counterpart funds						
Government of Kenya		71,500,000		71,500,000		-
Total	700,000	148,100,000	521,095	137,832,758	178,905	10,267,242

Project Information and Overall Performance (Continued)

B. Application of Funds

Application of funds	Amount received to date – (30 th June 2022)		Cumulative Amount paid to date – (30 th June 2022)	Unutilized balance to date (30-06-2022)	
	Donor currency (UA)	Ksh.		Donor currency	Ksh.
	(A)	(A')	(B')	(A)-(B)	(A')-(B')
(i) Grant					
KFW Grant	521,095	66,332,758	66,332,758		0
(ii) Counterpart funds					
Government of Kenya		71,500,000	12,524,348		58,975,652
Total	521,095	137,832,758	78,857,106		58,975,652

Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
Annual Report and Financial Statements
for the financial year ended June 30, 2023
Project Information and Overall Performance (Continued)

1.8 Summary of Overall Project Performance:

- i. The project feasibility study was completed and development phase which includes hydrological studies, topographical survey has been done. The resettlement action plan is under development.

1.9 Summary of Project Compliance:

- ii. There are no-compliance issues with applicable laws and regulations and essential external financing agreements/covenants that are in the project.

**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
Annual Report and Financial Statements for the financial year ended June 30, 2023**

STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETRMINED OBJECTIVES.

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the accounting officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives.

The key development objectives of the project's 2014-2023 plan are to: -

- (i) To provide water, sanitation and health, electricity generation and economic empowerment;
- (ii) Establish affordable & self-sustaining water supply & waste utilities from town;
- (iii) Attract investments in water & sanitation dependent industries.eg hospitality;
- (iv) Increase the development of fisheries through use of the reservoir for fishing.

Progress on attainment of Strategic development objectives

The project has attained it strategic objectives are and the project implementation phase has started.

Trilateral Development Cooperation in Kenya, Water and Sanitation Sector Annual Report and Financial Statements for the financial year ended June 30, 2023

2. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

Lake Victoria South Water Works Development Agency exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on five pillars which involve putting the Citizen first, delivering relevant goods and services, and improving operational excellence. The five pillars are as below:

- i. Increase water services coverage from 53% to 80% by 2023.
- ii. Increase sanitation coverage from 17% to 43% by 2023.
- iii. Enhance financial strength by realizing annual revenue of Kshs. 9 billion
- iv. Strengthen Institutional Capacity by 20% by 2023
- v. Strengthen 8 Number Water Service Providers and respective Water Departments of the 8 County governments by 2023.

1. Sustainability strategy and profile-

In performing her mandate, Lake Victoria South Water Works Development Agency is committed to perform ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. The Agency undertakes to conduct 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. In light of this, the Agency has conducted various CSR projects under the different projects we are implementing.

2. Environmental performance

The Agency is operating as per the NEMA provisions of the EMCA 1999, and Environmental (Impact Assessment and Audit) Regulations 2003 as well as other environmental regulations (statutory requirements). The Agency therefore conducts environmental and social impact assessment for all its projects to ensure compliance with the regulations. The Projects were licenced by NEMA before constructions commences and regular monitoring is done during construction to ensure compliance and protection of the environment. Catchment management activities are incorporated in the projects. The Agency has an environmentalist who is a Project Implementation Team member for all the projects.

3. Employee welfare

The project management is by the Agency staff and therefore the entity's employee welfare policies and guidelines apply as detailed below:

The Agency has developed an approved Human Resource Instruments in which one of the guidelines is a comprehensive Human Resource Policy and Procedures Manual which is the primary document in the management of the Human Resources at the Agency. The document contains provisions for managing the entire scope of Human Resource Management and Development cycle.

It generally guides the implementation of the policies and decision making at various levels within the Agency on matters human capital. The policy provision covers the entire recruitment process, pay

Trilateral Development Cooperation in Kenya, Water and Sanitation Sector Annual Report and Financial Statements for the financial year ended June 30, 2023

and benefits, employee relations, performance management, training & development and the health and safety issues. In consideration of the affirmative actions, the policy addresses issues related to gender balance, persons with disability and consideration of the marginalized communities in all aspects of human resources dynamics.

Under the career development, the Agency has a comprehensive career progression document that outlines employee succession plans including requirements for internal promotions and the external engagements where talents may be required within its establishment. This is an instrument that outlines job descriptions for each cadre of employee. Together with the annual departmental workplans and the Government's performance contracting tool enables employees set their targets and eventually evaluated through annual appraisals. The evaluation enables employees of the Agency to be upskilled, helped or otherwise redeployed and upscaled.

The Agency also recognizes and commits itself to the achievement of the highest standards of health and safety in the workplace, and the elimination or minimization of health and safety hazards and risks that may affect its employees. In this regard, it implements policies and programmes that assure their protection from such hazards and disasters. The **policies and programmes** are implemented in compliance with the provisions of Occupational Safety and Health Act, 2007 and other Labour Laws.

4. Market place practices-

The Agency ensures incorporation of competitive market practices through, encouraging competitive bidding by placing advertisements for all tenders in our local dailies, our website and The Govt. of Kenya Treasury portal. This enables all prospective bidders to access the information and to participate. At the close of all tenders, representatives who choose to attend are invited to witness the opening of the tenders to ensure transparency in the bidding process. All the participants are informed of the outcome of the procurement process.

All engagements between the Agency and suppliers and/or contractors take the form of purchase orders and contracts which are signed by both parties and they clearly enumerate responsibilities and obligations of either party. The payment schedules also form part of the contracts and they are strictly adhered to during the contract period. The Agency encourages public participation and also clearance by relevant Government Agencies to ensure consumer rights and interests are not infringed.

5. Community Engagements

The Agency through the project has undertaken various CSR activities in its area of jurisdiction.

**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
Annual Report and Financial Statements for the financial year ended June 30, 2023**

3. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Chief Executive Officer of Lake Victoria South Water Works Development Agency (The Agency), which is the implementing agency (IA) of the project under the Ministry of Water & Irrigation and the Program Coordinator for KFW funded Projects are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2023. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

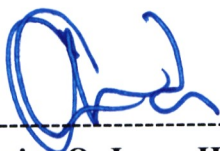
The Chief Executive Officer of the Agency and the Program Coordinator for Trilateral Development Cooperation in Kenya, Water and Sanitation Sector project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Chief Executive Officer of the Agency and the Program Coordinator for Trilateral Development Cooperation in Kenya, Water and Sanitation Sector Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2023, and of the Project's financial position as at that date. The Chief Executive Officer of the Agency and the Project Coordinator for Trilateral Development Cooperation in Kenya, Water and Sanitation Sector Project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The Chief Executive Officer of the Agency and the Program Coordinator for Trilateral Development Cooperation in Kenya, Water and Sanitation Sector Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

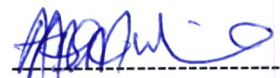
The Project financial statements were approved by The Chief Executive Officer of the Agency and the Program Coordinator for Trilateral Development Cooperation in Kenya, Water and Sanitation Sector Project on _____ 2023 and signed by them.



Chrispine O. Juma, HSC
Ag. Chief Executive Officer



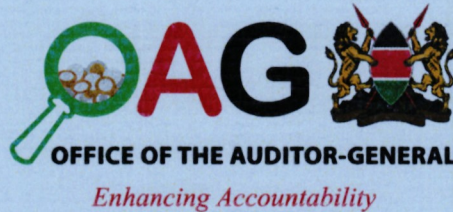
Eng. Michael Opany
Program Engineer



Alex C. Mulima
Program Accountan
ICPAK MNo. 28472

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON TRILATERAL DEVELOPMENT COOPERATION IN KENYA, WATER AND SANITATION SECTOR PROJECT (CREDIT NO. BMZ 201365352) FOR THE YEAR ENDED 30 JUNE, 2023 - LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY

PREAMBLE

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

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

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Trilateral Development Cooperation in Kenya, Water and Sanitation Sector Project set out on pages 15 to 30,

Report of the Auditor-General on Trilateral Development Cooperation in Kenya, Water and Sanitation Sector Project (Credit No. BMZ 201365352) for the year ended 30 June, 2023 - Lake Victoria South Water Works Development Agency

which comprise of the statement of financial assets as at 30 June, 2023, and the statement of receipts and payments, 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 Trilateral Development Cooperation in Kenya, Water and Sanitation Sector Project as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012, and Financing Agreement Credit No. BMZ 201365352 dated 28 September, 2015 between Frankfurt am Main (KfW) and the Republic of Kenya.

Basis for Qualified Opinion

1. Failure to Open a Separate Project Bank Account

The statement of financial assets as at 30 June, 2023 reflects cash and cash equivalents balance of Kshs.58,975,106 and as disclosed in Note 5A to the financial statements. However, the amount was not supported with a bank statement and a bank reconciliation statement since the Project's implementing agency does not operate a separate bank account for the Project but instead manages the project funds in the Agency's bank accounts together with the Agency's funds.

In the circumstances, the cash and cash equivalents balance of Kshs.58,975,106 could not be confirmed.

2. Accuracy of the Financial Statements

The statement of financial assets reflects Kshs.58,975,106 in respect to total financial assets and net assets of Kshs.58,975,652 resulting to a variance of Kshs.546. In addition, the statement of comparison of budget and actual amounts reflects budget utilization difference of Kshs.8,467,200 while a recast gives Kshs.8,467,800 resulting to a variance of Kshs.600.

In the circumstances, the accuracy of the financial statements balances could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Trilateral Development Cooperation in Kenya, Water and Sanitation Sector Project Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits

of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted expenditure amount of Kshs.25,500,000 against actual expenditure of Kshs.12,429,692 respectively, resulting to an under expenditure of Kshs.13,070,308 or 51% of the budget.

The underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by KfW Development Bank, I report based on my audit, that:

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by the Project Management, so far as appears from the examination of those records; and,
- iii. The Project's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Project's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Project or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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


- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Projects 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 Project 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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project 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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

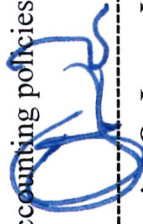
31 October, 2023

**Trilateral Development Cooperation in Kenya, water and sanitation sector
Annual Report and Financial Statements
for the financial year ended June 30, 2023**


5. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30TH JUNE 2023.

Note	2022/2023			2021/2022		
	Receipts and payments controlled by the entity	Payments made by third parties	Total	Receipts and payment controlled by the entity	Payments made by third parties	Cumulative to-date (From inception)
	Ksh.	Ksh.	Ksh.	Ksh.	Ksh.	Total Ksh.
RECEIPTS						
1	25,500,000	0	25,500,000	46,000,000	0	71,500,000
2	0	0	-	0	0	66,332,758
TOTAL RECEIPTS	25,500,000	0	25,500,000	46,000,000	0	137,832,758
PAYMENTS						
3	32,200		32,200	94,656	0	66,459,614
4	12,397,492	0	12,397,492	0	0	12,397,492
TOTAL PAYMENTS	12,429,692	0	12,429,692	94,656	0	78,857,106
SURPLUS/(DEFICIT)	13,070,308	0	13,070,308	45,905,344	0	58,975,652


The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.



Chrispine O. Juma, HSC
 Ag. Chief Executive Officer



Eng. Michael Opany
 Program Coordinator



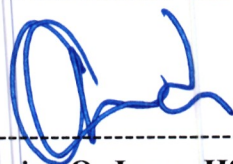
Alex C. Mulima
 Program Accountant
 CPAK MNo: 28472

**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
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for the financial year ended June 30, 2023**

6. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2023

	Note	2022-2023	2021-2022
		Ksh.	Ksh.
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	5.A	58,975,106	45,905,344
Total Cash and Cash Equivalents		58,975,106	45,905,344
TOTAL FINANCIAL ASSETS		58,975,106	45,905,344
FINANCIAL LIABILITIES			
NET ASSETS		58,975,652	45,905,344
REPRESENTED BY			
Fund balance b/fwd.	6	45,905,344	
Prior year adjustments		-	-
Surplus/(Deficit) for the year		13,070,308	45,905,34
NET FINANCIAL POSITION		58,975,652	45,905,344

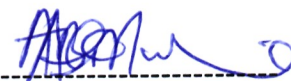
The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 24/10/ 2023 and signed by: -



Chrispine O. Juma, HSC
Ag. Chief Executive Officer



Eng. Michael Opany
Program Engineer



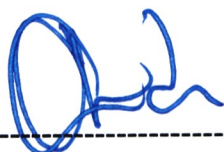
Alex C. Mulima
Program Accountant
ICPAK MNo: 28472

**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
Annual Report and Financial Statements for the financial year ended June 30, 2023**

7. STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30TH JUNE 2023

	Note	2022-2023 KShs	2021-2022 KShs
CASHFLOW FROM OPERATING ACTIVITIES			
Receipts from operating activities			
Transfer from Government entities	1	25,500,000	46,000,000
Proceeds from domestic and foreign grants	2	-	-
Payments from operating activities			
Purchase of goods and services	3	32,200	(94,656)
Acquisition of non-financial assets	4	12,397,492	-
Adjustments during the year			
		-	-
Net cash flow from operating activities		13,070,308	45,905,344
CASHFLOW FROM INVESTING ACTIVITIES			
Net cash flows from Investing Activities			
		-	-
CASHFLOW FROM BORROWING ACTIVITIES			
Net cash flow from financing activities			
		-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		-	-
Cash and cash equivalent at beginning of the year	5	45,905,344	-
Cash and cash equivalent at end of the year	5	58,975,652	45,905,344

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 24/10 2023 and signed by: -



Chrispine O. Juma, HSC
Ag. Chief Executive Officer



Eng. Michael Opany
Program Engineer

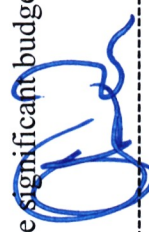


Alex C. Mulima
Program Accountant
ICPAK MNo: 28472

8. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH JUNE 2023

Receipts/Payments Item	Original Budget a	Adjustments b	Final Budget c= a+b	Actual on Comparable Basis d	Budget Utilization Difference e=c-d	% of Utilization f=d/c %
Receipts						
Transfer from Government entities	34,000,000	-8,500,000	25,500,000	25,500,000	-	100
Proceeds from domestic and foreign grants	0	-	-	-	-	
Proceeds from borrowings		-	-	-	-	
Miscellaneous receipts		-	-	-	-	
Total Receipts	34,000,000	-8,500,000	25,500,000	25,500,000	-	100
Payments						
Compensation of employees						
Purchase of goods and services	10,000,000	-1,500,000	8,500,000	32,200	8,467,200	0.37
Social security benefits						
Acquisition of non-financial assets	24,000,000	-7,000,000	17,000,000	12,397,492	4,602,508	73
Transfers to other government entities						
Other grants and transfers						
Total Payments	34,000,000	-	25,500,000	12,429,692	13,070,308	48.74

Note: The significant budget utilization/performance differences in the last column are explained in Annex 1 to these financial statements.



Chrispine O. Juma, HSC
Ag. Chief Executive Officer



Eng. Michael Opany
Program Engineer



Alex C. Mulima
Program Accountant
ICPAK MNo: 28472

**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
Annual Report and Financial Statements for the financial year ended June 30, 2023**

9. SIGNIFICANT ACCOUNTING POLICIES

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

9.1 Statement of compliance and basis of preparation

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

The accounting policies adopted have been consistently applied to all the years presented.

9.2 Reporting entity

The financial statements are for the Lake Victoria South Water & Sanitation Project Phase II under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012.

9.3 Reporting currency

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

9.4 Significant Accounting Policies

a) Recognition of receipts

The Trilateral Development Cooperation Project recognises all receipts from the various sources when the event occurs, and the related cash has actually been received by the Government.

Significant Accounting Policies (Continued)

i) Transfers from the Exchequer

Transfer from Exchequer is recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

ii) External Assistance

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

iii) Other receipts

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognized in the financial statements the time associated cash is received.

**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
Annual Report and Financial Statements for the financial year ended June 30, 2023**

b) Donations and grants

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

c) Proceeds from borrowing

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

d) Undrawn external assistance

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

Significant Accounting Policies (Continued)

9.5 Recognition of payments

The Project recognises all payments when the event occurs, and the related cash has actually been paid out by the Project.

i) Compensation of employees

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

ii) Use of goods and services

Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. If not paid for during the period where goods/services are consumed, they shall be disclosed as pending bills.

iii) Interest on borrowing

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

Trilateral Development Cooperation in Kenya, Water and Sanitation Sector Annual Report and Financial Statements for the financial year ended June 30, 2023

iv) **Repayment of borrowing (principal amount)**

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

v) **Acquisition of fixed assets**

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

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

Significant Accounting Policies (Continued)

9.6 In-kind donations

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

9.7 Cash and cash equivalents

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

9.8 Restriction on cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits.

9.9 Accounts receivable

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where

Trilateral Development Cooperation in Kenya, Water and Sanitation Sector Annual Report and Financial Statements for the financial year ended June 30, 2023

the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

Significant Accounting Policies (Continued)

9.10 Contingent Liabilities

A contingent liability is:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) A present obligation that arises from past events but is not recognised because:
 - i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - ii) The amount of the obligation cannot be measured with sufficient reliability.

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships, 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.

Section 89 (2) (i) of the PFM Act requires the National Government to report on the payments made, or losses incurred, by the county government to meet contingent liabilities as a result of loans during the financial year, including payments made in respect of loan write-offs or waiver of interest on loans.

9.11 Contingent Assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

Significant Accounting Policies (Continued)

9.12 Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to

Trilateral Development Cooperation in Kenya, Water and Sanitation Sector Annual Report and Financial Statements for the financial year ended June 30, 2023

provide a sense of the overall net cash position of the Project at the end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

9.13 Budget

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

A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

9.14 Third party payments

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

During the year there were money received in form of direct payments from third parties.

Significant Accounting Policies (Continued)

9.15 Exchange rate differences

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

9.16 Comparative figures

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

9.17 Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2023.

**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
Annual Report and Financial Statements for the financial year ended June 30, 2023**

9.18 Prior period adjustments

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

**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
Annual Report and Financial Statements for the financial year ended June 30, 2023**

10. NOTES TO THE FINANCIAL STATEMENTS

1. Receipts from Government of Kenya

These represent counterpart funding and other receipts from government as follows:

	2022/23	2021/22	
	Ksh.	Ksh.	Cumulative to-date (from inception)
<i>Counterpart funding through Ministry of Water & Irrigation</i>			
Counterpart funds Quarter 1	8,500,000	16,500,000	25,000,000
Counterpart funds Quarter 2		16,500,000	16,500,000
Counterpart funds Quarter 3		6,500,000	6,500,000
Counterpart funds Quarter 4	17,000,000	6,500,000	23,500,000
Total (See Annex 2)	25,500,000	46,000,000	71,500,000

**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
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2. Proceeds from Domestic and Foreign Grants

During the 12 months to 30 June 2023, The Agency did not receive any grants for the project.

Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
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Notes to the Financial Statements (Continued)

3 Purchases of Goods and Services

	2022/2023			2021/2022	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments	
	Ksh.	Ksh.	Ksh.	Ksh.	Ksh.
Utilities, supplies and services	32,200	0	32,200	94,656	66,459,614
Total	0	0	0	0	66,459,614

4. Acquisition of Non-Financial Assets

	2022-23			2021/22	
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments	Cumulative to-date
	Ksh.	Ksh.	Ksh.	Ksh.	Ksh.
Construction of civil works	12,397,492	-	-	-	12,397,492
Total	0	-	0	-	12,397,492

Description	2022-23	2021-22
	Ksh.	Ksh.
Bank accounts (Note 11A)		45,905,344
Total	58,975,652	45,905,344

**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
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Cash and Cash Equivalents

The project does not have a project bank account but used the Agency's main development account.

5. A Bank Accounts

Project Bank Accounts

Details	2022-2023	2021-2022
	Ksh.	Ksh.
Kenya Commercial Bank [A/c No 1104035464]	58,975,652	45,905,344
Total bank account balances	58,975,652	45,905,344

Fund Balance Brought Forward

	2022/23	2021/22
	Ksh.	Ksh.
Bank accounts	45,905,344	0
Cash in hand	0	0
Cash equivalents (short-term deposits)	0	0
Outstanding imprests and advances	0	0
Total	45,905,344	0

**Trilateral Development Cooperation in Kenya, Water and Sanitation Sector
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Notes to the Financial Statements (Continued)

11. OTHER IMPORTANT DISCLOSURES

1. Pending Accounts Payable

During the period ending 30th June 2023 the project had no pending Accounts payable

2. Pending Staff Payables

During the period ending 30th June 2023 the project had no pending staff payable


3. Other Pending Payables

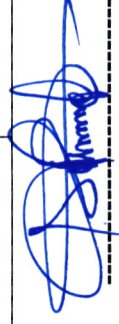
During the period ending 30th June 2023 the project had no other pending payable

12. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S 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.

No.	Observations from Auditor	Management comments	Status: (Resolved/Not Resolved)	Timeframe
1.	Unsupported cash and cash equivalent. No cash book and reconciliations maintained.	The project funds are maintained from the Agency's main Development Accounts which has a cash book and bank reconciliations maintained. For project Phase II, the Agency has acquired new donor and sought permission from the National Treasury through our Parent Ministry to open new project account vide letter Ref. No. LVS/BANK.C/47/ (37) dated 2 nd August 2023.	Resolved	
2.	Budgetary control and performance. Under performance of the budget	The budget under performance was due to contactors low pace in implementation and late receipt of disbursement in the 4 th quarter. The Agency has since implemented the project for Financial Year 2022/2023.	Resolved	
3.	Unsupported project funding. GOK funding not supported by the financing agreement	The GOK funding is supported by the approved budget, by Treasury and Parent Ministry.	Resolved	
4.	Sustainability of the project due to low funding	The project initial objectives which were conducting feasibility study, needs assessment and establishment of waste water Management information systems have been achieved and the reports are available for review.	Resolved	
5.	Failure to prepare itemized budget	This issue has been resolved under current financial statement, where the project has itemized budget lines	Resolved	


Chrispine O. Juma, HSC
Ag. Chief Executive Officer


Eng. Michael Opany
Program Engineer

13. ANNEXES

Annex 1 - Variance Explanations - Comparative Budget and Actual Amounts

	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance (below 90% and over 100%)
	a	b	c=a-b	d=b/a %	
Receipts					
Transfer from Government entities	25,500,000	25,500,000	-	100	
Total Receipts	25,500,000	25,500,000	-	100	
Payments					
Purchase of goods and services	8,500,000	32,200	8,467,800	0.32	There were no disbursements during the 2 nd , 3 rd and 4 th quarter and we received funds days to the closer of 4 th Quarter.
Acquisition of nonfinancial assets	17,000,000	12,397,492	4,602,508	73	The Gok component of the project is still being executed and the funds are available for use.
Total payments	25,500,000	12,429,692	13,070,308	49	