

REPUBLIC OF KENYA

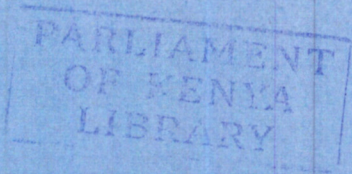


OFFICE OF THE AUDITOR-GENERAL



THE NATIONAL ASSEMBLY PAPERS LAID	
DATE:	21 JUL 2019
	DAY: Wednesday
TABLED BY:	Hon. Benjamin Wanjau (Majority Whip)
BY:	Halina Ahmed

REPORT



OF

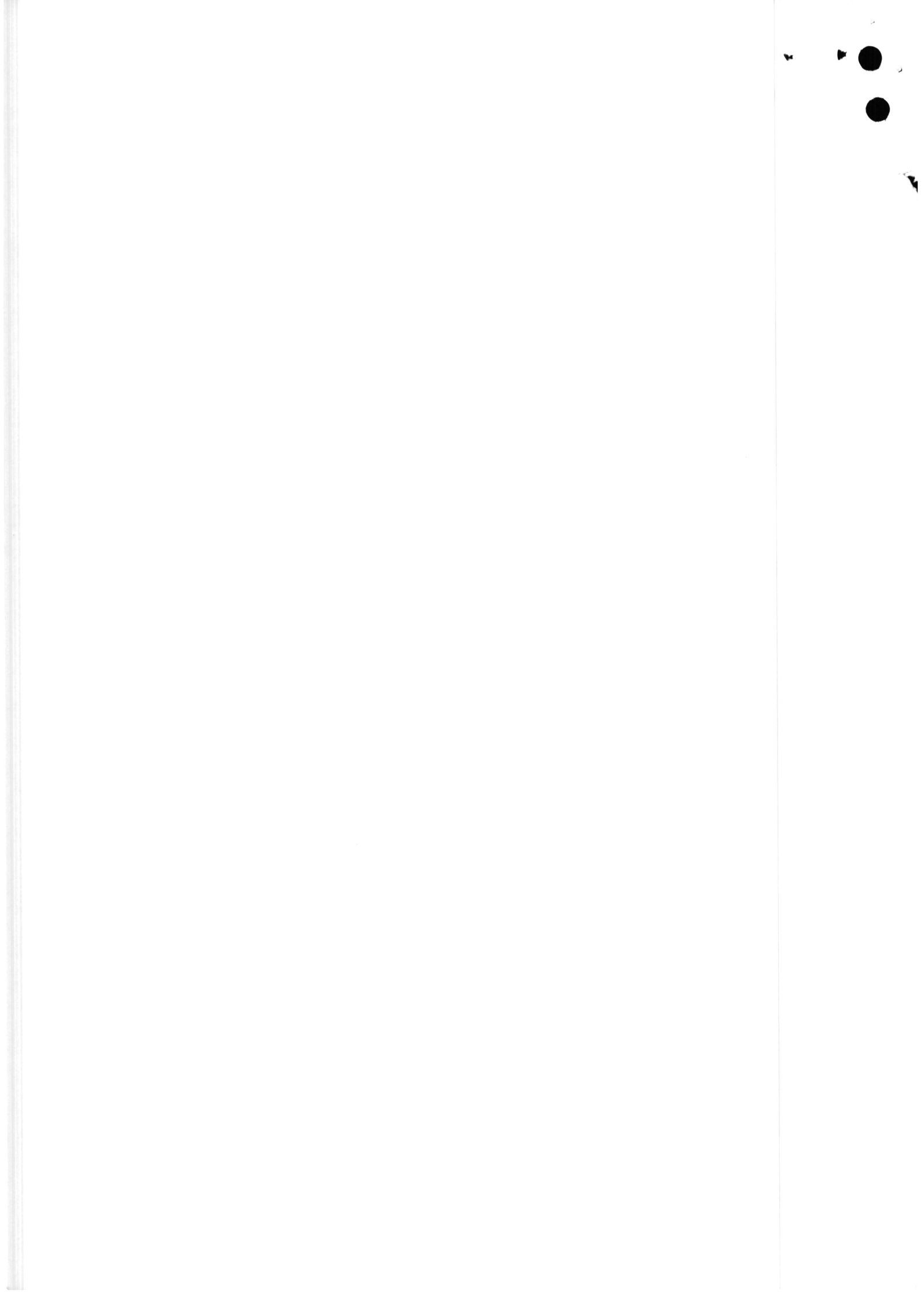
THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
WATER SECTOR TRUST FUND**

FOR THE YEAR ENDED

30 JUNE 2018



**WATER SECTOR TRUST FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**



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

GLOSSARY OF TERMS

Acronym	Description
AOD	Aid on Delivery
ASAL	Arid and Semi-Arid Lands
BMGF	Bill and Melinda Gates Foundation
CBOs	Community Based Organizations
CFA	Community Forest Associations
DKK	Danish Kroner
EU	European Union
GETF	Global Environment and Technology Foundation
GoF	Government of Finland
GoK	Government of Kenya
IFAD	International Fund for Agricultural Development
KfW	Kreditanstalt fuer Wiederaufbau (German Government Bank)
KShs	Kenya Shillings
MTAP	Medium Term Arid Programme
NIC	National Industrial Credit Bank
OBA	Output Based Aid
SCAC	State Corporations Advisory Committee (SCAC)
SIDA	Swedish International Development Agency
SNV	Stichting Nederlandse Vrijwilligers (Netherlands Development Organization)
UBSUP	Upscaling Basic Sanitation for the Urban Poor
UNICEF	United Nations International Children Emergency Fund
UPC	Urban Project Cycle
USD	United States Dollar
WASH	Water and Sanitation for Hygiene
WRCCI	Water Resources and Climate Change Investments
WRUA	Water Resources Users Association
WSB	Water Service Boards
WSPs	Water Services Providers
WSTF	Water Sector Trust Fund

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CORPORATE INFORMATION

INCORPORATION

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

PRINCIPAL ACTIVITIES

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

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

Vision:

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

Mission:

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

Core Values

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

CORPORATE INFORMATION (continued)

BOARD OF TRUSTEES

Hon. Musikari N. Kombo, EGH	- Board Chairman (served up to 16th April, 2018)
Mr. Ismail Fahmy M. Shaiye	- Chief Executive Officer
Mr. Joseph W. Irungu, CBS	- PS, Ministry of Water and Sanitation
Dr. Kamau Thuge, EBS	- PS, the National Treasury (NT)
Ms. Margaret Wamuyu Kibui	- Alternate Trustee to PS: National Treasury (Served up to 16th April, 2018)
Mr. Daniel Kihara	- Alternate Trustee to PS: Ministry of Water and Sanitation (Served up to 16th April, 2018)
Mr. Joel N. Onchwati	- Alternate Trustee to PS: Ministry of Water and Sanitation (Appointed on 28 th June 2018)
Mr. Stephen N. Gwandaru	- Member
Mr. Adan Omar Enow	- Member
Mr. Joel Onsare Gasuka	- Member
Mr. Joseph Kotoine Nkaiwuatei	- Member
Eng. Onesmus kipkirui Maritim	- Member
Ms. Rose N. Kinuthia	- Member
Ms. Sheila Murugi Mugo	- Member

MANAGEMENT TEAM

Mr. Ismail Fahmy M. Shaiye, BA (Global Studies), Masters in International Environmental Law and MSc (Natural Resource Management)	- Chief Executive Officer
Mr. Bonface Wanyonyi, BCom (Accounting), MBA, CPA (K)	- Chief Manager, Finance (Served up to 28 th February, 2018)
Mr. Edwin Korir, B.Ed. (Arts), MBA, CPA (K)	- Chief Manager, Internal Audit & Risk Management
Mr. Willis Okello Ombai, BSc (Forestry), MA (Project Planning & Management)	- Chief Manager, Investments & Programmes
Mr. Samwel Gitau Mbugua, B. Com (Accounting), MBA, CPA (K)	- Manager, Finance
Mr. Bernard Njenga, B. Com (Business Information Systems), MBA	- Manager, ICT & Corporate Affairs
Mr. Ronald Kimaiyo, B.Ed. (Arts), MBA, Higher Dip. HR	- Manager, Human Resources and Administration
Mr. Isaac Kega, BA (Econ), MEcon, PMP, MESK	- Manager, Research, Planning and M&E
Ms. Stella Warue, BSc. Environmental Health, MSc (IWRM)	- Acting Manager, Urban Investments
Mr. Fidelis Tamangani, BSc Natural Resources Management, MBA	- Manager, Result-Based Financing
Ms. Pricilla Kagure Kinyari, BSc Eng.(Agricultural), MSc (Environmental)	- Manager, Rural Investments
Eng. Rose Nyikuri, BEng (Civil), MSc (WREM), R. Eng., MIEK	- Manager, Water Resources and Climate Change Investments
Mrs. Ruth Nganga, BA (Theology), PGC, Ed	- Manager, Partnership Development and Resource Mobilization
Ms. Virginia Nzioka, LL. B; PGDip – Law; ACI Arb	- Manager, Legal & Corporation Secretary (Served up to 14 th May, 2018)

CORPORATE INFORMATION (continued)

REGISTERED OFFICES

CIC Plaza First Floor,
Mara Road, Upper Hill,
P.O. Box 49699 - 00100
Nairobi, Kenya.
Tel: +254 - 20-2720696/9017/9018/9019
Fax: +254 - 20-2724357
E-mail: info@waterfund.go.ke
Website: www.waterfund.go.ke

BANKERS

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

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

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

Co- operative Bank of Kenya Limited
Upper Hill Branch
P.O. Box 48231 - 00100
Nairobi, Kenya.

AUDITOR

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

LEGAL ADVISORS

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

BOARD OF TRUSTEES

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

**Hon. Musikari N. Kombo, EGH - Chairman of the Board of Trustees
(served up to 16th April, 2018)**



Hon. Musikari Kombo joined the Trust Fund as Chairman of the Board of Trustees in April 2015 for a period of 3 years. Hon. Kombo is a former Cabinet Minister in the Ministry of Regional Development and Local Government and served for a cumulative period of 5 years. He pioneered and made a significant contribution to the agenda of anti-corruption in Kenya.

During the 8th Parliament he played a significant role in institutionalizing the fight against corruption as well as in rejecting legislation that undermined the fight against corruption. In December 1997, the Kenya Anti-Corruption Authority (KACA) was established following an amendment to The Prevention of Corruption Act Cap 65, Laws of Kenya. In 1998, Hon. Musikari Kombo chaired a Parliamentary Committee that produced a report known as the "Kombo Report" the appendix to which was the even more famously known "List of Shame". He spearheaded a Bill in Parliament which was later on taken over by the Government and enacted as The Political Parties Act, 2011 (No11 of 2011). This Act of Parliament provided for registration, regulation and funding of political parties and for connected purposes. Hon. Kombo has also contributed, and has been recognized and acclaimed, for his contribution to the fight against corruption in Africa and globally. In this respect he contributed to the setting up of anti-corruption bodies of parliamentarians and served on them both as a resource person and board member. Hon. Kombo holds a BA Degree (Economics) from the University of East Africa. He has been a successful international businessman with companies in East Africa. He owned and managed groups of companies where he successively held the roles of Managing Director/ CEO and Board Chairman.

Mr. Ismail Fahmy M. Shaiye – Chief Executive Officer

Mr. Ismail Fahmy M. Shaiye joined the Trust Fund as Chief Executive Officer on 10th November 2014. He is a Natural Resource Expert with over 10 years' experience in various countries in Eastern Africa and the United States of America (USA). He served as a Program Manager and Environmental Officer at the United States Agency for International Development (USAID) in Nairobi with responsibilities of ensuring that programs comply with both national and international environmental laws. In addition, he advises USAID Missions in the region on broader issues pertaining to water and sanitation, environmental regulations, biodiversity protection, climate change and environmental dispute resolution. Mr. Shaiye holds a Master's Degree in International Environmental Law (Vermont Law School). He also holds a Master of Science Degree in Natural Resource Management and a Bachelor of Arts Degree in Global Studies (Environmental Governance) from the University of Minnesota. Mr. Shaiye has extensive experience in the application and compliance of Multilateral Environmental Agreements (MEAs) and is an experienced development professional with experience in program management, monitoring and evaluation and communications for clients including World Bank, European Union, DfID, and the United Nations.



Mr. Shaiye has worked with several organizations in the field of water, sanitation and environment including USAID, Kenya Red Cross Society, Mercy USA for Aid and Development and Mississippi County Watershed, USA.

BOARD OF TRUSTEES (continued)



Mr. Joseph W. Irungu, CBS – Principal Secretary, Ministry of Water and Sanitation

Joseph W. Irungu, CBS was appointed the Principal Secretary Ministry of Water and Sanitation on 12th February, 2018. He is an Administrator by profession. He holds a Bachelors of Arts Degree from University of Nairobi and an MBA from JKUAT.

He brings in a wealth of experience in administration having served in different administrative capacities in the Government of Kenya. He has served in various positions in the Ministry of Interior & Coordination of National Government as follows - Principal Administrative Secretary, Secretary of Administration/Internal Security, Director of Administration, Senior Deputy Commissioner, Lower Central Province (Thika), Deputy Provincial Commissioner, Nyanza Province, District Commissioner, Bungoma District, District Officer in Nyanza, Coast and Central Provinces and as an Assistant Secretary, Ministry of Local Government.

He is a member of Kenya Institute Management (KIM) and Kenya Association of Public Administration and Management (KAPAM).

Dr. Kamau Thugge, EBS

Dr. Kamau Thugge became Trustee after his appointment and swearing in as the Principal Secretary to the National Treasury on 26 June 2013. He holds a doctorate in Economics from the Johns Hopkins University. Before his appointment, he was an economic advisor to the National Treasury since December 2005. He had previously served as Director Economic Affairs, Treasury since 29 July 2004. Prior to joining Treasury, he worked at the IMF from 1985 to 2004.



Ms. Margaret Wamuyu Kibui (served up to 16th April, 2018)

Ms. Margaret Wamuyu Kibui was appointed as Water Sector Trust Fund's alternate trustee to the Principal Secretary of the National Treasury in November 2015. She is a Certified Public Accountant and a Member of Institute of Certified Public Accountants of Kenya (ICPAK).

Ms. Kibui possesses a Master of Business Administration degree from the University of Nairobi and Bachelor of Commerce degree (First Class Honours) from KCA University. She is a Senior Government officer with a wealth of experience in Public Financial Management and works at the National Treasury.

BOARD OF TRUSTEES (continued)

Mr. Daniel Kihara Mutune (served up to 16th April, 2018)



Mr. Daniel Kihara Mutune was appointed as Water Sector Trust Fund's alternate trustee to the Principal Secretary, Ministry of Water and sanitation, in September 2016.

He is the current Ag. Chief Finance Officer at the State Department. He brings with him a wealth of experience in Public Finance Management (PFM) having worked in the Public Sector for a period of over 11 years, having worked previously in the Water Sector and the Ministry of Defence.

Mr. Mutune's experience in PFM includes, Finance policy formulation and guidance, strategic planning, budget preparation and expenditure management and donor funds management among others.

Mr. Mutune possesses a Master of Business Administration (MBA) degree from the University of Nairobi and Bachelor of Arts degree (Second Class Honours) from the same institution. He is a Certified Public Accountant (CPA-K) and a Member of Institute of Certified Public Accountants of Kenya (ICPAK).

Mr Joel N. Onchwati (appointed 28th June 2018)

Mr. Onchwati is Alternate Trustee to the Principal Secretary, Ministry of Water and Sanitation where he is currently the Chief Finance Officer responsible for financial management including budget planning and preparation, resource mobilisation and budget implementation and control.

Mr. Onchwati possesses wide experience in public sector financial management having served in various financial management positions in the public service including serving as an Internal Auditor in the Ministries of Education, Ministry of Finance and the Ministry of Roads and Public Works up to 2004. In 2005 he joined the Finance Officer's cadre where he served in the former Ministry of Justice, National Cohesion and Constitutional Affairs, Office of the Attorney General and Office of the Registrar of Political Parties.

He holds a Master's Degree in Business Administration, Finance from Moi University, and a Bachelor's Degree in Business Management from the University of Eastern Africa- Baraton and a Section Three Certificate of the Certified Public Accountants (KASNEB). He has attended various senior management training courses in corporate governance, strategic management and leadership programme and advanced public financial management.



Mr. Stephen N. Gwandaruru

Stephen N. Gwandaruru was appointed as a member of the Board of Trustees of Water Sector Trust Fund in November 2015. He is a marketing specialist and holds a Bachelor of Arts degree in Economics and Business from Kenyatta University. For the last 20 years he has worked with British American Tobacco (BAT) as a Country Manager in Ethiopia.

Mr. Gwandaruru was once a member of the Constituency Development Fund (CDF) Board, Kiambaa Constituency, and has also served in various local and international schools as a board member.

BOARD OF TRUSTEES (continued)

Mr. Adan Omar Enow



Adan Omar Enow was appointed as a member of the Board of Trustees of Water Sector Trust Fund in November 2015. He is a management professional with over eight years' senior management experience at different boards and the education sector. He holds a Master of Business Administration (Strategic Management) from Kenyatta University and Doctor of Philosophy degree in Leadership and Governance from Kisii University. He thrives in formulating policies, managing daily operations, and planning the use of materials and human resources which are diverse and general in nature to be classified in any one functional area of management or administration, such as personnel, purchasing, and administrative services.

Mr. Enow has previously served as member or chairman of several boards including National Sports Fund and Kenya Rural Roads Authority, Wajir Constituency. Additionally, he possesses excellent leadership / administrative qualities which develop and empower staff to achieve goals coupled with being a logical problem solver who uses tact to evaluate performance and drive high proficiency.

Mr. Joel Onsare Gesuka

Joel Onsare Gesuka was appointed as a member of the board of trustees of Water Services Trust Fund in November 2015. He is a specialist in marketing and accounts and holds a Bachelor's degree of Commerce from the University of Jabalpur, India. He also possesses a Postgraduate Diploma in Marketing Management from the University of New Delhi. He has attended performance management trainings- key areas:- Strategic Planning and Management, design and implementation of performance contract, implementation of Vision 2030, performance appraisal systems and workplans, citizen service charters, gender mainstreaming, resolution and public complaints.



Mr. Gesuka is a career public servant having served as an accountant in different government institutions for the last 21 years.

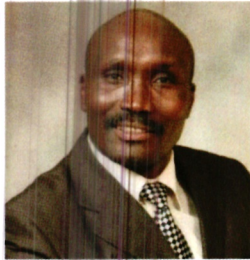


Mr. Joseph Kotoine Nkaiwatei

Joseph Kotoine Nkaiwatei was appointed as a member of the Board of Trustees of Water Sector Trust Fund in November 2015. He has over 15 years' experience in the development sector, mainly in the Education, Water and Sanitation, Livelihoods and Economic development focused programmes across the Country. Mr. Nkaiwatei worked with major Development focused organizations in Kenya, which include GTZ, Netherlands Development Organisation (SNV), Concern Worldwide, Catharina Foundation, Action Aid International, Kenya Community Development Foundation (KCDF). He is currently the Chief Executive Officer (CEO) for Purko Development Trust (PDT) an Agronomy -focused ranch based in Narok County.

Mr. Nkaiwatei's experience in the development sector spans experiences in Organizational Development, Governance, Capacity development and Management. Joseph is an ardent supporter of sustainable development of institutions, projects and programmes. He holds a Bachelor of Arts degree in Political Science and Sociology, and a Master's degree in Project Planning and Management, both awarded by the University of Nairobi.

BOARD OF TRUSTEES (continued)



Eng. Onesmus Kipkirui Maritim

Eng. Onesmus Kipkirui Maritim was appointed as a member of the Board of Trustees of Water Sector Trust Fund in November 2015. He is an Agricultural Engineering specialist having pursued Bachelor of Science in Agricultural Engineering from the University of Nairobi, with major in Structural and Water Engineering. Eng. Maritim has a Masters of Divinity (Mission s Studies-Social Anthropology Emphasis) from the Africa Theological University, formerly Nairobi Evangelical Graduate School of Theology (NEGST). Currently, he is the Executive Director of Oaks Africa Foundation. As an Executive Director, he coordinates, in consultation with the Board of Directors, all activities of the Foundation as a Missionary Engineer.

Eng. Maritim has a wealth of experience in Water Sector reforms, having served as a Chairman of a Water Service Provider under Lake Victoria South Water Services Board. He brings in a wealth of experience in corporate governance and engineering services to Water Sector Trust Fund having worked as an engineer for various companies for the last 35 years. The companies include Chemosit Water and Sanitation Company, Kenya Veterinary Production Institute, Agricultural Development Corporation, National Cereals and Produce Board and James Finlay Company Ltd. He has also served as a director for various institutions. He is a Professional Member of Engineers Board of Kenya (EBK).

Ms. Rose N. Kinuthia

Rose N. Kinuthia was appointed as a member of the board of trustees of Water Sector Trust Fund in November 2015. She is professionally an accountant and is currently pursuing Bachelor's degree in Commerce (Accounts option). She also holds Diploma in Business Administration and Accounting from the Institute of Commercial Management United Kingdom.

Ms. Kinuthia brings in to Water Sector Trust Fund a wealth of experience in Accounting and Administration having worked as Executive Secretary with Mediscope Health Care Ltd and currently as a Business Administrator, Mediflon Enterprises Kenya Limited.



Ms. Sheila Murugi Mugo

Ms. Sheila Mugo is a lawyer by profession and an Advocate of the High Court of Kenya with over 15 years' experience and a Masters in Women's Law.

She holds a bachelor's degree in law (LLB) from the University of Nairobi and a postgraduate diploma in law from Kenya School of Law. She also has qualifications in humanitarian studies and mediation.

BOARD OF TRUSTEES (continued)

**Ms. Virginia Nzioka, Manager, Legal Affairs & Corporation Secretary
(served up to 14th May, 2018)**

Ms. Virginia Nzioka (ACI Arb) joined the Trust Fund in January, 2016 as a Manager, Legal/ Corporation Secretary. She is an Advocate of the High Court of Kenya with a post-admission legal practice experience of 10 years. She holds a PGDip in Law and advocacy from the Kenya School of Law and a Bachelor of Laws Degree (Hons.) from the University of Nairobi.

Previously, she worked with the Public Procurement Oversight Authority where she advised on legal and procurement processes. For three (3) years, she was the Committee Secretary for the PPOA Advisory Board's Capacity Building and Communication Committee where she ably provided board secretarial services and support.

Ms. Nzioka has immense managerial expertise having attended management training with ESAMI (Arusha-Tanzania), International Renaissance Centre (IRC - Kenya) and the Kenya School of Government. She is an Associate Member of the Chartered Institute of Arbitrators (K) Branch, a continuing ICPSK, and a Commissioner for Oaths. Her areas of specialization are: oversight and regulatory advisory, Board secretarial services, governance and compliance, contract management, procurement law and practice, and legal research.



MANAGEMENT TEAM



Chief Executive Officer

Mr. Ismail Fahmy M. Shaiye

Mr. Ismail Fahmy M. Shaiye – Chief Executive Officer

BA (Global Studies –Environmental Governance), Masters in International Environmental Law and MSc (Natural Resource Management)

Mr. Ismail Shaiye was appointed the Chief Executive Officer of Water Sector Trust Fund in November 2014. He holds a Master’s Degree in International Environmental Law (Vermont Law School), a Master of Science Degree in Natural Resource Management and a Bachelor of Arts Degree in Global Studies (Environmental Governance) from the University of Minnesota. He has extensive experience in the application and compliance of Multilateral Environmental Agreements (MEAs) and development.



Chief Manager, Finance

Mr. Bonface Wanyonyi, B.Com (Accounting), MBA, CPA (K) (served up to 28th February, 2018)



Chief Manager, Internal Audit & Risk Management

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



Chief Manager, Investments & Programmes

Mr. Willis Okello Ombai, BSc (Forestry), MA (Project Planning & Management)



Manager, Finance

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



Manager, ICT & Corporate Affairs

Mr. Bernard Njenga, B.Com (Business Information Systems), MBA, Dip (Comp)



Manager, Human Resources & Administration

Mr. Ronald Kimaiyo, B.Ed. (Arts), MBA, Higher Dip. HR

MANAGEMENT TEAM (continued)



Ag. Manager, Urban Investments

Ms. Stella Warue, BSc.
Environmental Health, Masters in
IWRM



**Manager, Water Resources and
Climate Change Investments**

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



Manager, Rural Investments

Ms. Priscilla Kinyari, BSc Eng.
(Agricultural), MSc
(Environmental and Management)



**Manager, Research, Planning
and M&E**

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



**Manager, Results-Based
Financing**

Mr. Fidelis Tamangani, BSc
Natural Resources Management,
MBA



**Manager, Partnership
Development & Resource
Mobilisation**

Mrs. Ruth Nganga, BA (Theology),
PGC, Ed



**Manager, Legal Affairs &
Corporation Secretary**

Ms. Virginia Nzioka, LL.B; PGDip
(served up to 14th May, 2018)

CHAIRMAN'S REPORT

I am delighted to present the annual report and financial statements for the Water Sector Trust Fund for the twelve months ended 30th June 2018.

Water Sector Review

During the year, the Fund continued to operationalise the Water Act 2016 with the aim of transforming it to Water Sector Trust Fund with enhanced mandate and clear corporate identity. The Fund changed from a financing mechanism to a financing institution with expanded mandate which include financing of water services, water resources management and research activities and provision of loans to Water Service Providers that can afford to repay among others.

The objective of the Trust Fund are clearly stated and include to provide conditional and unconditional grants to counties, in addition to the Equalization Fund and to assist in financing the development and management of water services in marginalized areas or any area which is considered by the Board of Trustees to be underserved that include;

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

Partnerships

Water Sector Trust Fund raises its annual budget from the Government of Kenya allocations and Development Partners contributions. During the FY 2017/2018, the Trust Fund continued with Partnership Development and Resource Mobilization efforts resulting in the signing of at least two new financing agreements worth Ksh.2.5 billion, as well as submission and follow-up on new funding proposals. The Fund undertook activities to strengthen the existing, and identify new partnerships to ensure sustainable collaboration in support to water supply, sanitation and water resources management.

Strategic Highlights

The Trust Fund marks the thirteenth year in water and sanitation services delivery to the underserved and marginalized Kenyans. During this period, the Trust Fund has realized growth in all performance monitoring indicators ranging from investments, resources mobilized, partnerships as well as the human resources capacity. This growth has also provided an ideal environment for institutionalization of lessons learnt and best practices as well as the review of programming and financing mechanisms, systems and procedures.

Corporate Strategy

The Trust Funds' interventions are all geared towards resourcing and providing timely financial support for improved access to Water and Sanitation services to the underserved in Kenya. In order to achieve its mandate the Trust Fund has developed a corporate strategy through stakeholder consultations that is expected to propel the Fund to realise its mandate in line with the Water Act 2016. The strategy was approved by the Board on 11th April 2018 and is currently under implementation.

Water Sector Reforms: Water Act, 2016

The Water Act 2016, under Section 151 provides for the transition of Water Services Trust Fund into Water Sector Trust Fund. The Water Sector embarked on a reform process to realign itself with the legislative provisions of the Water Act 2016.

During the year under review, the Trust Fund conducted a self-assessment analysis and expert review against the expectations of the Water Act 2016. This culminated in the development of the transition report which will guide the Fund's transition. The transition and transformation planning process was completed in the year with the launch of the Water Sector Trust Fund scheduled in the year 2018/2019.

CHAIRMAN'S REPORT (continued)

Investment Policy

During the year, the Trust Fund developed an investment policy which establishes the responsibilities and guidelines for the Fund's Management and Board of Trustees on investment activities and goals. The investment policy defines the parameters within which the funds are to be managed. The policy has formalized the framework for investment activities that must be exercised to ensure effective and judicious fiscal and investment of funds. The policy was approved by the Board for implementation on 11th April 2018.

Resource Mobilization Strategy

The Trust Fund developed a resource mobilisation strategy that informs and guides the Trust Fund towards sustainable financing of its programmes and operations in addition to guiding communication with stakeholders and public relations activities. It also reviewed the current and past funding patterns together with resource mobilization plans and provides guiding principles and resource mobilizations strategies that will drive the organization's strategic plan and ultimately lead to fulfilment of the Fund's Mission and Vision. The policy was also approved by the Board on 11th April 2018.

Water Levy

The Water Act 2016 section 117(1) provides the funding sources for WSTF. Sub section 1 (e) provides for the proceeds of a water levy imposed by the Cabinet Secretary (CS) by regulations following public consultation. This levy is to be paid by consumers of piped water supplied by licensed water service providers and the proceeds of which shall be paid into the Trust Fund. During the year, the Trust Fund developed Water Levy guidelines which will be subjected to stakeholders review and finally presented to the Cabinet Secretary for Water and Sanitation for gazettelement in the year 2018/2019.

County Engagement Strategy

Recognizing the important role and contribution that the county governments have in accelerating access to water and sanitation services, the Water Fund in 2015 developed a County Communication Strategy that guided the communication approaches between the Fund and the counties. With the continued engagement, a strategic approach was deemed necessary for an Integrated County Engagement Strategy to enable the Trust Fund to work more holistically with the counties, maximizing opportunities on resource mobilization, investment programmes and projects, research, governance and policy formulation programme delivery and innovation. The assignment is ongoing and is anticipated to be completed and operationalised in the year 2018/2019.

Quality Management Systems- ISO 9001:2015 Certification

WSTF was recertified under ISO 9001:2008 in June 2015 through Kenya Bureau of Standards (KeBS). In line with the recertification contract, the Fund has continuously complied with the requirements of the standard and greatly improved its Quality Management Systems (QMS).

With the introduction of ISO 9001:2015 standard, the Trust Fund embarked on realignment of its QMS processes and procedures to the requirements of the new standard in order to ensure recertification of the Trust Fund under ISO 9001:2015 standard. During the year, the Trust Fund was certified to ISO 9001: 2015 on the 18th June, 2018 demonstrating continued compliance to internationally accepted standards in its management systems.

Sustainability Framework:

The Trust Fund continued with efforts to realise sustainable financing through the formation of an Endowment Fund. Several consultative meetings were held to that end with various public and private sector institutions towards development of the concept and business model for the Endowment. The Trust Fund participated actively in the Ministry of Water and Sanitation's Water Act 2016 Transition activities, whose proposals for the sustainability of WSTF include an Endowment or guaranteed seed fund. The Board of Trustees have committed to this objective through formation of a Sustainability Framework Committee.

CHAIRMAN'S REPORT (continued)

Board and Management Changes

During the year, the term of the Chairman of the Board of Trustees came to an end. The terms of the alternate members representing the PS Ministry of Water and Sanitation and PS, National Treasury, also came to an end. Mr Joel N. Onchwati was appointed as the new alternate member, representing the PS Ministry of Water and Sanitation. Mr. Bonface Wanyonyi, the Chief Manager Finance and Ms. Virginia Nzioka, Manager, Legal and Corporate Secretary left the Trust Fund during the year to pursue other interests.

Review of performance

Income

The Trust Fund earned revenues amounting to KShs. 1,781 million from the development partners, the Government of Kenya and other revenues from exchange transactions. The income from the Government of Kenya amounted to KShs. 473 million while KShs. 1,229 million was earned through support from development partners. Income from exchange transactions contributed KShs. 78 million. Overall income increased by 17%.

The Trust Fund disbursed KShs. 1,375 million to projects across its investments programmes. Projects implementation during the period were carried out as per the plan with the coordinated efforts by all stakeholders including the county governments and development partners, among others. The performance was also attributed to a favourable opening cash balance of KShs. 1,285 million at the beginning the year.

Expenditures

The total expenditures during the period amounted to KShs. 1,721 million out of which the administration expenses amounted to KShs. 324 million and project expenses KShs. 1,397 million representing 19% and 81% of total expenditures respectively.

Future outlook


The outlook of the Trust Fund for 2018/2019 looks brighter with the enactment and operationalisation of the Water Act 2016. The Act transformed the Trust Fund from a mechanism to a financial institution and full parastatal with legal mandate. The Act enhanced the mandate of the Trust Fund to finance the entire water sector and carry out research. The Act further expanded the sources of income for the Trust Fund to include water levy and grants from the county government. It also allows the Trust Fund to establish other funds like endowment/revolving funds. The Trust Fund focus is to take advantage of the expanded mandate and provision of new income streams to build a robust and sustainable Trust Fund with a motivated workforce and structures that enhance efficiency and effectiveness in the service delivery. With the global shift from grant to trade the Trust Fund will seek to expand the Result Based Financing as an alternative to the traditional grant. The Trust Fund looks forward to continued support from the Government and Development partners to the realization of its mandate.

Water Sector Trust Fund will be launched in the financial year 2018/2019 according to the Establishment Report that resulted from the Transition Committee activities undertaken in the reporting period. The launch is part of the Rapid Results Initiative by the Cabinet Secretary, MWS.

Appreciation

I take this opportunity to express my sincere gratitude and appreciation to the Government, development partners, stakeholders, management, staff and fellow Trustees for their continued support which made us achieve these results.

I look forward to your continued support in the year 2018/2019



Mr. Joel N. Onchwati
Trustee

CHIEF EXECUTIVE OFFICER'S STATEMENT

On behalf of the Management of Water Sector Trust Fund (WSTF), it gives me great pleasure to present to you our annual report and financial statements for the year ended 30 June 2018.

Water Sector Trust Fund is funded by the Government of Kenya and Development Partners. The Trust Fund therefore places great value on developing and nurturing partnerships as part of its resource mobilization activities.

During the year, the Trust Fund through engagement with its partners and other stakeholders culminated in new programmes that support achieving its mandate as follows;

a) **Climate Proofed Infrastructure for Improved Water Supply and Sanitation in Arid and Semi-Arid Lands (ASALs)**

This programme is funded by the European Union and aims to end drought emergencies and increase resilience of the most drought prone regions in the country. The programme will focus on eight (8) ASAL Counties namely Kilifi, Kitui, Turkana, Samburu, West Pokot, Taita Taveta, Mandera, and Baringo. Total funding through WSTF is KShs. 1.8 Billion, while a further KShs.200 Million will be channelled through Netherlands Development Organization (SNV) to facilitate Public Private Community Partnerships towards better service delivery.

Under the EU funded programme, WSTF will finance larger storage projects to ensure availability of water resource throughout the drought period in target areas. Sanitation and water resources management projects will also be financed.

b) **Water and Livelihoods Programme in Refugee, Host and other Vulnerable Communities of Kenya**

This programme is funded by DANIDA and is an addendum to the Green Growth and Employment Programme. The Programme, while following the objectives of the GGEP seeks to prioritize poor and underserved refugees and host community's hotspot areas, recognizing that Kenya continually receives large numbers of refugees from neighbouring conflict areas. The additional support of KShs. 535 million through WSTF, will be directed towards projects for the refugees and host communities in Turkana West.

Other collaborative MOUs signed in the period include:

- i) Kenya Water Institute (KEWI): The MOU with KEWI is aimed at collaboration in technical issues around data collection and research, knowledge exchange, student placement and apprenticeship
- ii) The Kenya Institute for Public Policy Research and Analysis (KIPPRA): aimed at collaboration in research and innovation
- iii) Kenya Water and Sanitation Civil Society Network (KEWASNET): The MOU aims at enhancing monitoring, advocacy, governance and participation in project implementation
- iv) Water Integrity Network (WIN): aims at enhancing the Risk Management at institutional and programming levels

Partnership Meetings

During the year, the Trust Fund held several Steering and Partnership meetings for consultations and reporting on programme progress. The Fund also undertook the Annual Joint Field Visit for the Rural and Urban Partners on the 26th and 27th of June 2018. The Partners overwhelmingly participated in the visit to Kwale, Kilifi and Tana River Counties. The projects visited were as follows:

- i) Katsangani/ Hurara Water and Sanitation Project in Tana River County
- ii) Mtwapa Water Supply Project in Kilifi County
- iii) Majimboni Water and Sanitation Project in Kwale County

Participants noted the following positive aspects from the projects:

- i) There is a great sense of community ownership in all the projects visited
- ii) The use of solar power to pump water from the borehole and river as seen in the Katsangani and Majimboni water projects makes the projects sustainable since its cheap and clean source of energy
- iii) The water projects have impacted the communities positively. Water is consumed by both human and livestock, for example the Katsangani/Hurara project

CHIEF EXECUTIVE OFFICER'S STATEMENT (continued)

- iv) There is social inclusion in the running of water projects, gender equity is observed, women and youth are well represented in the CBOs as observed in Katsangani/Hurara water project. All the water kiosks visited are run by women

The Trust Fund during the year developed and / or submitted and followed up on several proposals for financing towards green and clean, rights based provision of rural and urban water and sanitation to underserved areas, and proper management of water resources.

BUSINESS PERFORMANCE

Revenue

Water Sector Trust Fund earned revenues amounting to KShs. 1,781 million from the development partners, the Government of Kenya and other revenues from exchange transactions. The Government of Kenya contributed KShs. 473 million, development partners contributed KShs. 1,229 million while revenues from exchange transactions amounted to KShs. 78 million.

The Government of Kenya support to the Trust Fund experienced an increase of 5% from the previous year. The support from the development partners made significant impact in the performance that made the Trust Fund earn funds amounting to KShs 1,229 million representing an increase of 20%. The Trust Fund remained liquid throughout the year experiencing high liquidity towards the end of the financial year due to increased support from the development partners and the government. The Trust Fund is projecting increased support from the development partners as well as the GOK.

Cash flow

The cash and cash equivalents increased from KShs. 1,285 million as at 30 June 2017 to KShs. 2,090 million as at 30 June 2018. There was significant cash inflow in form of funding of projects towards the end of the year from donors.

OPERATIONAL PERFORMANCE

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

During the year, the Fund earned revenue of KShs. 1,703 million from GOK, Government of Sweden, European Union (EU), Kreditanstalt fuer Wiederaufbau (KfW) (German Government Bank), International Fund for Agricultural Development (IFAD), Government of Finland, Government of Denmark and the World Bank for water, sanitation and water resources management projects. The funds received from the Government of Kenya represented support to operations and development to the rural and urban investments.

The Urban Investments

The Urban investments programme is a funding mechanism established in the year 2007 to finance extension of water and sanitation services in urban low income areas of Kenya. The financing of the extension of the water services is done through two major programmes namely; urban project concept (UPC) and up-scaling basic sanitation for the urban poor (UBSUP). UPC is funded by KfW and the Government of Kenya (GoK) while the UBSUP is funded by KfW, the Bill and Melinda Gates Foundation (BMGF) and GoK.

The UPC investments focuses on the extension of water supply and improvement of sanitation situation in public places while UBSUP investments targets household and plot level sanitation based on the principle of complete sanitation value chain. To date, the urban investments programme has financed 328 No. projects including 278 No. UPC projects and 50No. UBSUP projects costing a total of KShs. 3.6 billion and benefiting an estimated population of 1.7 million people.

During the financial year 2017/2018, a total of 9 Household Sanitation projects targeting 99,000 people at a cost of KShs. 93 million were funded. The urban investments continued to finance the 7th call projects which had not been completed in the previous years. These included 4 No. water projects and 3 No. public sanitation projects.

CHIEF EXECUTIVE OFFICER'S STATEMENT (continued)

The challenges included delay in project implementation for some of the funded projects due lack of suitable sites, delays by the contractors, change of technologies and lack of timely reporting by the implementers.

The Results Based Financing (RBF) program provides financial incentives to water services providers (WSPs) to invest in rehabilitation and expansion of water and sanitation infrastructure. The objective of the program is to improve the operating efficiency and financial performance of WSPs, and to extend access to unserved consumers.

The WSPs projects are pre-financed with commercial loans from local banks, on market terms, for construction of water supply and sanitation services infrastructure. Once the projects are complete and pre-agreed targets set for the project have been achieved, the WSPs will be eligible for up to 60 percent subsidy of the commercial loans borrowed. The subsidies are disbursed towards partial loan repayment.

The RBF program is supported by the World Bank-Output Based Aid (OBA) program for US\$11.835 million with funds from the Swedish International Development Agency (Sida) and the German Development Bank (KfW) supporting Aid on Delivery (AoD) program for 1.36 million Euros.

Since inception of the program in December 2014, a total of 14 WSP have accessed technical assistance funding amounting to Kshs. 40 million for the development of bankable proposals and projects supervision by June 30, 2018. Out of the 14 projects, 11 viable projects have a loan portfolio valued at Kshs. 1.338 billion. The loans are disbursed through five commercial banks namely Sidian bank (Kshs. 224 million), Co-op bank (Kshs. 826 million), Equity bank (Kshs.120 million), Family bank (Kshs. 88 million) and Housing Finance Company (Kshs. 80 million).

The program has also disbursed subsidies for completed and on-going projects worth Kshs. 223 million as at June 30, 2018. Four out of the eleven financed projects have been completed and have accessed the full RBF subsidies valued Kshs. 141 million. The on-going seven projects, have also received partial advance subsidy disbursements totalling Kshs. 82 million. The seven projects are expected to be fully completed by December 31, 2019 and will access additional subsidies for Kshs. 735 million.

The RBF program has to date benefited a total of 15,003 low income households or 73,733 people with access to clean water. By December 2019, the projects are expected to have reached out to 159,267 people or 31,853 households accessing clean water supply and sanitation services.

Rural Investment

The rural investment programme's objective is to finance water and sanitation projects in the underserved rural communities across Kenya. The key implementers are Rural Water Service Providers (WSPs), Water Users Associations (WUAs) and Community Based Organizations (CBOs) who are involved in the preparation, planning, implementation operations water and sanitation projects. Provision of water and sanitation services is a devolved function, with WSTF working closely with the County Governments in identifying target projects, underserved areas, provide co-financing to projects, oversight and coordination of activities. In FY 2017-2018, the rural investments department implemented many activities under the following programmes; EU-SHARE programme, Joint 6 programme, Green Growth and Employment Programme, Drought Emergency Response Programme and GOK Priority projects. The department also initiated new programmes; EU-Climate proofed programme and Water and Livelihoods Programme, whose financial agreement were signed this financial year.

During this period, the department utilised Kshs. 612 million out of allocated Kshs.826 million which is 74% of allocated budget to fund various activities including financed 49 water projects and 36 sanitation projects in this financial year, reaching 221,060 people with improved access to water services and 6,250 people with improved sanitation service. The rural investment department staff works closely with the County Resident Monitors towards delivery of projects and related activities.

The programme has faced challenges in implementation which includes the delays prolonged General elections activities, re-sensitization of new county teams on ongoing programmes, delays in release of county co-financing to agreed projects, Insecurity and Inaccessibility of project areas and inadequate capacity of some implementing agents on financial, procurement and contract management. The programme embarked on training of implementing agents and provided technical support to the implementing agents in order to strengthen capacity for project management.

Water Resources & Climate Change Investments (WRCCI)

The Water Resources & Climate Change Investments (WRCCI) program provides financial support for Water Resources Users Associations (WRUAs) and Community Forest Associations (CFAs) for catchment conservation, protection of the water resources, increased forest cover and improved forest management.

CHIEF EXECUTIVE OFFICER'S STATEMENT (continued)

The objectives of the programme are:-

- To improve the quantity and quality of water resources to enhance livelihoods;
- To improve the ability of the catchment and riparian areas to provide hydrological services;
- To improve the governance of the water resources by promoting stakeholder participation in Water Resource Management (WRM);
- To improve compliance to water and environmental regulations;
- To develop well governed and self-reliant WRUAs & CFAs.

The WRCCI is supported by the International Fund for Agricultural Development (IFAD) – Upper Tana Natural Resource management Project (UTaNRMP); Government of Sweden (GoS)/ Government of Finland (GoF) popularly known as J6P (joint six programme), Danish International Development Agency (DANIDA) through the Green Growth Employment Programme (GGEP). The beneficiary counties are 19 No. namely Embu, Meru, Murang'a , Kirinyaga, Tharaka Nithi , Nyeri, Nandi, Kwale, Narok , Laikipia, Migori, Tana River, Garissa, Lamu, Marsabit, Wajir, Isiolo, Mander and Turkana.

In the FY 2017/2018; 42 No. projects were supported under the IFAD UTaNRMP at a cost of Kshs.139,257,120; 12 No. projects under J6P at a cost of Kshs.34,082,539 and 16 No.projects under GGEP at a cost of Kshs.24,547,020

Cumulatively, Kshs.197,886,680 was disbursed as direct investments to 70 No. projects where 68No. projects were monitored and 2 No. Projects had capacity building workshops undertaken.

Consequently, 56 No. Projects were completed in the financial year with 30 No. Community members being empowered and 4500 km² of catchment area conserved.

Employees

Water Sector Trust Fund recognizes human capital is a critical asset towards ensuring realisation of our key strategic objectives and mandate. As our stakeholders increase their expectations, it is imperative to ensure adequate, high calibre and motivated human resource capacity is available to provide services.

During the year under review, WSTF reviewed its organizational structure that resulted in the growth of staff numbers from fifty eight (58) to sixty one (61) for increased efficiency and effectiveness to achieve the strategic objectives and expanded mandate of the Fund as per the Water Act 2016 and the reviewed strategic plan.

Through committed team efforts by the Board, management and members of staff, the Trust Fund attained an overall performance contractual rating of "Very Good" as at end of the financial year. In the same period, staff satisfaction index which measures staff perceptions improved from 78% in the previous year to 79% in the year 2017/2018.

The above achievements were as a result of several key initiatives implemented by the Trust Fund which included expanding staff experiences by rolling out of Human Resource Appraisal System and piloting of the Balance Score Card as performance evaluation for staff.

The Trust Fund builds strong teams to achieve its objectives and improve staff morale, communication and working relationship. The Trust Fund has continued implementation of the national values and rewarding of the best staff on a quarterly basis that has played a pivotal role in the following categories; Best Staff, Driver, Management and Investment staff. In addition, there was increased budgetary allocation to training that enabled continuous staff development and capacity building for efficiency and good corporate governance. The Trust Fund trained several staff on leadership, corporate governance and other professional development courses and soft skills.

The Trust Fund also embarked on enhanced staff sensitizations awareness campaigns on security, HIV/AIDS, and gender & disability. Evaluation of HIV/AIDS performance as NO.1 in the country in the year 2017/2018.

In the year under review, the Trust Fund organised for an all staff a three day team building activity at Nyali Beach Hotel in Mombasa County.

The Trust Fund is committed to realising the objectives of the Constitution 2010 through implementation of its initiatives. The Trust Fund in the year under review achieved 5.7% of disability mainstreaming and regional balance for the disadvantaged tribes.

CHIEF EXECUTIVE OFFICER'S STATEMENT (continued)

Conclusion

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



Mr. Ismail Fahmy M. Shaiye
Chief Executive Officer
Water Sector Trust Fund (WSTF)

STATEMENT OF CORPORATE GOVERNANCE

THE BOARD

Water Sector Trust Fund is established under Section 113 of the Water Act, 2016 as a Trust Fund mandated to provide financing access to water and sanitation in underserved areas. The Fund is committed to ensuring compliance with the provisions of Water Act, 2016, among other regulatory and supervisory corporate governance requirements. Essential to the establishment of a corporate governance framework in the Fund is a formal governance structure with the Board of Trustees at its apex. The operations of the Fund are governed by a Trust Deed dated 26th April, 2004, expected to be replaced by a new Trust Deed as provided for under the Water Act, 2016. The structure is designed to ensure an informed decision making process based on accurate reporting to the Board.

THE BOARD OF TRUSTEES

While the Trust Deed of 2004 provides that the Board of Trustees shall be made up of nine Trustees, including the Chairman, all appointed by the Cabinet Secretary, Ministry of Water and Irrigation, The Water Act, 2016 provides that the Board shall consist of a chairperson and six other members identified for appointment through a competitive process. The Board of Trustees is responsible for the long-term strategic direction of the Fund and recruitment of the Chief Executive Officer and senior management. The Board of Trustees exercises leadership, enterprise, integrity and judgment in directing the Fund.

The Trustees are provided with full, appropriate and timely information that enables them to maintain full and effective control over the strategic, financial, operational and compliance issues. The day-to-day running of the operations of the Trust Fund is delegated to the CEO but the Board of Trustees is responsible for establishing and maintaining the Trust Fund's system of internal controls for the realization of its mandate of providing financial support for improved access to water service, water resources and sanitation in areas without adequate services.

All members of the Board of Trustees have been taken through a comprehensive induction programme, inducted on the new Water Act, 2016 and are adequately trained on their roles as Board members. The Trustees are professional, committed and guided by the mission, vision and core values of the Trust Fund in execution of their duties. At the end of each financial year, the Board, its Committees, individual Trustees and the CEO are evaluated by an independent body against targets agreed to at the beginning of the year.

BOARD MEETINGS

The Board of Trustees meets quarterly or as required in order to monitor the implementation of the Trust Fund's Strategic Plan and achievement of the targets in the Performance Contract signed with the Government. The Board of Trustees also plays an oversight role over all other financial and operational issues. The Trustees held eight full Board and two Special Board meetings during the Financial Year 2017/2018.

In ensuring that corporate governance and integrity is enhanced in between the governance of the Trust Fund, the Board of Trustees has established three Substantive and one ad hoc Committees namely: -

i) Investment & Monitoring Committee

This Committee was established to guide the Board of Trustees in making prudent investment decisions aimed at financing viable water and sanitation projects and provide organizational guidance on the monitoring and evaluation of funded projects. The Committee held nine meetings during the financial year. The trustees who served on this committee during the year under review were:

S/No.	Name	Position in committee
1	Mr. Joseph Kotoine Nkaiwuatei	Chairman
2	Mr. Daniel Kihara	Member - served up to 16 th April, 2018
3	Mr. Onesmus Maritim	Member
4	Mr. Adan Omar Enow	Member
5	Ms. Sheila Mugo	Member

STATEMENT OF CORPORATE GOVERNANCE (continued)

ii) Finance & General Purposes Committee

This Committee was established to advise the Board of Trustees in matters relating to Finance, Resource Mobilization, Human Resources Management, ICT and Corporate Communication, and Procurement. The Committee held twelve Meetings during the year. The members who served on this Committee during the year under review were:

S/No.	Name	Position in committee
1	Mr. Stephen Njoroge Gwandaruru	Chairperson
2	Mr. Daniel Kihara	Member - served up to 16 th April, 2018
3	Mr. Joel Gesuka	Member
4	Ms. Margaret Wamuyu	Member - served up to 16 th April, 2018
5	Mr. Adan Enow	Member

iii) Audit and Risk Committee

This Committee was established to advise the Board of Trustees on institutional risk management and compliance. The Committee held eight committee meetings and two special committee meetings during the year. The Committee also met the Trust Fund's external auditors PricewaterhouseCoopers to deliberate on risk management issues. The members of this Committee during the year under review were:

S/No.	Name	Position in committee
1	Ms. Sheila Mugo	Chairperson
2	Mr. Onesmus Maritim	Member
3	Ms. Margaret Wamuyu	Member - served up to 16 th April, 2018
4	Mr. Joel Gesuka	Member
5	Mr. Stephen Gwandaruru	Member

iv) Sustainability Committee (Ad Hoc)

This Committee was formed to steer the process of establishing and implementing strategies for financial and operational sustainability of the Trust Fund. During the period, the Committee had nine meetings. The members of this Committee during the year under review were:

S/No.	Name	Position in committee
1	Mr. Joseph Kotoine Nkaiwuatei	Chairperson
2	Mr. Adan Enow	Member
3	Mr. Daniel Kihara	Member - served up to 16 th April, 2018

COMMUNICATION WITH STAKEHOLDERS

The Trust Fund is committed to ensuring that all its stakeholders are provided with full and timely information about its programmes and performance. This is usually done through quarterly Steering Committee meetings and the Annual Stakeholders Conference.

STATEMENT OF COMPLIANCE

The Board of Trustees confirms that Water Sector Trust Fund has throughout the FY2017/2018 complied with all statutory and Regulatory requirements and that the Fund has been managed in accordance with the principles of good corporate governance.

The Trust Fund conducted an external legal audit which confirmed that the institution had complied with key relevant laws, regulations and requirements. Recommendations made by the legal auditor were implemented during the financial year. With regard to compliance with Mwongozo, the Trust Fund did not conduct annual board evaluation because SCAC indicated that the Trust Fund was (prior to the enactment of the Water Act, 2016 in April, 2017) not a State Corporation and thus it could not facilitate the annual board evaluation. Board evaluation is scheduled in FY2018/2019.

STATEMENT OF CORPORATE GOVERNANCE (continued)

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

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

Standing Instructions

The Trust Fund has a Code of Conduct Ethics and Service Charter that is applicable to all employees. These have a number of standing instructions to employees of the Trust Fund designed to enhance internal control. The Trust Fund has also designed a set of standing instructions to be followed in the financing of projects in each investment.

Organization Structure

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

Strategic Plan

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

Internal Control Framework

The Trust Fund continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. Business processes and controls are reviewed on an ongoing basis. A risk-based audit plan, which provides assurance over key business processes and operational and financial risks facing the Trust Fund, is approved by the Audit and Risk Committee.

The Audit and Risk Committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Board. Where weaknesses are identified, the Committee ensures that management takes appropriate action. No significant failings or weaknesses were identified during current financial year.

Risk Management

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

During the period under review, the Fund partnered with Water Integrity Network (WIN) based in Germany to review the Risk Management Policy and Framework. Upon review and approval a road map of implementation of various activities to enhance risk management has been developed.

STATEMENT OF CORPORATE GOVERNANCE (continued)

Management Team

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

Auditor

The Trust Fund is audited by the Auditor-General. The Auditor-General has however delegated this function to an independent auditor (PricewaterhouseCoopers CPA) as per Sections 23 of the Public Audit Act, 2015.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Corporate Affairs unit of the Water Sector Trust Fund (WSTF) undertook several corporate social responsibility (CSR) activities that sought to position the Fund as the lead agency in provision of funds towards water and sanitation projects in underserved areas in Kenya. In the FY2017/18, the activities included the following:

(i) Kakamega Forest Marathon

The Kakamega Forest Marathon is an annual event that is a brainchild of the Kakamega Forest Heritage Foundation, a charitable organization founded in 2014 by a group of professionals that hail from the Kakamega forest ecosystem and work all around in Kenya. The WSTF Board of Trustees approved KShs. 1,000,000 sponsorship for the event. The funds went towards supporting and improving the restoration and conservation efforts of the Kakamega Forest.

(ii) Support to Tatu Kenga's Education

In 2009, Tatu Kenga's plight as a 6-year old girl found fetching water alone caught the eye of the then Minister in the Ministry of Water, Hon. Charity Ngilu. Supporting Tatu's education has been a CSR activity undertaken by WSTF from the year 2010. She has since been taken up as the face of urgent need for funding of water projects for the underserved areas.

In 2010, out of good citizen corporate responsibility and with Tatu in mind, WSTF embarked on developing CSR policy aimed at enhancing the Fund's commitment to the local communities under our target location jurisdictions. Therefore every year, WSTF makes an annual contribution towards Tatu's secondary education policy plan when she successfully completes her Primary school education. So far, WSTF has been supporting her since 2009 when she was in nursery school.

Every year, WSTF set asides approximately KShs. 48,000 which caters for the expenses to visit Tatu. The purpose of this CSR activity is to monitor Tatu's progress and also the water project in the same area; this water project was built at the beginning of WSTF's support towards Tatu.

(iii) Chemususu Half Dam Marathon

The Trust Fund annually participates in the Chemususu Dam Half Marathon towards conservation efforts of the water resources of the Chemususu Dam as well as achieving the goals of the charity event set towards Uzalendo School. In the FY 2017-2018, WSTF participated in the event by participating in the Corporate Race to the tune of KShs. 150,000.

Through the event the Fund got the opportunity to:

- Publicize WSTF mandate of financing water and sanitation services for the poor and underserved communities in rural and urban areas
- Create awareness to communities and stakeholders on WSTF objectives towards support of conservation, protection and catchment management activities in underserved areas
- Publicize WSTF's CSR activities within the catchment as WSTF support towards infrastructural support for the Uzalendo School, a school that will offer poor families an opportunity to access quality education for free

STATEMENT OF CORPORATE GOVERNANCE (continued)

(iv) Ndakaini Dam Half Marathon

WSTF participated in the Ndakaini Half Marathon as a way of supporting conservation efforts of the Ndakaini catchment area, as well as achieving the WSTF's goals of supporting the protection, preservation and conservation activities for water resources. The Trust Fund participated at in the activity by taking part in the Corporate Race to the tune of Kshs. 100,000.

Through the event, WSTF got the opportunity to:

- (a) Publicize WSTF and illustrate its CSR within the Ndakaini catchment
- (b) Provide an opportunity for WSTF staff to showcase their sporting talents which enhances team work within the institution.

(v) Development of the Special Envoy for Water in Africa Strategic Plan

Special Envoy for Water in Africa (SEWA) approached WSTF to collaborate in the development of SEWA's strategic plan as SEWA recognized that their mandate was in line with the Trust Fund's mandate. SEWA proposed to develop a 5-year strategic plan for the purpose of concretizing the goals, objectives and strategies for implementing the mandate of their organization.

SEWA submitted to WSTF a budgetary requirement for KShs. 3.86 million but the Trust Fund was able to support the team to the tune of KShs. 2.5 million. The partnership and support from WSTF to SEWA benefited both institutions in many ways including, raising the profile and reputation, resource mobilization, and successful programme delivery. In addition, the strengthened relationship with SEWA will go a long way in further cementing the special global impact and influence of WSTF, and enhancing sustainability.

REPORT OF THE TRUSTEES

The Trustees submit their report together with the audited financial statements for the year ended 30 June 2018.

REGISTRATION

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

PRINCIPAL ACTIVITIES

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

RESULTS

	Kshs
Income	1,783,487,940
Expenditure	<u>(1,724,141,085)</u>
Surplus for the year	<u>59,346,855</u>

TRUSTEES

The Trustees who served during the year are shown on page 2.

The changes in the Board of Trustees during the financial year are shown below:

- Hon. Musikari N. Kombo, EGH (served up to 16th April, 2018)
- Ms. Margaret Wamuyu Kibui (served up to 16th April, 2018)
- Mr. Daniel Kihara (served up to 16th April, 2018)

AUDITOR

The Auditor General is responsible for the statutory audit of the Trust Fund's books of account. In accordance with Sections 23 of the Public Audit Act, 2015 which empowers the Auditor General to outsource other auditors to carry out the audit on his behalf, PricewaterhouseCoopers CPA (PwC) were appointed as the auditors of the Trust Fund to conduct the statutory audit for the year ended 30 June 2018.

FOR AND ON BEHALF OF THE BOARD OF TRUSTEES



30 November 2018

Nairobi

STATEMENT OF TRUSTEES' RESPONSIBILITIES

Section 81 of the Public Finance Management (PFM) Act, 2012, Section 14 of the State Corporations Act, and the Water Services Trust Deed, require the Trustees to prepare financial statements in respect of the Trust Fund, which give a true and fair view of the financial position of the of the Trust Fund at the end of the financial year and its financial performance for the year then ended. The Trustees are responsible for ensuring that the Trust Fund keeps proper accounting records that are sufficient to show and explain the transactions of the Trust Fund; disclose with reasonable accuracy at any time the financial position of the Trust Fund; and that enables them to prepare financial statements of the Trust Fund that comply with prescribed financial reporting standards and the requirements of the Section 81 of the Public Finance Management Act and Revised 2015 and Section 14 of the State Corporations Act. They are also responsible for safeguarding the assets of the Trust Fund and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustees accept responsibility for the the preparation and presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, the State Corporations Act and the Trust Deed. They also accept responsibility for:

- i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii. Selecting suitable accounting policies and then apply them consistently; and
- iii. Making judgements and accounting estimates that are reasonable in the circumstances

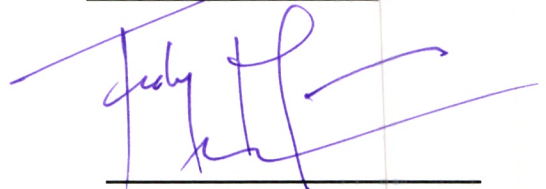
In preparing the financial statements, the Trustees have assessed the Trust Fund's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the Trustees to indicate that the Trust Fund will not remain a going concern for at least the next twelve months from the date of this statement.

The Trustees acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

The Trust Fund's financial statements were approved by the Board of Trustees on 30 November 2018 and signed on its behalf by:



Mr. Joel N. Onchwati
Trustee



Mr. Ismail Fahmy M. Shaiye
Chief Executive Officer

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.oagkenya.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON WATER SECTOR TRUST FUND FOR THE YEAR ENDED 30 JUNE 2018

FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Water Sector Trust Fund set out on pages 31 to 58, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by PricewaterhouseCoopers, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Water Sector Trust Fund as at 30 June 2018, and of its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Water Act, 2016.

Basis for Opinion

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

Emphasis of Matter

I draw attention to note 10 to the financial statements relating to project expenditure totaling Kshs.16,848,188 (2017: Kshs.720,600). This relates to costs with outstanding queries arising from audit of project implementing organizations. According to management, the issue is being dealt with legally and administratively.

Key Audit Matters

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

Report of the Auditor-General on the Financial Statements of Water Sector Trust Fund for the year ended 30 June 2018

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 on whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities which govern them. I believe that the 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 governance, were not effective.

Basis for Conclusion

The audit was conducted in accordance to ISSAI 1315 and 1330. The standards require that I plan and perform the audit to obtain assurance on whether effective processes and systems of internal control, risk management and governance, were operating effectively, in all material respects. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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 (Accrual Basis), and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of the internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue sustaining services, disclosing as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the

management either aware of any intention to terminate the Fund, or have no realistic alternative but to do so.

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

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

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of management's systems for monitoring compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in 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 which includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion on whether, in all material respects, 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, 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 which 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 which 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 Fund's 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 which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions which may cast significant doubt on the Fund's ability to continue sustaining 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 Fund to cease sustaining its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund 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 which are identified during the audit.

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



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

Nairobi

20 March 2019

STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30 June 2018

	Notes	2018 KShs	2017 KShs
REVENUE			
Revenue from non-exchange transactions			
Government of Kenya grants	4	473,344,800	449,000,000
Restricted donor funds	5	1,229,423,656	1,021,449,644
		1,702,768,456	1,470,449,644
Revenue from exchange transactions			
Miscellaneous income	6	36,095,808	39,830,878
Finance income	7	44,623,676	11,941,143
		80,719,484	51,772,021
Total revenue		1,783,487,940	1,522,221,665
EXPENDITURE			
Administration expenses	8	(327,209,834)	(354,276,434)
Project expenses	10	(1,396,931,251)	(1,193,661,909)
Total expenditure		(1,724,141,085)	(1,547,938,343)
Surplus /(Deficit) for the year		59,346,855	(25,716,678)

The notes set out on pages 36 to 58 form an integral part of these financial statements.

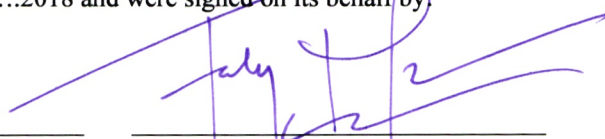
STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Notes	2018 KShs	2017 KShs
ASSETS			
Non - current assets			
Property and equipment	11	18,419,782	30,102,948
Intangible assets	12	5,234,140	6,900,841
		<u>23,653,922</u>	<u>37,003,789</u>
Current assets			
Inventories	13	158,937	490,648
Receivables from non-exchange transactions	14	189,926,983	501,832,181
Cash and cash equivalentss	15	2,090,107,152	1,284,512,606
		<u>2,280,193,072</u>	<u>1,786,835,435</u>
TOTAL ASSETS		<u>2,303,846,994</u>	<u>1,823,839,224</u>
NET ASSETS AND LIABILITIES			
Net assets			
Accumulated surplus	16	546,002,391	486,655,536
Unexpended grants	17	1,392,338,994	880,066,188
Non-current liabilities			
Deferred income from capital grants	18	4,796,513	9,445,782
Staff gratuity	19	8,001,978	19,680,067
		<u>12,798,491</u>	<u>29,125,849</u>
Current liabilities			
Deferred income from capital grants	18	259,898,426	354,649,145
Staff gratuity	19	26,484,764	18,301,324
Trade and other payables	20	66,323,928	55,041,182
		<u>352,707,118</u>	<u>427,991,651</u>
TOTAL RESERVES AND LIABILITIES		<u>2,303,846,994</u>	<u>1,823,839,224</u>

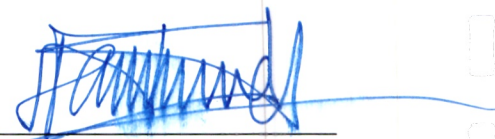
The financial statements on pages 31 to 58 were approved and authorized for issue by the Board of Trustees on 30 November.....2018 and were signed on its behalf by:



Mr. Joel N. Onchwati
Trustee



Mr. Ismail Fahmy M. Shaiye
Chief Executive Officer



Mr. Samwel Gitau Mbugua
Ag. Chief Manager, Finance
ICPAK Member No. 2868

STATEMENT OF CHANGES IN NET ASSETS
For the year ended 30 June 2018

	Revenue reserves	Unexpended grants
	KShs	KShs
As at 1 July 2016	512,372,214	742,832,557
Deficit for the year	(25,716,678)	-
Funds received from development partners	-	1,158,683,274
GoK Counterpart funding	-	153,600,000
Total project Expenditure	-	(1,175,049,644)
As at 30 June 2017	486,655,536	880,066,188
At 1 July 2017	486,655,536	880,066,188
Surplus for the year	59,346,855	-
Funds received from development partners	-	1,741,696,463
GoK Counterpart funding	-	71,000,000
Total project Expenditure	-	(1,300,423,656)
As at 30 June 2018	546,002,391	1,392,338,994

The notes set out on pages 36 to 58 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 30 June 2018

	Notes	2018 KShs	2017 KShs
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash generated from operations	21	808,466,546	557,596,961
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	11	(2,872,000)	(3,787,133)
Purchase of intangible assets	12	-	(8,264,427)
Proceeds on disposal of property and equipment		-	2,164,976
NET CASH USED IN INVESTING ACTIVITIES		(2,872,000)	(9,886,584)
Net increase in cash and cash equivalents		805,594,546	547,710,377
Cash and cash equivalents as at the beginning of the year		1,284,512,606	736,802,229
Cash and cash equivalents as at the end of the year	15	2,090,107,152	1,284,512,606

The notes set out on pages 36 to 58 form an integral part of these financial statements.

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

For the year ended 30 June 2018

	Original budget	Adjustments	Final Budget	Actual	Performance difference	Notes
	2018 KShs	2018 KShs	2018 KShs	2018 KShs	2018 KShs	
REVENUE FROM NON-EXCHANGE TRANSACTIONS						
Government of Kenya grants	2,680,070,185	(2,300,568,185)	379,502,000	473,344,800	(93,842,800)	
Donor funds	2,676,100,000	(746,150,000)	1,929,950,000	1,229,423,656	700,526,344	(a)
REVENUE FROM NON-EXCHANGE TRANSACTIONS						
Miscellaneous income	66,900,000	(27,250,000)	39,650,000	36,095,808	3,554,192	
Finance income - external investments	2,000,000	3,000,000	5,000,000	44,623,676	(39,623,676)	
Total Revenue	5,425,070,185	(3,070,968,185)	2,354,102,000	1,783,487,940	570,614,060	
EXPENSES						
Administration expenses	(580,970,185)	217,409,185	(363,561,000)	(327,209,834)	(36,351,166)	(b)
Project expenses	(4,844,100,000)	2,853,559,000	(1,990,541,000)	(1,396,931,251)	(593,609,749)	(c)
Total expenses	(5,425,070,185)	3,070,968,185	(2,354,102,000)	(1,724,141,085)	(629,960,915)	
Surplus for the period	-	-	-	59,346,855	(59,346,855)	(d)

- a) WSTF had budgeted to finance projects to the tune of KShs. 1,929,950,000 using development partner funds. This target was however not met because not all of the funds anticipated from development partners were received during the year. The actual amounts received from development partners in the year was KShs. 1,741,696,463. Project funds held at Central Bank of Kenya amounted to Kshs. 185,172,473 and have been recognized as cash-in-transit. WSTF's policy is to recognize funds from development partners as income when utilized for project expenditure hence funds disbursed at the end of the year were not recognized as expenditure for the year because the projects had not accounted for the use of these funds. They were recognized as receivables. Total project expenditure for the year amounted to KShs. 1,396,931,251; of this KShs. 96,507,595 was financed directly by the Government of Kenya (GoK) and Kshs. 1,229,423,656 by the development partners. GoK made a contribution of KShs. 71,000,000 as counterpart funding to the projects.
- b) The favourable variance between budget and actual administrative was a resulted from efficiency in use of resources hence keeping costs lower than budget. The Trust Fund intends to keep these costs at low levels so as to free more funds for project financing.
- c) The variance between budget and actual project expenses is as a result of factors explained in a) above.
- d) The surplus for the year is underutilized funds from the Government of Kenya.

NOTES TO THE FINANCIAL STATEMENTS

1. LEGAL STATUS AND OBJECTIVES

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

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

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

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

2. ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) and Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act and the Water Services Trust Deed.

The financial statements are prepared on the historical cost basis of accounting. The principal accounting policies adopted remain unchanged from the previous year are as stated below:

Changes in accounting policy and disclosures

i. New and amended standards adopted by the organisation

IPSAS 34 'Separate Financial Statements'. The requirements for separate financial statements in IPSAS 34 are very similar to the current requirements for separate financial statements in IPSAS 6. Its effective date is annual financial statements covering periods beginning on or after January 1, 2017. The standard did not have an effect on the organisation's financial statements.

IPSAS 35, 'consolidated financial statements'. The standard supersedes the requirements in IPSAS 6 regarding consolidated financial statements. IPSAS 35 still requires that control be assessed having regard to benefits and power, but the definition of control has changed and the standard now provides considerably more guidance on assessing control. The definition of control focuses on an entity's ability to influence the nature and amount of benefits through its power over another entity. This new definition of control may impact previous assessments of control, and therefore whether certain entities should be consolidated.

IPSAS 35 also introduces the concept of "investment entities," which may be applicable to some sovereign wealth funds. Generally, an investment entity measures its investments in controlled entities at fair value through surplus or deficit. After thorough consultation, the IPSASB decided, for public sector specific reasons, that an entity which controls an investment entity should retain this method of accounting for an investment entity's investments in its consolidated financial statements, regardless of whether it is itself an investment entity. In contrast with IPSAS 6, IPSAS 35 no longer permits an exemption from consolidation for temporarily controlled entities. Consistent with the IPSASB's policy of reducing unnecessary differences between IPSASs and Government Finance Statistics reporting guidelines, the IPSASB has aligned the principles in IPSAS 35 with the Government Finance Statistics Manual 2014 (pre-publication draft) where feasible. Its effective date is annual financial statements covering periods beginning on or after January 1, 2017. IPSAS 35 did not have an impact on WSTF's financial statements.

Notes (continued)

2. ACCOUNTING POLICIES (continued)

IPSAS 36 'Investments in Associates and Joint Ventures' explains the application of the equity method of accounting, which is used to account for investments in associates and joint ventures. The requirements are very similar to the current guidance in IPSAS 7. Because equity accounting must now be used when accounting for joint ventures, the title of the standard now also refers to joint ventures. In contrast with IPSAS 7, IPSAS 36 does not permit a different accounting treatment for temporary investments. Its effective date is annual financial statements covering periods beginning on or after January 1, 2017. The standard was not relevant to the organization's financial statements during the year.

IPSAS 37 'Joint Arrangements'. The standard establishes requirements for classifying joint arrangements and accounting for those different types of joint arrangements. Joint arrangements are classified as either joint operations or joint ventures. In a joint operation, the parties to the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement. These classifications differ from IPSAS 8, which referred to three types of arrangements (jointly controlled entities, jointly controlled operations, and jointly controlled assets). IPSAS 37 requires that an entity account for its interest in a joint operation by recognizing its share of the assets, liabilities, revenue, and expenses of the joint arrangement. It also requires that joint ventures be accounted for using the equity method. Previously, IPSAS 8 permitted jointly controlled entities to be accounted for using either the equity method or proportionate consolidation. Its effective date is annual financial statements covering periods beginning on or after January 1, 2017. The standard did not have effect on WSTF's financial statements.

IPSAS 38 'Disclosure of Interests in other Entities'. The standard brings together the disclosures previously included in IPSASs 6–8. It also introduces new disclosure requirements, including those related to structured entities that are not consolidated and controlling interests acquired with the intention of disposal.

Its effective date is annual financial statements covering periods beginning on or after January 1, 2017. The standard did not have an effect on the organization's financial statements.

IPSAS 39 'Employee benefits' reflects amendments made by the International Accounting Standards Board to its equivalent standard, International Accounting Standard (IAS) 19, Employee Benefits, up to December 2015. The main differences between IPSAS 39 and IPSAS 25 are:

Removal of an option that allowed an entity to defer the recognition of changes in the net defined benefit liability (the "corridor approach"); Introduction of the net interest approach for defined benefit plans;
Amendment of certain disclosure requirements for defined benefit plans and multi-employer plans;
Simplification of the requirements for contributions from employees or third parties to a defined benefit plan when those contributions are applied to a simple contributory plan that is linked to service; and
Removal of the requirements for Composite Social Security Programs.

ii. New standards not yet adopted by the organisation

IPSAS 40: Public Sector Combinations - The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations. The standard is applicable with effect from 1 January 2019.

There are no other IPSASs interpretations that are not yet effective that would be expected to have a material impact on the Fund's financial statement.

iii. Early adoption of standards

The entity did not early-adopt any new or amended standards in year ended 30 June 2018.

Notes (continued)

2. ACCOUNTING POLICIES (continued)

Early adoption of standards (continued)

The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Revenue recognition

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

- (i) Government grants are recognized as income when there is reasonable assurance that the grants will be received and the entity is in compliance with the conditions attached to the grants.
- (ii) Grants from donors are recognized as income when there is reasonable assurance that the grants will be received. The grants are recognized as income on a systematic and rational basis over the period necessary to match them with the related costs.
- (iii) Grants related to depreciable assets are recognized as income over the periods and in the proportions in which depreciation on those assets is charged.
- (iv) Other income comprises of funds other than the grants from the development partners and the Government of Kenya. Other income is recognized when there is reasonable assurance that it will be received.

Funds received for specific purposes (conditional grants) are treated as unexpended grants and credited to the surplus or deficit when the activities for which they were provided for have been undertaken. Specific grant pledges that have not been received but for which expenditure has been incurred, as well as the excess of expenditure over receipts for specific grants are recognized as revenue and included in the financial statements as grants receivable from donors.

Expenditure

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

Inventories

Inventories of consumable items are stated at the lower of cost and net realizable value. Cost comprises the purchase price and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs of selling the item.

Notes (continued)

2. ACCOUNTING POLICIES (continued)

Property and equipment

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

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

Depreciation

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

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

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

Intangible assets

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

Impairment of tangible and intangible assets

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

Deferred income

Grants received for the purchase of fixed assets or donated assets are recognized as deferred income and transferred to the surplus or deficit over the expected useful lives of the respective assets. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue in relation to any other income received out of the ordinary course of business.

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 Trust Fund. 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.

Notes (continued)

2. ACCOUNTING POLICIES (continued)

Taxation

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

Cash and cash equivalents

For the purposes of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less, and bank overdrafts.

Provisions

Provisions are recognized when the Trust Fund 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 Trust Fund 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 Trust Fund 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.

Contingent assets

The Trust Fund 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 Trust Fund in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.

If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

Employee benefits

Employee benefits are all forms of consideration given by the Trust Fund in exchange for the services rendered by all employees. Employee benefits include:

- Short-term employee benefits (such as wages, salaries and paid leave) and non-monetary benefits (such as medical care) for current employees;
- Post-employment benefits such as gratuity and accrued leave pay.
 - i. Short-term employee benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Notes (continued)

2. ACCOUNTING POLICIES (continued)

Employee benefits (continued)

ii. Other post-employment benefits

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

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

Financial Instruments

Financial assets and liabilities are recognized in the Trust Fund's statement of financial position when the Trust Fund has become a party to the contractual provisions of the instrument. Specific accounting policies are adopted by the Trust Fund, key financial instruments outstanding at the end of the reporting period are summarized below.

Financial assets

Receivables

Receivables are initially recognized at fair value and subsequently carried at anticipated realizable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the end of the reporting period. Bad debts are written off when all reasonable steps to recover them have failed.

Payables

Payables are not interest bearing and are stated at their nominal value.

Impairment of financial assets

The Fund assesses at each reporting period end whether there is objective evidence that a financial asset (or group of financial assets) is impaired. Impairment losses are recognized if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, and that those events have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Financial liabilities

After initial recognition, the Trust Fund measures all financial liabilities other than liabilities held for trading at amortized cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

De-recognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Trust Fund has transferred substantially all risks and rewards of ownership.

Notes (continued)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE TRUST FUND'S ACCOUNTING POLICIES

In the process of applying the Trust Fund accounting policies, management has made estimates and assumptions that affect the Trust Fund. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future funding that are believed to be reasonable under the circumstances. The key areas of judgment in applying the Trust's accounting policies are dealt with below:

i. Critical judgments in applying the Trust Fund's accounting policies

The Trustees makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in section (ii) below.

ii. Key sources of estimation uncertainty

The following are key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Property and equipment

Critical estimates are made by the trustees in determining depreciation rates of property and equipment.

Intangible assets

Critical estimates are made by the trustees in determining amortization rates of intangible assets.

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 30 June 2018.

Changes in accounting policies

There was no change in accounting policies during the year ended 30 June 2018.

Notes (continued)

4. GOVERNMENT OF KENYA GRANTS

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

- (i) Disbursements to various community water projects (development) throughout Kenya.
- (ii) Operational (recurrent) needs.

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

	2018	2017
	KShs	KShs
Development	351,594,000	422,000,000
Recurrent	27,000,000	27,000,000
	378,594,000	449,000,000
Government of Kenya – Income recognized from deferred grants		
GoK priority project – Ijara (Note 18)	94,750,800	-
	473,344,800	449,000,000
Government of Kenya – Deferred grants (transferred to deferred income)		
Kenya Pool Water Fund	-	250,000,000
GoK priority project - Ijara	-	100,000,000
	-	350,000,000

5. RESTRICTED DONOR FUNDS

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

	2018	2017
	KShs	KShs
Government of Sweden	29,081,309	29,081,309
United Nations International Children Emergency Fund (UNICEF)	-	756,673
European Union	80,322,518	184,291,954
Government of Germany – KfW/BMGF	235,318,950	421,770,576
Government of Finland – GoF	84,669,912	84,669,912
Government of Denmark	201,303,267	117,031,769
International Fund for Agricultural Development - IFAD	173,362,959	65,333,456
World Bank	125,898,689	118,513,995
Sweden/Finland – J6P	299,466,052	-
Total (Note 17)	1,229,423,656	1,021,449,644

Notes (continued)

6. MISCELLANEOUS INCOME

	2018	2017
	KShs	KShs
Management fee earned on disbursement to some projects*	30,925,425	5,056,097
Deferred income recognized (note 18)	4,649,188	5,521,162
Other income **	521,195	26,926,145
Net gain from disposal of assets	-	1,431,532
Net foreign exchange gain/(loss)	-	895,942
	<u>36,095,808</u>	<u>39,830,878</u>

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

** Other income relates to receipts from sale of obsolete inventory, refunds from projects and insurance refunds.

	2018	2017
	KShs	KShs
DANIDA – MTAP II	4,069,794	874,050
European Union (EU)	4,710,569	824,977
Sweden/Finland – J6P	20,917,711	3,357,070
DANIDA - GGEP	1,227,351	-
	<u>30,925,425</u>	<u>5,056,097</u>

7. FINANCE INCOME

	2018	2017
	KShs	KShs
Bank interest	44,623,676	11,941,143

This relates to interest earned on interest bearing current account balances.

Notes (continued)

8. ADMINISTRATION EXPENSES

	2018 KShs	2017 KShs
Staff costs (note 9)	167,109,219	164,465,187
Board expenses	33,906,318	39,690,240
Communication expenses	3,954,609	3,916,274
Printing and stationery	1,697,785	1,436,910
Resource centre expenses	340,520	381,282
Travelling and accommodation	14,649,484	9,704,259
Motor vehicle expenses	11,977,575	10,756,932
Computer expenses	2,707,107	4,677,708
Consultancy and professional fees	8,910,986	5,451,122
Audit fee	6,668,297	7,610,870
Research and development	-	396,960
Resource mobilization expenses	2,913,251	5,871,537
Planning	2,942,071	4,984,451
Advocacy	6,469,938	5,099,112
Office running expenses	4,633,579	3,355,940
Insurance	11,304,418	9,962,966
Office rent and land rates	18,033,421	16,973,054
Maintenance and repairs	230,140	770,431
Bank charges	255,359	370,169
Depreciation on property and equipment (note 11)	14,555,166	14,560,693
Amortization expense on intangible assets (note 12)	1,666,699	1,501,326
Movement in provision for bad and doubtful debts (note 14)	7,635,029	(1,081,921)
Impairment loss (Net loss from write off of assets)	-	790,221
Kenya Water week	4,648,863	42,630,711
	327,209,834	354,276,434

9. STAFF COSTS

Salaries and wages	128,977,656	125,974,957
Staff gratuity	23,716,841	22,197,915
Staff training expenses	8,947,161	10,718,802
NSSF contribution	719,800	134,400
Other staff expenses	4,747,761	5,439,113
	167,109,219	164,465,187

Notes (continued)

10. PROJECT EXPENSES

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

	2018	2017
	KShs	KShs
Rural Programme		
Water and Sanitation	635,677,920	275,305,660
Water Resources	275,029,397	131,588,074
Water Sanitation and Hygiene (WASH)	1,498,700	170,971,339
Note 17 (b)	912,206,017	577,865,073
Water and Sanitation - Direct funding from GOK	94,750,800	18,612,264
Total - Rural Programme	1,006,956,817	596,477,337
Urban Programme		
Water and Sanitation	229,608,477	443,359,287
Up-scaling Basic Sanitation for the Urban Poor (UBSUP)- Bill & Melinda Gates Foundation (BMGF)	32,710,474	35,311,289
OBA (World Bank)	125,898,688	118,513,996
Note 17(a)	388,217,639	597,184,572
Water and Sanitation - Direct funding from GOK	1,756,795	-
Total - Urban Programme	389,974,434	597,184,572
Total project expenses*	1,396,931,251	1,193,661,909

*Included above is an amount of Kshs 16,848,188 (2017-Kshs 720,600) that is being dealt with legally and administratively. This relates to questioned costs arising from the audits of project implementing organizations.

Project expenditure is funded by development partners and the Government of Kenya funds. The split of funding is as below:

	2018	2017
	KShs	KShs
Development partners' funds (notes 5 and 17)	1,229,423,656	1,021,449,645
Government of Kenya counterpart – urban (note 17 a)	27,000,000	56,900,000
Government of Kenya counterpart – rural (note 17 b)	44,000,000	96,700,000
Water and Sanitation - Direct funding from GOK	96,507,595	18,612,264
	1,396,931,251	1,193,661,909

Notes (continued)

11. PROPERTY AND EQUIPMENT

	Furniture KShs	Motor Vehicle KShs	Computer Equipment KShs	Office Equipment KShs	Field Equipment KShs	Fixtures and Fittings KShs	Total KShs
COST							
At 1 July 2016-Not Fully Depreciated	3,537,036	35,998,486	5,595,981	3,466,769	-	7,858,061	56,456,333
At 1 July 2016-Fully depreciated	3,096,997	22,697,486	10,495,294	1,933,652	892,398	7,457,464	46,573,291
Additions	353,165	-	3,433,968	-	-	-	3,787,133
Disposal	-	(6,305,813)	-	-	-	-	(6,305,813)
Write-off *	(711,891)	-	(4,188,364)	(162,612)	(892,398)	-	(5,955,265)
At 30 June 2017	6,275,307	52,390,159	15,336,879	5,237,809	-	15,315,525	94,555,679
At 1 July 2017 – Not fully depreciated	3,389,506	33,958,486	9,571,691	3,466,768	-	6,949,291	57,335,742
At 1 July 2017 – Fully depreciated	2,885,801	18,431,673	5,765,188	1,771,041	-	8,366,234	37,219,937
Additions	-	-	2,036,800	835,200	-	-	2,872,000
At 30 June 2018	6,275,307	52,390,159	17,373,679	6,073,009	-	15,315,525	97,427,679
DEPRECIATION							
At 1 July 2016	4,037,199	32,713,309	10,689,564	2,974,441	887,621	9,327,317	60,629,451
Charge for the year	708,088	9,118,238	2,517,616	888,956	4,777	1,323,018	14,560,693
Disposal	-	(6,305,813)	-	-	-	-	(6,305,813)
Write-off*	(711,901)	-	(4,188,364)	(162,612)	(892,398)	-	(5,955,275)
Impairment	51,293	733,402	5,526	-	-	-	790,221
Adjustments **	-	43	733,411	-	-	-	733,454
At 30 June 2017	4,084,679	36,259,179	9,757,753	3,700,785	-	10,650,335	64,452,731
At 1 July 2017	4,084,679	36,259,179	9,757,753	3,700,785	-	10,650,335	64,452,731
Charge for the year	674,041	8,489,622	3,023,175	978,468	-	1,389,860	14,555,166
At 30 June 2018	4,758,720	44,748,801	12,780,928	4,679,253	-	12,040,195	79,007,897
NET BOOK VALUE							
At 30 June 2018	1,516,587	7,641,358	4,592,751	1,393,756	-	3,275,330	18,419,782
At 30 June 2017	2,190,628	16,130,980	5,579,126	1,537,024	-	4,665,190	30,102,948

*The assets write off relates to removal of assets from the asset register either because they could not be traced by management or were obsolete. These assets in the financial year 2016/17 were fully depreciated.

** This relates to adjustments for assets disposed in the prior year, however the corresponding depreciation had not been accurately adjusted for.

12. INTANGIBLE ASSETS

	SAP Kshs	PROMIS Kshs	UPCIS Kshs	Q-PULSE Kshs	PMIS Software Kshs	Total Kshs
COST						
At 1 July 2016-Not fully amortized	3,749,392	-	-	588,312	-	4,337,704
At 1 July 2016-Fully amortized	-	3,247,436	12,729,739	-	-	15,977,175
Additions	-	-	-	-	8,264,427	8,264,427
Write off	-	(3,247,436)	-	-	-	(3,247,436)
At 30 June 2017	3,749,392	-	12,729,739	588,312	8,264,427	25,331,870
At 1 July 2017 – Not fully amortized	414,364	-	-	-	8,264,427	8,678,791
At 1 July 2017 – Fully amortized	3,335,028	-	12,729,739	588,312	-	16,653,079
Additions	-	-	-	-	-	-
At 30 June 2018	3,749,392	-	12,729,739	588,312	8,264,427	25,331,870
AMORTIZATION						
At 1 July 2016	3,650,871	3,247,436	12,729,739	549,093	-	20,177,139
Charge for the year	84,705	-	-	39,219	1,377,402	1,501,326
Write off	-	(3,247,436)	-	-	-	(3,247,436)
At 30 June 2017	3,735,576	-	12,729,739	588,312	1,377,402	18,431,029
At 1 July 2017	3,735,576	-	12,729,739	588,312	1,377,402	18,431,029
Charge for the year	13,816	-	-	-	1,652,885	1,666,701
At 30 June 2018	3,749,392	-	12,729,739	588,312	3,030,287	20,097,730
CARRYING VALUE						
At 30 June 2018	-	-	-	-	5,234,140	5,234,140
At 30 June 2017	13,816	-	-	-	6,887,025	6,900,841

Notes (continued)

13. INVENTORIES

	2018	2017
	KShs	KShs
Office stationery	158,937	490,648

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

14. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2018	2017
	KShs	KShs
Project receivables – Urban Investments	55,094,383	208,505,411
- Rural Investments	138,697,442	287,981,303
Prepayments	9,259,726	9,889,336
Staff receivables	3,915,458	4,241,873
Other Trade Debtors	3,177,264	3,796,519
Provision for Bad Debts	(20,217,290)	(12,582,261)
	<u>189,926,983</u>	<u>501,832,181</u>

Urban project receivables relate to unaccounted for disbursements by the Water Service Providers carrying out the implementation of the urban investments. Rural project receivables relate to unaccounted for funds by various partners under the Rural Investments. The project disbursements are expected to be accounted for within one year. Staff receivables represent funds given to staff as imprest.

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

	2018	2017
	KShs	KShs
At start of year	12,582,261	14,051,823
Provision in the year	12,972,217	9,981,433
Amounts recovered/accounted for	(5,337,188)	(11,450,995)
At end of year	<u>20,217,290</u>	<u>12,582,261</u>

Notes (continued)

15. CASH AND CASH EQUIVALENTS

	2018 KShs	2017 KShs
National Bank of Kenya Limited – Recurrent	26,407	27,672
National Bank of Kenya Limited – OBA	6,214,954	73,685
National Bank of Kenya Limited – OBA II	42,760,374	7,714,606
Kenya Commercial Bank Limited – Recurrent	27,623,369	110,977,893
Short Term Deposits – Kenya Commercial Bank	351,854,805	250,000,000
NIC KFW PHASE KShs	175,424,871	4,144,116
NIC KFW PHASE EURO	9,675,340	11,716,652
NIC BMGF KShs	156,063,452	219,608
NIC BMGF USD	8,296,931	1,102,697
Co-operative Bank Limited – UNICEF	-	626,037
Kenya Commercial Bank Limited - GoF Euro	-	13,525
Kenya Commercial Bank Limited - GoF KShs	-	45,910,165
NIC Bank Limited-SIDA	-	95,932,680
Kenya Commercial Bank Limited -MTAP	-	75,871
National Bank of Kenya – IFAD	20,043,528	6,910,903
Kenya Commercial Bank-STAFF	50,334,745	106,318,755
NIC Bank Limited-MTAP II	8,161,240	100,235,006
NIC Bank – EU SHARE	707,882,991	68,905
NIC Bank – GGEP	76,250,786	16,564,145
Kenya Commercial Bank Limited – Sweden/Finland (J6P)	264,201,794	-
Cash on hand*	119,092	34,157
Cash in transit**	185,172,473	525,845,528
	2,090,107,152	1,284,512,606

*Cash on hand includes amounts received from staff after surrender of imprest totalling to KShs 119,092. The balance as at 30 June 2018 represents the amounts that had not yet been deposited in the bank.

** Cash in transit represents funds released by the donors, but at year end were still held in project designated bank accounts at the Central Bank of Kenya. These funds had not reflected in WSTF's account as at 30 June 2018.

16. ACCUMULATED SURPLUS

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

	2018 KShs	2017 KShs
Opening accumulated surplus	486,655,536	512,372,214
Deficit for the year	59,346,855	(25,716,678)
Closing accumulated surplus	546,002,391	486,655,536

Notes (continued)

17. UNEXPENDED GRANTS

	2018	2017
	KShs	KShs
Unexpended grants – Urban Investments	287,510,417	73,910,234
Unexpended grants – Rural Investments	1,104,828,577	806,155,954
	<u>1,392,338,994</u>	<u>880,066,188</u>

The unexpended grants movement for each investment is presented below:

(a) Unexpended Grants - (Urban investments and others)

	Government of Germany- KfW/BMFG	World Bank	Total
As at 1 July 2016	67,622,071	56,194,996	123,817,067
Funds received from development partners	390,979,102	99,398,635	490,377,737
GoK Counterpart funding	56,900,000	-	56,900,000
Total project Expenditure	(478,670,576)	(118,513,995)	(597,184,571)
As at 30 June 2017	36,830,597	37,079,636	73,910,233
As at 1 July 2017	36,830,597	37,079,636	73,910,233
Funds received from development partners	412,693,928	162,123,895	574,817,823
GoK Counterpart funding	27,000,000	-	27,000,000
Total project Expenditure	(262,318,950)	(125,898,689)	(388,217,639)
As at 30 June 2018	214,205,575	73,304,842	287,510,417
Donor income recognized in the year (note 5) - Total project expenditure less GoK counterpart funding			
2018	235,318,950	125,898,689	361,217,639
2017	421,770,576	118,513,996	540,284,572

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Notes (continued)

(b) UNEXPENDED GRANTS (Rural investments)

	Government of Sweden	GoK/UNICEF	Government of Finland-GoF	Sweden/Finland – J6P	European Union-EU (Rural)	Government of Denmark	IFAD	Total
As at 1 July 2016	154,471,841	21,293,804	199,266,701	-	166,397,156	45,822,341	31,763,647	619,015,490
Funds received from development partners	165,074,283	-	-	-	208,702,138	216,653,000	77,876,116	668,305,537
GoK Counterpart funding	48,500,000	-	48,200,000	-	-	-	-	96,700,000
Total project Expenditure	(77,581,309)	(756,673)	(132,869,912)	-	(184,291,954)	(117,031,769)	(65,333,456)	(577,865,073)
As at 30 June 2017	290,464,815	20,537,131	114,596,789	-	190,807,340	145,443,572	44,306,307	806,155,954
As at 1 July 2017	290,464,815	20,537,131	114,596,789	-	190,807,340	145,443,572	44,306,307	806,155,954
Funds received from development partners	-	-	-	340,959,656	648,447,173	-	177,471,811	1,166,878,640
GoK Counterpart funding	-	-	-	44,000,000	-	-	-	44,000,000
Total project Expenditure	(29,081,309)	-	(84,669,912)	(343,466,052)	(80,322,518)	(201,303,267)	(173,362,959)	(912,206,017)
As at 30 June 2018	261,383,506	20,537,131	29,926,877	41,493,604	758,931,995	(55,859,695)*	48,415,159	1,104,828,577
Donor income recognized in the year (note 5) - Total project expenditure less GoK counterpart funding								
2018	29,081,309	-	84,669,912	299,466,052	80,322,518	201,303,267	173,362,959	868,206,017
2017	29,081,309	756,673	84,669,912	-	184,291,954	117,031,769	65,333,456	481,165,073

*The amount of Kshs 55,859,695 represents amounts recoverable from Government of Denmark Programmes' bank accounts.

Notes (continued)

18. DEFERRED INCOME

	2018	2017
	KShs	KShs
As at 1 July	364,094,927	11,351,662
Received during the year	-	358,264,427
Transfer to income (note 4)- expensed	(94,750,800)	-
Transfer to income (note 6) - depreciated	(4,649,188)	(5,521,162)
As at 30 June	264,694,939	364,094,927
Current	259,898,426	354,649,145
Non – current	4,796,513	9,445,782
As at 30 June	264,694,939	364,094,927

Deferred income as at 30 June represents the net book value of donated assets, unused grants from GoK for priority projects and Ksh 250,000,000 for Kenya Pool Water Fund. The portion transferred to income represents depreciation charge for 12 months at the year-end on the donated assets and expenditure incurred on GoK priority project (Ijara Water Project) during the year ended 30 June 2018.

	2018	2017
	KShs	KShs
Government of Kenya – Deferred grants		
Kenya Pool Water Fund	-	250,000,000
GoK priority project - Ijara	-	100,000,000
Sub total	-	350,000,000
Donated assets	-	8,264,427
Total	-	358,264,427

19. STAFF GRATUITY

	2018	2017
	KShs	KShs
At start of year	37,981,391	24,673,676
Provision for the year	16,160,152	22,197,915
Paid during the year	(19,654,801)	(8,890,200)
At end of year	34,486,742	37,981,391
Current	26,484,764	18,301,324
Non-current	8,001,978	19,680,067
At end of year	34,486,742	37,981,391

Notes (continued)

19. STAFF GRATUITY (continued)

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

20. TRADE AND OTHER PAYABLES

	2018	2017
	KShs	KShs
Trade payables	56,445,617	43,514,799
Staff leave accrual	2,278,905	2,581,994
Withholding tax payable	5,451,476	5,174,605
Salaries payables - CRMs	2,147,930	3,769,784
	66,323,928	55,041,182

21. CASH GENERATED FROM OPERATIONS

Reconciliation of surplus for the year to cash generated from operations

	Note	2018	2017
		KShs	KShs
Surplus/(Deficit) for the year		59,346,855	(25,716,678)
Adjustments for:			
Depreciation of property and equipment	11	14,555,166	14,560,693
Amortization of intangible assets	12	1,666,701	1,501,326
Gain on disposal of assets		-	(698,130)
Impairment loss		-	56,819
		75,568,722	(10,295,970)
Working capital changes			
Decrease/(increase) in inventories		331,711	(42,436)
Decrease in receivables from non-exchange transactions		311,905,198	70,168,636
Decrease in unexpended grants		512,272,806	137,233,629
(Decrease)/increase in deferred income		(99,399,988)	352,743,265
(Decrease)/increase in staff gratuity		(3,494,649)	13,307,715
Increase/(decrease) in trade and other payables		11,282,746	(5,517,878)
Net cash generated/(used) in/from operations		808,466,546	557,596,961

Notes (continued)

22. COMMITMENTS

Capital Assets Commitments

The Fund had capital commitments in the current year as follows.

	2018	2017
	KShs	KShs
Budgeted	5,091,000	19,212,000

Project commitments

The Fund had committed to fund projects to the tune of KShs. 1,985 Million (2017: KShs 1,947 Million) for subsequent disbursement requests which become due on the submission of acceptable financial and progress reports. As at the end of reporting period, the projects were at different stages of implementation. This amount is expected to fall due during the next financial year.

The project commitments are as follows:

	2018	2017
	KShs	KShs
Water and sanitation – Rural	926,160,000	621,363,680
Water Resources	400,390,000	419,140,000
Water and sanitation - Urban	658,900,000	906,910,000
	<u>1,985,450,000</u>	<u>1,947,413,680</u>

23. OPERATING LEASE ARRANGEMENTS

	2018	2017
	KShs	KShs
Minimum lease payments under operating leases recognized through Statement of financial performance	18,033,421	16,973,054

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

	2018	2017
	KShs	KShs
Within one year	19,485,735	17,876,821
In the second to fifth years inclusive	31,389,434	50,875,168
	<u>50,875,169</u>	<u>68,751,989</u>

Operating lease payments represent rentals payable by the Trust Fund for its office premises.

Notes (continued)

24. RELATED PARTY TRANSACTIONS

i) Key management compensation

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

	2018	2017
	KShs	KShs
Salaries and other short term benefits	23,090,449	26,058,600
Gratuity	6,676,722	5,170,800
NSSF	11,000	14,400
	<u>29,778,171</u>	<u>31,243,800</u>
Trustees emoluments	9,100,000	10,962,000
Other emoluments (included in key management compensation above)	6,468,408	5,010,000

ii) WSTF is a State Corporation. Funds received from the Government of Kenya are disclosed under note 4.

25. CONTINGENT LIABILITIES

The claim on the Trust Fund from ongoing legal cases was as follows:

- i) Rosaita Ngina Mbukua vs WSTF. This is an employment legal claim for unfair termination. The claim sought is Kshs 14,061,998 in terminal dues and/or damages for unfair/unlawful termination and costs to the suit.

However, the Trust Fund's lawyers estimate that the contingent liability may not exceed Kshs 3,187,667.

Based on the information currently available and legal advice by the Trust Fund's contracted lawyers, the Trustees believe that the ultimate resolution of these legal proceedings is not expected to result into a material effect on the results of the Trust Fund's operations, financial position or liquidity.

26. FINANCIAL RISK MANAGEMENT POLICIES

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

(a) Significant accounting policies

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

(b) Financial risk management objectives

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

(c) Credit risk

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

Notes (continued)

26 FINANCIAL RISK MANAGEMENT POLICIES (continued)

(c) Credit risk (continued)

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

	Fully performing KShs	Past due KShs	Impaired KShs	Total KShs
At 30 June 2018				
Cash at bank	2,090,107,152	-	-	2,090,107,152
Project receivables	194,133,230	-	-	194,133,230
Staff receivables	3,915,458	-	-	3,915,458
Other receivables	3,177,264	-	-	3,177,264
	<u>2,291,333,104</u>	<u>-</u>	<u>-</u>	<u>2,291,333,104</u>
At 30 June 2017				
Cash at bank	1,284,512,606	-	-	1,284,512,606
Project receivables	496,486,714	-	(12,582,261)	483,904,453
Staff receivables	4,241,873	-	-	4,241,873
Other receivables	3,796,519	-	-	3,796,519
	<u>1,789,037,712</u>	<u>-</u>	<u>(12,582,261)</u>	<u>1,776,455,451</u>

(d) Liquidity risk management

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

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

	Less than 1 month KShs	Between 1-3months KShs	Over 3 Months KShs	Total KShs
At 30 June 2018				
Trade payables	56,445,616	-	-	56,445,616
Withholding tax payable	5,451,476	-	-	5,451,476
Salaries payables - CRMs	2,147,930	-	-	2,147,930
	<u>64,045,022</u>	<u>-</u>	<u>-</u>	<u>64,045,022</u>
At 30 June 2017				
Trade payables	43,514,799	-	-	43,514,799
Withholding tax payable	5,174,605	-	-	5,174,605
Salaries payables - CRMs	3,769,784	-	-	3,769,784
	<u>52,459,188</u>	<u>-</u>	<u>-</u>	<u>52,459,188</u>

Notes (continued)

26 FINANCIAL RISK MANAGEMENT POLICIES (continued)

(e) Market risk management

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

Currency Risk

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

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

The balances held in foreign currency as at the end of the year were as follows:

Foreign currency Denominated Balances	2018	2017
	EURO	EURO
Kenya Commercial Bank - GOF Euro	-	114
NIC Bank- KfW Phase II Euro	82,796	99,033
	<u>82,796</u>	<u>99,147</u>
	USD	USD
NIC Bank – KfW USD	82,107	10,632

27. CAPITAL RISK MANAGEMENT

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

The capital structure of the Fund consists of revenue reserves and the Fund was not geared as at 30 June 2018 and 30 June 2017.

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APPENDICES

Appendix 1 – Inter-entity transfers

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

a.	Recurrent Grants				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>		
	GOK	09.08.2017	2,250,000	FY2017/18	
	GOK	07.09.2017	2,250,000	FY2017/18	
	GOK	11.10.2017	2,250,000	FY2017/18	
	GOK	03.11.2017	2,250,000	FY2017/18	
	GOK	07.12.2017	2,250,000	FY2017/18	
	GOK	29.12.2017	2,250,000	FY2017/18	
	GOK	02.02.2018	2,250,000	FY2017/18	
	GOK	05.03.2018	2,250,000	FY2017/18	
	GOK	04.04.2018	2,250,000	FY2017/18	
	GOK	04.05.2018	2,250,000	FY2017/18	
	GOK	22.06.2018	2,250,000	FY2017/18	
	GOK	22.06.2018	2,250,000	FY2017/18	
		Total	27,000,000		
b.	Development Grants				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>		
	GOK	06.07.2017	6,250,000	FY2016/17	Accrued 30 June 2017
	GOK	19.10.2017	114,000,000	FY2017/18	
	GOK	19.10.2017	3,000,000	FY2017/18	
	GOK	09.04.2018	114,000,000	FY2017/18	
	GOK	09.04.2018	84,000,000	FY2017/18	
	GOK	29.06.2018	36,594,000	FY2017/18	
		Total	357,844,000		
c.	Direct Payments				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>		
	NONE	NONE	NONE		
d.	Donor Receipts				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>		
	World Bank	04.07.2017	23,625,840	FY2017/18	
	World Bank	22.09.2017	30,081,964	FY2016/17	Accrued 30 June 2017
	World Bank	16.10.2017	41,624,911	FY2017/18	
	World Bank	26.02.2018	68,020,797	FY2017/18	
			163,353,512		
	EU CPIRA	03.01.2018	648,447,173	FY2017/18	
	KfW	18.10.2017	226,874,990	FY2017/18	
	BMGF	30.10.2017	171,647,319	FY2017/18	

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BMGF	10.11.2017	14,171,619	FY2017/18	
		185,818,938		
SIDA	16.10.2017	164,164,330	FY2016/17	Accrued 30 June 2017
GOF	20.06.2018	222,333,626	FY2017/18	
EU SHARE	07.11.2017	40,000,000	FY2016/17	Accrued 30 June 2017
EU SHARE	13.11.2017	168,702,138	FY2016/17	Accrued 30 June 2017
		208,702,138		
IFAD	02.10.2017	50,000,000	FY2017/18	
IFAD	02.11.2017	84,700,000	FY2017/18	
IFAD	26.02.2018	39,093,781	FY2017/18	
IFAD	06.06.2018	3,678,030	FY2017/18	
		177,471,811		
DANIDA	24.11.2017	115,547,000	FY2016/17	Accrued 30 June 2017
	Total	2,497,557,518		

Appendices (Continued)

Appendix 2 – Register of Losses during the year

Section 153 of the PFM (National Government) Regulations, 2015, require the Accounting Officer to maintain a register of all losses incurred by his or her national government entity and attach a list of all losses incurred during that year to the financial statements submitted to the Auditor-General for audit with a copy to the National Treasury.

During the year ended 30 June 2018, there was loss of one laptop as shown in the register below:

ENTITY NAME:		WATER SECTOR TRUST FUND					
ANNEX II - Register of losses							
FY 2017/2018							
Description	Historical Cost	Capitalization Date	Useful Life (months)	Remaining Life (months)	Accum. Depr. on 30.06.18	NBV on 30.06.18	Remarks
*****300174-HP Probook Laptop HP 430 GS - 5	132,876	04.11.2016	40.00	20.00	66,440	66,436	The assets was lost by a staff who had been assigned. The management investigated the matter and resolved to charge the staff for the loss. The staff has been repaying Ksh. 7,382 per month through payroll deduction. Amount recovered as at 30 June 2018 is Ksh. 73,820. The balance of Ksh. 59,056 will be fully paid by February 2019.

Appendix 3 – Status of implementation of prior audit recommendations

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
3.1 Lack of adequate segregation of duties around journal entries	We noted instances of lack of segregation of duties in the journals posting process where some of the journals were raised and posted into the accounting system by the accountants without evidence of review and approval by the senior accountant.	Management should ensure that the finance and operations manual is updated to provide a clear guidance on the segregation of duties in the review of journals. In addition, the management should ensure that the finance system is adequately configured to ensure that a user cannot input an entry and also post it.	The management has noted the recommendation. Journals prepared and posted are being reviewed and signed as proof of management review on expenses posted in the general ledger. The recommendation has been implemented effective from 1 st July 2017.	Chief Manager Finance	Open	FY 2018-19
3.2 Provision for long outstanding receivables	The finance and procedure manual requires that WSTF provides for project receivables that are more than 365 days old starting from the date of disbursement of funds. From our reviews, most project contracts are for a period of six (6) or nine (9) months. However, from our experience, a majority of the projects implementers request for extensions of contracts and this usually results in most projects being completed in a period beyond the 365 days. In FY 16/17, the provision amounted to KShs. 9,981,433. We obtained the aged debtor listing and reviewed the balances due that were over 365 days from the date funds were disbursed which amounted to KShs. 12,582,261 (inclusive of the current year provision of Kshs 9.98million). The balance is comprised of program receivables for various projects which have since come to an end and no financial reports have been received, projects facing uncertainties which may hinder project implementation, or projects which have submitted financial reports but the same have been rejected by WSTF due to a mismatch with the technical reports.	Management should follow up with the concerned implementing partners at project level for subsequent accounting and/or refund of the unutilised funds. If management's follow up reveals that the amounts are not recoverable, a write-off should then be	The management has noted the recommendations and is pursuing the implementing partners directly, through CRMs and with the support of the County Government for submission of accountability reports on a	Chief Manager Investment and Programmes and Chief Manager Finance	Open. Follow up of receivables undertaken during FY 2018-19. The Finance Policy	FY 2018-19

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
	In the current year (FY 16/17), we noted that Kshs. 11,450,995 that was part of the previously provided for amount of Kshs 14, 051,823 was accounted for by WSTF through receipt of refunds for completed projects that had cash balances or receipt of expenditure report accounting for the cash advances.	<p>considered in accordance with the regulations set forth in the PFM Act.</p> <p>In addition to the above recommendation the management should consider revising the finance policy and procedure manual to have more realistic provision policy in line with the nature of the projects that they implement.</p>	<p>quarterly basis at a minimum. It is worth noting that some of the projects are complete but financial reports not submitted. This is attributable to challenges with some implementing partners particularly the community-based organizations and WRUAs where there are capacity constraints in preparing financial reports on a timely basis. WSTF is committed to continue supporting the implementing partners to enhance their financial management capacity as a long term solution to late</p>		will be reviewed in the FY 2018-19 together with other recommendations.	

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
			accounting of funds disbursed. The Fund expects to receive Fund Accountability Statements (FAS) or refunds from most implementing partners that are in the list of the projects provisions for doubtful debts in the financial year 2017/2018. With regard to recommendation for amendment of the policy, management will subject the recommendation to internal review and come up with appropriate action.			
3.3 Long outstanding accounts	From our review of the accounts payable accounts balance we noted a payable due to the Kenya National Audit Office (KENAO) of KShs 577,060 in relation to audit fees for the financial year 2014/2015 which had been outstanding for more than a year. We further reviewed WSTF's records and noted that a cheque payment had been made	Management should follow up with KENAO and obtain correct bank details and	The Fund has a policy, which ensures that creditors are paid promptly. For the case in	Chief Manager Finance	Closed The payable was settled	Resolved.

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
payable balance	which however bounced when deposited in the account due to incorrect bank details.	make the payments due.	question the payment was made as stipulated through direct bank transfer using bank details provided by KENAO but bounced back even on resubmission. The payment relates to FY 2015/2016 audit fee. The payment has now been settled by cheque.		during the year. No long outstanding payables were identified during the year.	
3.4 Failure to pay the industrial training levies	From our reviews and discussion with the Water Sector Trust Fund management we noted that they did not contribute to the industrial training levy from the commencement of the Industrial Training Levy Order, 2007 up to 30 June 2017. The estimated amount payable per WSTF assessment was Kshs.223, 450 including the arrears. The amount would also attract a penalty of 5%.	The WSTF management should ensure that they make payment for the arrears and going forward, submit the monthly fees for all their employees as required by the Act.	The recommendation has been implemented and a total of Kshs.223, 450 has been paid to National Industrial Training Authority. Going forward, the amounts payable relating to the industrial training levy are paid as	Human Resources and Admin. Manager	Closed WSTF paid out all outstanding NITA arrears and has consistently submitted NITA	Resolved.

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
			stipulated in the Act.		levy on time.	
3.5 Inappropriate board constitution	From our review we noted the board of trustees was made up chairman and 10 members which was two (2) members more than stipulated in the Trust Deed of 2004.	WSTF management should liaise with the appointing authority to ensure that the board is reconstituted in line with the Trust Deed of 2004. However, given that the Water Act 2016 was enacted which requires the board to be constituted by the Chairperson and six members who are appointed by competitive recruitment, consideration of the Act should be made by management in resolving the finding identified above.	<p>The constitution of the Board of Trustees beyond the stipulated number of Trustees was brought to the attention of the appointing authority as well as the State Corporation's Advisory Committee.</p> <p>As the Fund transits into the new framework under the Water Act, 2016, it is expected that the appointing authority will be guided by the Act to ensure that the Board of Trustees consists of a Chairperson and six other members as provided by statute.</p>	Cabinet Secretary Ministry of Water and Sanitation.	Open Process of appointment of new Board of Trustees is ongoing and is in line with the Water Act of 2016.	December 2018

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe					
3.6 Long outstanding reconciling items	From our review of bank reconciliation statement as at 30 June 2017, we noted an items that had been long outstanding (more than 5 months). We have provided the details below:	WSTF should write back the stale checks and amend their accounting records appropriately to clear the reconciling item. They should also follow up with the payees and rectify the cause of the delay in clearing.	The management has reversed the long outstanding reconciling items in the cashbook in July 2017 (current financial year 2017/2018) and is following up with the payees to rectify the cause of delay in banking the cheques.	Chief Manager, Finance	Closed The cheques were cancelled and the liabilities were subsequently settled.	Resolved					
	Description						Ref No.	Reconciling item amount	Reconciling item date	Date cheque released	Comments
	Mazingira Social Welfare						9075	300	2 November 2016	4 November 2016	Not cleared
	CIC Insurance						9089	5,640	2 November 2016	4 November 2016	Not cleared
	National social security fund						9184	27,000	5 January 2017	9 January 2017	Not cleared
	With Holding VAT Payable						9229	71,017	26 January 2017	26 January 2017	Not cleared
	With Holding VAT Payable						9230	59,181	26 January 2017	26 January 2017	Not cleared
3.7 Late submission of withholding tax dues	From our review we noted instances where WSTF was late in submitting Withholding Tax (WHT) and Withholding Value added Tax (WVAT) to the Kenya Revenue Authority (KRA). We have provided a summary of the late payments under appendix 1 of this report.	The management should ensure that all WVAT and WHT deductions are submitted within the stipulated timelines in order to ensure compliance with	The management has implemented the recommendation by ensuring completeness in the filling of accountable documents and invoices after all	Chief Manager Finance	Closed Withholding tax was consistently submitted on	Resolved					

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
		Kenyan government laws and regulations on taxation.	taxes are paid. To enhance the recommendation, payment of taxes is also done within the same time span as and when the payees are paid. The management has also embraced monthly reconciliation of the tax account before the deadline for paying VAT and WHT. This will ensure no payment due is left out.		time during the year.	
3.8 Delayed reporting and lack of evidence for submission quarterly report to the donors and GoK	We noted the following instances of non-compliance with development partner and GoK reporting requirements: Late submission and lack of evidence for submission of reports to the development partners as shown below:				Open	Continuous and will be fully resolved by December 2018
	a) Urban Investments					
	Period	Due Date	Date submitted	No. of days late		
	Quarter 1	31 October 2016	Not verified	Not verified		
	Quarter 2	31 Jan 2017	3 April 2017	62		
Quarter 3	30 April 2017	8 June 2017	39			
b) Rural Investments						
Period	Due Date	Date submitted	No. of days late			
Quarter 1	30 October 2016	24 November 2016	24			
		Management should ensure that reports are submitted in a timely manner to the development partners. All reports that are required under the law should also be prepared and submitted to the relevant parties on time.	The management takes note of the issues and has instituted measures to ensure that reports are submitted within agreed timelines. For project reports, the measures	Chief Manager Investments and Programmes		

Ref/ Issue	Finding				Recommendation	Management comments	Responsibility	Status	Timeframe
	Quarter 2	30 January 2017	31 March 2017	59		include transfer of reporting responsibilities to the programme team leaders with the managers responsible for quality assurance and ensuring compliance. Reporting efficiency will also be included in the Programme Managers Performance Contract to institutionalise compliance monitoring.			
	Quarter 3	30 April 2017	8 May 2017	8					
	c) Late submission of quarterly reports to the National Treasury								
	Period	Due Date	Date submitted	No. of days late					
	Quarter 1	15 October 2016	27 January 2017	104					
	Quarter 2	15 January 2017	27 January 2017	12					
	Quarter 3	15 April 2017	19 April 2017	2					
	Quarter 4	15 July 2017	17 July 2017	2					
						For GoK reports, the challenges experienced in the year have been cleared and starting in the financial year 2017/18, the Fund is committed to full compliance.			

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
3.9 Failure to update bank signing mandate to remove ex-employee	From our review of the bank confirmation for the period ended 30 June 2017 we noted that included in the cooperative bank account signatories was James Modi who had left the organization in the previous financial year.	The management should follow up with the bank to ensure that the signatory is removed from the list of the authorised signatories.	The management issued the instructions to the bank on 29 th September, 2014 on removal of James Modi as bank signatory but this was never effected. Subsequently, the Fund has issued new instructions requesting implementation of this recommendation and he has since been removed.	Chief Manager Finance	Closed The bank signatories were updated. No such instances were identified during the year.	Resolved

