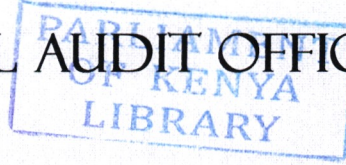


REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

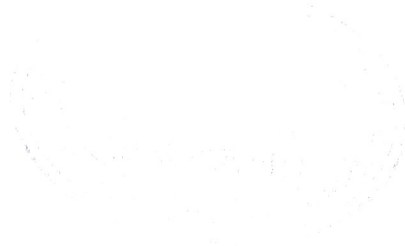
**THE FINANCIAL STATEMENTS
OF LAKE VICTORIA NORTH WATER
SERVICE BOARD**

**FOR THE YEAR ENDED
30 JUNE 2013**

CLEAN COPY.



LAKE VICTORIA NORTH WATER SERVICES BOARD



ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2013

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-Mail: cag@kenao.go.ke
Website: www.kenao.go.ke

P.O. Box 30084-00100
NAIROBI



KENYA NATIONAL AUDIT OFFICE

REF: LVNWSB/2012/2013/(4)

22 May 2014

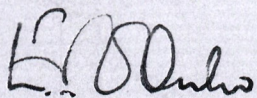
Mr. Justin N. Bundi
Clerk of the National Assembly
Parliament Building
P.O. Box 41842-00100
NAIROBI.

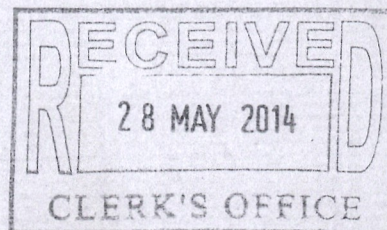
Dear Mr. Bundi,

**REPORT OF THE AUDITOR-GENERAL ON LAKE VICTORIA NORTH WATER
SERVICE BOARD FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2013**

I transmit the report of the Auditor-General on the examination and audit of the financial statements of Lake Victoria Water Service Board for the year ended 30 June 2013 in accordance with the provisions of Article 229(7) of the Constitution of Kenya for necessary action as required by Article 229(8) of the Constitution.

Yours sincerely,


EDWARD R.O. OUKO, CBS
AUDITOR-GENERAL



Copy to: The Principal Secretary
National Treasury
P.O. Box 30007
NAIROBI. (for information only)

Core business

The core businesses as set out in its strategic plan are:

- (a) Plan ,develop and manage water supply and sanitation assets.
- (b) Entering into service provision agreements with WSPs and monitoring their performance;
- (c) Supporting communities in the Board's area of responsibility, in the provision of water and sanitation.

Vision

To be the leading WSB in Kenya in the provision of accessible, adequate and quality water and sanitation services

Mission

To ensure sustainable provision of adequate, quality and affordable water and sanitation services.

Core Values

- (a) Good quality services; the board will endeavour to provide services that meet the expectations of its customers.
- (b) Good governance: the board will conduct its affairs in a transparent and accountable manner; and seek stakeholder participation in decision making process.
- (c) Transparency in staff employment: the board will at all times endeavour to appoint, reward and engage staff on merit basis.
- (d) Affirmative Gender Policy: the board will be an equal opportunity employer and will be sensitive to gender parity.
- (e) Teamwork and disciplined staff: the board will seek to have an organisation built on team work and high level of discipline.
- (f) Continuous learning: The board will be committed to continuous learning
- (g) Environmental Protection: The Board will remain a committed advocate of sustainable environment in all its dealings.

Lake Victoria North Water Services Board

CONTENTS

COMPANY DETAILS AND INFORMATION	4
BOARD OF DIRECTORS AND MANAGEMENT TEAM	5
OVERVIEW OF THE BOARD	6
CORPORATE GOVERNANCE	7
REPORT OF DIRECTORS	9
STATEMENT OF DIRECTORS RESPONSIBILITIES	10
REPORT OF THE AUDITOR GENERAL	11
STATEMENT OF COMPREHENSIVE INCOME	12
STATEMENT OF FINANCIAL POSITION	13
STATEMENT OF CASHFLOWS	14
STATEMENTS OF CHANGES IN EQUITY	15
NOTES TO THE FINANCIAL STATEMENTS	16-24

COMPANY DETAILS/INFORMATION

Incorporation/Establishment

Lake Victoria North Water Services Board is a state corporation established under the Water Act 2002 and gazetted vide notice No. 1717 and is domiciled in Kenya.

Principal Place of Business

Kenfinco Complex
Kakamega-Kisumu Road
P.O Box 673 - 50100
KAKAMEGA

Tel: 254- 56-30795
Fax: 254-056-31506

E-mail: info@lvnwsb.go.ke
Website: www.lvnwsb.go.ke

Bankers

Kenya Commercial Bank
Kakamega Branch
P.O Box 152 - 50100
KAKAMEGA

Cooperative Bank
Kakamega Branch
P.O Box 595- 50100
KAKAMEGA

Standard chartered bank
Kakamega Branch
PO BOX 292-50100
KAKAMEGA

Auditors

The Auditor General
Kenya National Audit Office
Anniversary Towers
P.O Box 30084
NAIROBI

Lake Victoria North Water Services Board

BOARD MEMBERS

- Beatrice sabana Chairman
- Joan Mudeny Tabuke Member
- Thomas Tuitoek Kiplagat Member
- Catherine Muhoma Member
- Andrew Mbayaki Makokha Member
- M/s Lorna Kimaiga- Member
- Mr. Michael C. Lugalia- Member
- Mr. Charles Mutiso (Alt. Director to Permanent Secretary Ministry of Finance)
- Eng Kuria Gatere (Alt. Director to Permanent Secretary Ministry of Environment Water and Natural resources)
- Mr George Kwedho Chief Executive Officer

Management Team

During the financial year the senior management team comprised of the following staff:-

Mr George Kwedho	Chief Executive Officer
Mr Anthony C Kisaka	Chief Manager Finance and Strategy
Mr Dickson Opiyo	Water Services Provider Manager
Mr Christopher Bwire	Asset Development Manager
Mr Julius Nyango'r	Information and Communication Technology Manager
M/s Nelly Mkoko	Community Development Manager
Mr. Fredrick Musungu	Senior Accountant
Mr. Peter Bett	Procurement Manager
Mr. Daniel Owino	Public Relations Officer
Mr. Wellington Magoi	Internal Audit Manager
Mr Polycarp Kuchio Tindi	Legal and Compliance Manager

OVERVIEW OF THE BOARD AND SERVICE AREA

Lake Victoria North Water Services Board (LVNWSB) is one of the eight Water Services Boards established under the Water Act 2002, as part of the reforms in the water sector. The Board was established vide gazette notice No. 1717 dated 12th March 2004. The mandate of the Board is to contract, monitor and enforce agreements between the Board and Water Service Providers in accordance with regulations set by the Water Services Regulatory Board; ensure effective and economical provision of water services; monitor and acquire assets; plan, manage and develop water and sewerage services; and take custody of water services provision assets. The Board became fully operational in January 2005.

Lake Victoria North Water Services Board covers the entire Bungoma county, Busia County, Vihiga County, Kaka mega county, Trans Nzoia County, Uasin Gishu County, part of Markwet-Keiyo county and Nandi county. The total coverage of the districts in the area of the Board's mandate is 24,420 sq. kms, with population of 6,629,888 (2009 National Population Census).

CORPORATE GOVERNANCE STATEMENT

The Lake Victoria North Water Services Board is committed to the values and principles of good corporate governance. The Board of Directors and Management of the Board regard corporate governance as pivotal to the success of the Board and are committed to ensuring that the Board adheres to the highest standards of conduct and accountability in accordance with the best practice and principles of corporate governance. These principles are applied throughout all levels of the corporation.

The Role of the Board

The role of the board of Directors is to set the policy and strategy, to monitor the attainment of board's objectives and to ensure that the Board meets its obligations to stakeholders. The Directors are also responsible for overseeing the Board's assets and ensure the reliability of financial information used within the corporation. The Directors are also responsible for overseeing the Board's internal control system. These controls are designed both to safeguard the Board's assets and ensure reliability of financial information used within the corporation's business.

Board Committees

In line with guidelines issued by the Government, the board has delegated its authority to committees to deal with specific aspects of its responsibilities. These committees have specific terms of reference and reports to the full Board meeting. LVNWSB has the following Board committees:-

1. Finance and general purpose Committee, whose main duties are: - to review financial statements and annual budgets; periodic review of staff remuneration and terms of service; appointments and disciplinary actions for senior staff; and general welfare of the Board's employees.
2. Audit Committee, whose main duty is to ensure that the systems of internal control are effective and complied with.
3. Technical Committee, whose focus is on issues arising from LVNWSB stewardship of essential water infrastructure and has a duty of reviewing the conditions and performance of technical assets including projects. The committee is also tasked with ensuring safeguarding the environment. It also ensures appropriate investment plan is in place and implemented.

Organisation Structure

The Board has a clearly defined organisation structure within which individual responsibilities are identified in relation to internal financial controls. The structure is complimented by policies and management operates the business in compliance with these policies.

Management Team

The Chief Executive Officer chairs the Management team which comprises heads of department and sectional heads. The team deals with operation matters and coordinates activities across the boards various departments/divisions, water schemes and water services providers.

Lake Victoria North Water Services Board

REPORT OF DIRECTORS

The Directors have pleasure in presenting their report and audited financial statements for the year ended 30 June 2013.

Principal Activities

The mandate of the Board is to provide water and sewerage services in the 38 districts under its jurisdiction. The principal activities are to contract water service providers (WSPs), asset development and maintenance.

Results

	July 2012-June 2013 Kshs
Surplus/(Deficit) before depreciation and finance costs	19,061,137
Less: Depreciation	<u>(233,287,967)</u>
Surplus/(Deficit) before finance costs	(214,226,830)
Net Finance costs	-
Net surplus/(Deficit) for the period	<u>(214,226,830)</u>

Net deficit for the period

The Board registered a Deficit of **Ksh. 214,226,830** during the year.

Auditors

The Auditor General Kenya National Audit Office will continue to audit the Accounts of the Board in accordance with section 12 of the Public Audit Act 2003.

By order of the Board


Mr George Kwedho
Chief Executive Officer/Secretary

Date: 27th September 2013

STATEMENT OF BOARD MEMBERS' RESPONSIBILITIES

The State Corporations Act 446 sec 14 requires the Board to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Board at the end of the financial year and of its operating results. It also requires the Board to keep proper accounting records that disclose, with reasonable accuracy, the financial position of the Board. They are also responsible for safe guarding the assets of the Board.

The Board members accept responsibility for annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in accordance with International Financial Reporting Standards and the requirements of the State Corporations Act 446 and Water Act 2002.

The Board members are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Board and of its operating results. The members further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements as well as adequate systems of internal control.

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



.....
Beatrice Sabana
CHAIRMAN

Date: 27th September 2013



.....
Mr George Kwedho
CHIEF EXECUTIVE OFFICER

Date: 27th September 2013

REPUBLIC OF KENYA

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



P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON LAKE VICTORIA NORTH WATER SERVICE BOARD FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the financial statements of Lake Victoria North Water Services Board set out on pages 11-24 which comprise the statement of financial position as at 30th June 2013 and the statement of comprehensive income, statement of accumulated funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor – General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on the Financial Statements based on the audit and report with the provisions of Section 15(2) of the Public Audit Act 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with the International Standard on Auditing. Those Standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation

and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the Financial Statements.

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

Basis for Qualified Opinion

1. Non – Current Assets

As similarly reported in 2011/2012, the Board inherited Non – Current Assets of undetermined value previously owned by the Ministry of Water and Irrigation and National Water Conservation and Pipeline Corporation in respect of water distribution infrastructure which have not been incorporated in these financial statements. This situation is indicative of significant impairment on some of the properties.

The Board is in possession of 12 motor vehicles and 16 motor cycles registered in the name of a Contractor who was engaged to undertake projects that were completed and commissioned in 2010, hence I am unable to confirm ownership of these assets.

Consequently, in light of the above paragraphs, it is not possible to confirm whether the carrying values as stated in the financial statements reflect the fair values of the properties as at the statement of financial position date.

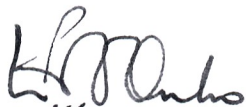
2. Debtors

Included in the debtors balance of Kshs.261,458,225 as at 30 June 2013 are long brought forward outstanding debts due from WSP –WaSSIP Support current balance of Kshs.12,231,000.00 and Kshs.874,608.00 from the Amatsi Water Company.

Any provision that would have been incorporated in relation to these uncertainties has not been incorporated in the financial statements.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements presented fairly, in all material respects, the financial position of the Board as at 30th June 2013 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Water Act, 2002.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

NAIROBI

9 May 2014

**FINANCIAL STATEMENTS FOR YEAR
ENDED JUNE 30, 2013**

STATEMENT OF COMPREHENSIVE INCOME

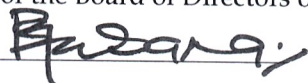
INCOME	NOTE	2013 <u>Ksh.</u>	2012 <u>Ksh.</u>
Government Grants	2	27,400,000	36,741,394
Revenue from Water sales-Kapsabet	3	-	9,211,081
Levy Income from WSP	4	129,138,572	128,956,222
SIDA/DANIDA Grants (KWSP)	5a	1,418,794	4,101,969
UNICEF-Grants	5a	59,571,083	62,583,293
Charges for Supervision/Sengwer-Nzoia 1	5b	-	-
Other Revenues -Wassip	23	1,802,336	13,915,172
Other Revenues	5c	<u>5,327,199</u>	<u>11,524,152</u>
Total Income		<u>224,657,985</u>	<u>267,033,283</u>
EXPENSES			
Administrative and Establishment Expenses	7	33,802,338	35,548,577
Supplies and Services	8	8,733,473	4,002,522
Kazi kwa vijana expenses	9	459,500	12,564,723
Finance Costs	10	298,824	273,495
Transport Costs	11	5,720,725	6,300,913
Operation and Maintenance Expenses	12	8,523,220	10,494,584
Personnel Costs	13	65,181,508	59,388,743
Rural/urban Water Supplies Development Exp	14	82,877,260	67,681,621
Depreciation expenses	15	<u>233,287,967</u>	<u>234,469,486</u>
Total Expenditure		<u>438,884,815</u>	<u>430,724,664</u>
Excess of income over expenditure		<u>(214,226,830)</u>	<u>(163,691,380)</u>

STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2013

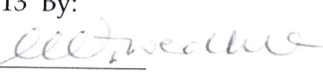
	NOTE	2013 Ksh	2012 Ksh
ASSETS			
Non Current Assets			
Property, Plant and Equipments	24	6,615,660,234	6,755,218,171
Capital works in progress-WaSSip	23	2,927,727,101	1,663,570,023
Capital works in progress-KIDDP	23	179,667,642	136,006,866
Institutional Strengthening	23	254,351,133	232,386,479
		<u>9,977,406,111</u>	<u>8,787,181,539</u>
CURRENT ASSETS			
Debtors	16	261,458,225	634,210,026
Stock	17	621,527	580,836
Cash and Bank Balances	18&19	602,273,991	505,491,970
		<u>864,353,743</u>	<u>1,140,282,832</u>
TOTAL ASSETS		<u>10,841,759,853</u>	<u>9,927,464,371</u>
EQUITY AND LIABILITIES			
EQUITY			
Deferred Income	6	77,116,594	78,563,844
Grants -Others	21	25,924,938	25,924,938
Capital Grants(GOK)	22	906,691,923	749,691,923
Grants KFW	23	221,783,948	221,783,948
Grants KIDDP	23	187,048,423	141,284,010
General Fund		(215,484,592)	(4,164,807)
		<u>1,203,081,234</u>	<u>1,213,083,856</u>
LOANS			
Loan KFW	23	5,957,479,502	5,957,479,503
Loan WB	23	3,330,992,710	2,480,195,549
		<u>9,288,472,211</u>	<u>8,437,675,052</u>
CURRENT LIABILITIES			
Creditors and accruals	20	350,206,407	276,705,463
TOTAL EQUITY AND LIABILITIES		<u>10,841,759,853</u>	<u>9,927,464,371</u>

The notes on pages 13-20 form an integral part of these Accounts. The Accounts approved and signed on behalf of the Board of Directors on 27th September 2013 By:

Beatrice Sabana



George Kwedho



CHAIRMAN

CHIEF EXECUTIVE OFFICER

STATEMENT OF CHANGES IN GENERAL FUND

For the Year Ended June 30, 2013

	Grants	Deferred Income	Grants-KFW	Grants-KIDDP	Capital GOK	General Fund	Total
	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh
As at 1st July 2011	25,924,938	2,894,500	209,954,721	91,284,010	639,152,622	164,347,756	1,133,558,547
Capital Grants - Donors	0		11,829,227	50,000,000		0	61,829,227
Prior Year Adjustment						1,379,124	1,379,124
KYEP Refund						(6,200,306)	(6,200,306)
Deferred Income	0	75,669,344				0	75,669,344
Capital Grants (GOK)	0				110,539,301	0	110,539,301
Excess of income over Expenditure	0					(163,691,380)	(163,691,380)
As at 30th June 2012	25,924,938	78,563,844	221,783,948	141,284,010	749,691,923	(4,164,807)	1,213,083,856
As at 1st July 2012	25,924,938	78,563,844	221,783,948	141,284,010	749,691,923	(4,164,807)	1,213,083,856
Capital Grants - Donors			0	45,764,413		0	45,764,413
Prior Year Adjustment						2,907,045	2,907,045
KYEP Refund							
Deferred Income	0	(1,447,250)				0	(1,447,250)
Capital Grants (GOK)	0				157,000,000	0	157,000,000
Excess of income over Expenditure	0					(214,226,830)	(214,226,830)
As at 30th June 2013	25,924,938	77,116,594	221,783,948	187,048,423	906,691,923	(215,484,592)	1,203,081,234

STATEMENT OF CASHFLOWS YEAR ENDED JUNE 30, 2013

	Notes	2012 Ksh	2013 Ksh
Cash flow from operating activities			
Excess of income over expenditure		(214,226,830)	(163,691,380)
Adjustments for: Depreciation		233,287,967	234,469,486
Operating Surplus		19,061,137	70,778,105
Increase in debtors		372,751,801	(127,662,178)
Increase in stock		(40,691)	(81,822)
Increase in Creditors		<u>73,500,944</u>	95,017,284
Net working Capital		<u>446,212,055</u>	<u>(32,726,717)</u>
Net cash flow from operating activities		<u>465,273,192</u>	<u>38,051,388</u>
Cash flow from investing activities			
Purchase of property, plant and equipments		(1,420,605,494)	(1,542,870,963)
Net cash used in investing activities		(1,420,605,494)	(1,542,870,963)
Cash flow from Financing Activities		<u>1,052,114,323</u>	1,790,094,185
Net Cash used in financing Activities		<u>1,052,114,323</u>	<u>1,790,094,185</u>
Net Increase in Cash and cash equivalents in the year		96,782,021	285,274,609
Cash and cash equivalent at the beginning of the year		505,491,970	220,217,361
Cash and cash equivalent at the end of the year		<u>602,273,991</u>	<u>505,491,970</u>
Represented by:			
Cash on hand		0	0
Bank Balances		602,273,991	505,491,970
Bank overdraft		<u>0</u>	<u>0</u>
		<u>602,273,991</u>	<u>505,491,970</u>

*Lake Victoria North Water Services Board
Notes to the Financial Statements
For the Year Ended 30th June 2013*

1. Significant Accounting Policies

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

a) Basis of Accounting

The financial statements have been prepared in accordance with the international financial reporting standards (IFRS) under the historical cost convention.

b) Revenue Recognition

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

- Government grants 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 to march them with related costs.
- Grants from other 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 to march them with related costs.
- Revenues from water services levy are recognized as income when there is reasonable assurance that the levy has been earned.

c) Expenditure

Expenditures comprises all expenses incurred in operations of the Board and are recognized when incurred on an accrual basis.

d) Currency

Asset and liability are expressed in local currency i.e. Kenya shilling (Ksh)

e) Retirement Benefits obligations

The staffs of the Board employed directly by the Board and those absorbed from National Water Conservation and Pipeline Corporation are members of a Water Sector defined contributory pension scheme and the schemes assets are held in a separate trustee administered fund. Staff deployed from the Ministry of Water and still maintained on the Ministry payroll continued with the government retirement plan. The core Management Team comprising of Chief Executive Officer, Technical Manager and Finance and Administration Manager are on a three year contract and are entitled to gratuity at the end of their contract at the rate of 31% of basic salary. A separate account has set in which accrued gratuity

Lake Victoria North Water Services Board
Notes to the Financial Statements
For the Year Ended 30th June 2013

is deposited. In addition all members of staff also contributes to National Social Security Fund.

f) Leave Accrual

Employees' entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave at the balance sheet date.

g) Property and Equipment

1. The value of land, buildings and water supplies are not considered in the report because they have not been valued. The Board contracted a valuer M/s Syagga and Associates in the course of the year but by the close of the financial year the valuation exercise had not been completed. It is important to note that although the water assets within the Board area were transferred to the Board vide legal notice No. 101 the titles to the said properties are yet to pass over to the Board as transfer plan has not been completed.
2. Only motor vehicles whose log books are in the name of the Board have been included in the statements at cost. Value for motor vehicles handed over to the Board by the Ministry of Water is not included in the Balance sheets because their log books are still being held by the parent ministry. Vehicles purchased under the projects are held as part of the works in progress and will be include under Motor vehicle once works are completed and titles/ownership transferred to the Board.
3. Donated furniture and equipments from the Ministry and donors have been included in the accounts at an estimated value based on management assessment.
4. Depreciation is charged on a straight line basis over the estimated useful lives of the assets. The annual rates used are as below.

	% per annum
i). Office Equipment	12.5%
ii). Computer & other related equipment	33.3%
iii) Furniture and Fittings	12.5%
iv). Motor Vehicles	25%
v). Plant, Machinery and Equipments	20%
vi). Water Supply infrastructure	2.5%

h) Stock

Stocks are valued at cost using the first in first out method (FIFO).

*Lake Victoria North Water Services Board
Notes to the Financial Statements
For the Year Ended 30th June 2013*

i) Foreign Currency Translations

Assets and corresponding liabilities expressed in foreign currencies are translated into Kenya Shillings at the exchange rate ruling at the balance sheet date. Individual transactions during the year are converted into Kenya shillings at the exchange rate ruling at the time of each transaction and realized gains/losses relating to these are dealt with through income statement.

j) Bad debts provision

Bad and doubtful debts provision is made when there is significant evidence that the debts recoverability is doubtful. Bad debts are written off when all the reasonable steps have been taken to recover the debt and the Board is satisfied that all legal and other measures have been exhausted and the recovery of the debt would be uneconomical.

k) Capital and Revenue Grants

Grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be applied with.

When the grant relates to an expense item, it is initially recognized as deferred income (liability) and released as income over periods necessary to match the grant on a systematic basis to the cost that it is intended to compensate.

When the grant relates to an asset, the landed cost or the fair value is credited to a deferred income account and is released to the income statement income over the periods and in the proportions in which depreciation of those assets is charged.

	2013	2012
2. Government Grants		
Recurrent grants		
Development grants	27,400,000	36,375,960
Kazi kwa Vijana	0	365,434
Total	27,400,000	36,741,394
3. Revenue		
(a) Revenue from water sales (Kapsabet Water supply)	0	9,211,081
4. Levy income from WSPs		
WSP Licence fees	129,138,572	128,956,222
<p>This is the revenue accrued from the contracted Water service providers (WSPs). The Board has contracted four WSPs namely Amatsi, Western, Nzoia and Eldoret Water and Sanitation Companies. The levy accrued is based on the proportion of each WSP revenue in relation to total WSP revenue within the Board area applied to admin cost of the Board. This is the new criteria adopted by WASREB as opposed to the previous percentage methods of billing as below.</p>		
a). Eldoret Water Company	2.5% of revenue billed	
b). Western Water Company	7.0% of revenue billed	
c). Amatsi Water Company	7.0% of revenue billed	
d). Nzoia Water Company	5.0% of revenue billed	
The revenue is recognised when accrued.		
5a Grants		
Grants from SIDA/DANIDA -KWSP Rural water supply	1,418,794	4,101,969
UNICEF-Grants	59,571,083	62,583,293
	<u>60,989,877</u>	<u>66,685,262</u>
5b Charges for Supervision/Sengwer-Nzoia 1		
Charges for Supervision/Sengwer-Nzoia 1	0	0
	<u>0</u>	<u>0</u>
<p>This are amounts received from Sinohydro Ltd the contractor for Nzoia Cluster phase 1 being additional supervision costs amounting to Ksh 7,500,000 and Ksh 5,669,397 for the sengwer community water project that was under the contract.</p>		
5c Other Income		
Receipts from sale of tenders and miscellaneous income	5,327,199	11,524,152
	<u>5,327,199</u>	<u>11,524,152</u>
6. Deferred Income		
Grants in the year	78,563,844	2,894,500
Released to income statement 2012/13	0	77,482,028
	(1,447,250)	(1,812,684)
	<u>77,116,594</u>	<u>78,563,844</u>
7. Administrative and Establishment Expenses		
Board committee & conference	10,714,338	11,202,537
Honoraria for chairman	960,000	954,600
Electricity	612,517	363,272
Trade shows & exhibitions	72,000	0
National Celebrations	38,795	411,609
Training expenses	1,487,205	2,985,472
Workshops and meeting expenses	1,812,627	1,336,951
Contracted guards & cleaning services	1,172,654	1,102,927
Corporate social responsibility, publicity	26,280	94,196
Library	13,650	0
Audit and accountancy	225,500	420,700
Staff travel and accommodations	3,463,011	3,444,469
Board establishment costs	1,273,950	59,640
Board Capacity Development	2,523,092	1,762,250
Research and development	237,010	597,350
ISO Preparation and acquisition expenses	960,601	451,325
Work environment survey/safety	176,440	180,736
Adjustment on provisions of debtors	8,032,668	10,170,543
HIV/ AIDs Sensitisation programmes	0	10,000
	<u>33,802,338</u>	<u>35,548,577</u>

8. Supplies and Services		
Advertisement and publicity	26,000	261,195
Computers stationery and accessories	984,346	48,800
Courier and postal services	244,410	258,780
General office supplies	1,686,980	1,794,962
Internet connections/ICT Expenses	1,152,496	219,960
Legal and professional services	2,802,409	484,000
Hospitality supplies & services	433,532	63,750
Publishing & printing services	42,050	84,020
Purchase of uniforms	0	0
Sanitary and cleaning materials	11,319	45,545
Subscription to newspapers	480,227	263,154
Telephone, Fax and mobile phones	128,299	121,699
Tender/Seek quotations	741,406	356,658
Total	8,733,473	4,002,522
9. Kazi kwa vijana expenses		
Labour and materials	459,500	12,564,723
10. Finance Costs		
Bank charges and commissions	298,824	273,495
11. Transport Costs		
Transport operating costs-MV Maintenance	3,947,700	3,551,421
Motor vehicle insurance	400,381	1,384,866
Fuels and oils for motor vehicle	1,372,644	1,364,627
Total Motor vehicle running costs	5,720,725	6,300,913
12. Operation and Maintenance Expenses		
Laboratory/quality control expenses	132,577	609,554
Maintenance of equipments	186,043	68,800
Minor alteration to building	412,065	104,433
Maintenance of water supplies	139,265	2,034
Maintenance of computers	0	116,000
Electricity expenses-Interim WSPs	3,065,281	3,367,309
Operations and Maintenance - Kapsabet	0	2,593,652
Monitoring and evaluation	2,747,325	1,637,331
Support to water service providers	1,840,664	1,995,471
Total	8,523,220	10,494,584
13. Personnel Costs		
Basic salary and house allowance	41,962,028	39,939,640
Other allowances	2,224,739	2,159,842
Staff recruitment expenses	2,341,212	1,667,858
Staff welfare expenses	657,129	458,804
Commuter allowance	5,094,000	4,017,000
Medical allowance/expenses	4,887,710	3,434,872
Contributions to pensions/NSSF	5,713,998	5,575,955
Leave allowance&Accrued leave expense	1,595,508	1,484,497
Group life insurance/Personal accident cover	705,184	650,275
Total	65,181,508	59,388,743
14. Rural/Urban Water Supplies Development Expenses		
Rural water supply development-KWSP	3,037,513	4,377,878
Rural water supply development-boreholes	0	0
Rehabilitation of water supplies-UNICEF Funded	76,634,698	60,617,575
Rehabilitation of water supplies	1,557,477	0
Support WSP-rehabilitation of water supplies, Meter	678,818	235,636
Design and supervision - Nzoia Cluster III	968,754	2,450,532
Total	82,877,260	67,681,621
15. Depreciation expenses		
Furniture, Office equipment and fittings	410,270	541,032
Computers and related equipments	292,609	532,833
Motor Vehicles	14,576,374	17,486,195
Plant, Machinery and equipments	31,024,874	31,024,874
Water supply infrastructure	186,983,841	184,884,552
Totals	233,287,967	234,469,485

16. Debtors		
(a) Staff Debtors		
(1) Imprest due from staff	2,298,948	
(2) Salary Advances	1,824,127	1,567,914
(3) Staff/contractor Debtors -WaSSIP-Account	920,145	1,856,812
(b) WSP Debtors		462,462,780
(c) WSP Debtors -Wassip support-current	238,430,288	147,421,936
(d) Contractor Debtors - KIDDP and Unicef	12,321,000	12,231,000
(e) Due from Western	4,789,108	1,311,634
(f) Due from Amatsi Water Company		0
(e) Water sales debtors-Kapsabet Water supply	874,608	874,608
Total	<u>201,458,225</u>	<u>6,483,341</u>
		<u>634,210,026</u>
17. Stock		
Stocks consist mainly of stationery and general office supplies balances at the end of the year and materials in support of WSPs		
Office refurbishment materials		
Stationeries, office supplies and computer accessories	621,527	580,836
Chemicals and Water supply infrastructure repair M	0	0
Total	<u>621,527</u>	<u>580,836</u>
18. Cash and Bank Balances		
WaSSIP-Project account		
Bank balance - Development account	518,934,911	360,978,898
Bank balance - Recurrent account	8,166,045	38,039,270
Bank balance - KIDDP	(2,885,094)	(561,020)
Bank balance - Unicef	23,136,327	29,352,353
Bank balance - Revenue account	48,632,220	64,597,530
Bank Balance-KWSP Account	70,182	7,271,764
Bank Balance-gratuity	0	13,900
Bank Balance-Nzoia 1	5,832,390	3,614,041
Bank Balance-UDDT	382,846	998,190
Bank Balance-KYEP	4,165	881,968
Bank Balance-Kapsabet	0	7,550
	0	297,525
Total	<u>602,273,991</u>	<u>505,491,970</u>
20. Creditors and accruals		
Suppliers and merchants -General	17,790,105	14,599,491
Suppliers and merchants -WaSSIP-Project account	165,414,393	98,329,486
VAT-KIDDP, Unicef and general accounts	4,845,682	4,845,682
VAT-WaSSIP-Project account	0	79,183
Withholding Tax	214,705	1,385,262
Withholding tax-WaSSIP-Project account	216,225	375,872
Payroll Liabilities	6,158,785	3,074,767
Accrued gratuity	3,905,078	2,354,287
DWO Teso	1,552,802	1,552,802
Accrued Audit fees	1,000,000	1,000,000
Contractors and Consultants-Nzoia Phase 1	68,559,507	68,559,507
Contractors and Consultants -Nzoia Phase 2	77,989,124	77,989,124
Revolving Fund	2,560,000	2,560,000
Totals	<u>350,206,407</u>	<u>276,705,463</u>
21. Capital Fund (Grants) -NBI, KFW and GTZ,KIDDP		
Balance brought forward	25,924,938	25,924,938
Balance as at 30.06.2013	<u>25,924,938</u>	<u>25,924,938</u>
22. Capital Fund - GOK		
	2013	2012
Balance brought forward 1st July 2012		
Kapsabet	749,691,923	639,152,622
Counterpart Fund-Nzoia Phase 1		5,080,527
Counterpart Fund-Nzoia Phase 2	107,000,000	0
Counterpart Funds-Wassip		5,458,775
Closing balance 30th June 2013	<u>50,000,000</u>	<u>100,000,000</u>
	<u>906,691,923</u>	<u>749,691,923</u>

23. Capital works, Borrowings and Grants

(a) Water Sector Development Programme-Nzoia Cluster

KfW has extended credit facilities to the Board amounting to Euro 62,000,000 for Nzoia Water Development project phase 1 and 2. In addition it has extended a grant of Euro. 2,200,000. As counter part contribution the Government of Kenya through the Ministry of Water and Irrigation is required to contribute Euro 7,100,000. The total funding for Nzoia water development phase 1 and 2 is therefore Euro 71,300,000 (Approx. to Ksh. 7.5 billion). The credits were signed between the German Government and Government of Kenya and extended to the Board through subsidiary loan agreement. The projects have been under implementation since 2005; with phase 1 having been completed in March 2010 and phase 2 water component having been completed and commissioned in October 2010. The total expenditure to date is as tabulated below:

WORKS COMPLETED AND TRANSFERRED TO PROPERTY, PLANT AND EQUIPMENTS

	Nzoia Cluster 1 Ksh	Nzoia Cluster 2 Ksh	Totals Ksh
As at 30th June 2012	2,937,655,722	3,983,625,962	6,921,281,684
Addition during the year	0	0	0
Adjustments	0	0	0
As at 30th June 2013	2,937,655,722	3,983,625,962	6,921,281,684

LOANS DRAWN SCHEDULE

	Nzoia Cluster 1	Nzoia Cluster 2	Totals
As at 30th June 2012	2,383,245,851	3,574,233,651	5,957,479,502
Addition during the year	0	0	0
Adjustments	0	0	0
As at 30th June 2013	2,383,245,852	3,574,233,652	5,957,479,502

GRANTS FROM KFW/OTHER DONORS

	Nzoia Cluster 1	Nzoia Cluster 2	Totals
As at 30th June 2012	119,294,727	102,489,221	221,783,948
Addition during the year	0	0	0
Adjustments	0	0	0
As at 30th June 2013	119,294,727	102,489,221	221,783,948

Contractors for Works/Consultants Creditors

	Nzoia Cluster 1	Nzoia Cluster 2	Totals
As at 30th June 2012	68,559,507	77,989,124	146,548,631
Addition during the year	0	0	0
Adjustments	0	0	0
As at 30th June 2013	68,559,507	77,989,124	146,548,631

(b) Water and Sanitation Services Improvement project (WaSSIP)

The Board secured credit in the financial year 2008/09 from World Bank for Nzoia Cluster Water Development phase 3 amounting US\$ 42,644,361 (Approx. Ksh. 3.2 billion). The financing and project agreements were signed in June 2008 and subsidiary loan agreement signed in July 2008. During the year the disbursements and expenses were as follows:

	2013	2012	Cumulative
Loan drawn	850,797,160	1,247,347,545	3,330,992,710
Other incomes	1,802,336	13,915,172	21,725,027
GOK counterpart funds	50,000,000	100,000,000	190,000,000
Total Income	902,599,496	1,361,262,717	3,542,717,736
Expenditure			
Goods			
Consultancy	15,504,502	22,752,844	145,542,360
Works	51,769,145	126,778,693	275,875,362
Environmental management social safeguards	646,945,603	948,123,656	2,596,739,071
Training	7,430,175	21,211,739	55,112,668
operating costs -support WSP	6,647,011	8,488,677	76,091,586
Miscellaneous	16,347,046	5,556,740	46,110,919
Total Expenditure	0	0	196,268
	<u>744,643,482</u>	<u>1,132,912,349</u>	<u>3,195,668,234</u>
(a) Staff/Contractor Debtors -WaSSIP-Account	920,145	462,462,780	920,145
(b) Suppliers and merchants -WaSSIP-Project account	165,414,393	98,329,486	165,414,393
(c) VAT-WaSSIP-Project account		79,183	0
(d) Withholding tax-WaSSIP-Project account	216,225	375,872	216,225

(c) Kenya Italy Debt Development KIDDP

The board secured a grant of ksh 70 Million from the Italian government for rehabilitation of Mbale water supply and Kshs. 120 million for the rehabilitation of Kibichori/Bokoli Water supply. During the year the receipts and capital works in progress were as follows:-

	2013	2012
Capital Grant received	187,048,423	141,284,010
Capital works in progress-Mbale	68,820,599	69,235,816
Capital Works in progress-Kibichori/Bokoli W/S	110,847,043	66,771,049

24 Property, Plant and Equipments

Cost or Valuation	Furniture office equipment&fitti							Computer		Motor Vehicle		Plant, Machinery & Equipment		Water Supply		Land and Buildings		Total
	12.5%	33.3%	25%	20%	2.5%													
As at June 30,2012	4,328,256	8,195,751	61,134,216	161,135,116	6,566,082,440	222,245,323	7,023,121,102											
Additions at cost	0	712,831	6,138,605		83,971,550		90,822,986											
Revaluations																		
Disposals																		
As at June 30,2013	4,328,256	8,908,582	67,272,821	161,135,116	6,650,053,989	222,245,323	7,113,944,088											
Depreciation																		
Balance as at June 30,2012	3,614,669	8,085,113	26,438,201	37,035,618	169,089,794	20,732,491	267,902,931											
Charge for the year	410,270	292,609	14,576,374	31,024,874	166,251,350	20,732,491	233,287,967											
Disposals																		
Balance as at June 30,2013	4,024,939	8,377,722	41,014,574	68,060,493	335,341,144	41,464,982	498,283,854											
Net book Values																		
As at June 30,2012	713,587	113,413	31,786,195	124,099,498	6,396,992,646	201,512,832	6,755,218,171											
As at June 30,2013	303,317	530,861	26,258,246	93,074,623	6,314,712,845	180,780,342	6,615,660,234											

Computers
 Motor vehicles Fully depreciated in 2011/12
 Property plant Fully depreciated in 2008/09
 Property plant Fully depreciated in 2009/10
 Furniture Fully depreciated in 2010/11
 Fully depreciated in 2011/12