

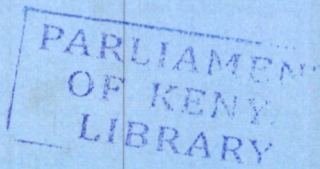
REPUBLIC OF KENYA



*Paper laid by
Lom Wednesday
11/10/17
Morning sitting
A/S*



OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
WATER SERVICES REGULATORY BOARD

FOR THE YEAR ENDED
30 JUNE 2016



WATER SERVICES REGULATORY BOARD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016

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

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1.0 INSTITUTIONAL DETAILS/INFORMATION

1.1 Establishment

Water Services Regulatory Board is a body corporate established under the provisions of the Water Act 2002 and operating under the provisions of the State Corporations Act, Cap 446 of the laws of Kenya and it is domiciled in Kenya.

1.2 Registered Office and Principal Place of Business

NHIF Building
Ngong Road
P.O. Box 41621-00100
NAIROBI
KENYA.

1.3 Banker

National Bank of Kenya
Hill Branch
P.O. Box 45219-00100
NAIROBI
KENYA

1.4 Independent Auditors

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

2.0 BOARD OF DIRECTORS

Mr. Antony M Kiroken **Chairman**



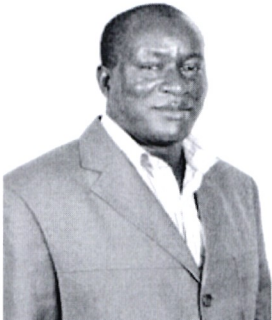
He is an independent director, who holds an Executive Masters of Business Administration. He is an Aviation expert and a seasoned politician in Kajiado County.

Ms. Eunice Karanja



She is an independent director, who holds a B.Com in Human Resource Management. She is politician involved in the championing for the rights of women and youth in Nzoia County.

Hon. Kalembe Ndile



He is an independent director, who holds a Diploma in Business Management. He is a seasoned politician with an edge in championing for the rights of the poor and marginalized communities.

Miriam Nyambura



She is an independent director, who holds a B.com degree and she is a qualified Accountant . She is a seasoned Auditor.

Mr. James Mithika



He is an independent director, who has a diploma in Medicine and Surgery, and currently pursuing BSc. Degree in Public Health. He has over 20 years experience in medical practice and is currently the CEO of Laare Maternity and Nursing Home in Meru County.

Eng. Mohammed N. Ali



He is an independent director, who holds an MSC Degree in Irrigation and Drainage. He has over 20 years of experience in the water sector.

Mr. Paul Lolgiso



He is an independent director, who holds a Bachelors' Degree in Education. He is currently a deputy headmaster at Ngambo secondary and seasoned teacher with many years of experience in the education sector in Baringo County.

Ms. Leah Naikanae



She is an independent director and a holder of Diploma in Business Management. She has years of experience in politics, community mobilization and advocacy on gender issues.

3.0 MANAGEMENT STAFF

Eng Robert N. Gakubia, HSC



Eng. Gakubia is the Chief Executive Officer of Wasreb. He has held senior positions in the Ministry of Water and Irrigation, rising to the position of Director of Water services. He holds BSc degree in Engineering from University of Nairobi and a MSc degree at IHE Delft, Netherlands. He is a Corporate member of the Institution of Engineers of Kenya and a Professional Engineer with the Engineers Board of Kenya.

Dr. Julius Itunga



Dr. Julius K. Itunga is the Director Corporate Services. He holds a Doctor of Philosophy (PhD) in Business Administration from Jomo Kenyatta University of Agriculture and Technology (JKUAT), Master in Business Administration and Bachelor of Commerce, Finance Option both from the Catholic University of Eastern Africa (CUEA). He is a Certified Public Accountant of Kenya (CPAK), Certified Public Secretary of Kenya (CPSK); a member of the Institute of Certified Public Accountant of Kenya (ICPAK) and Institute of Certified Public Secretaries of Kenya (ICPSK). Dr. Itunga has over 25 years of experience in public sector management having worked previously in senior positions in Kenya Posts and Telecommunications Corporation/Telkom Kenya, Agricultural Development Corporation and National Biosafety Authority. He also worked as an Associate Lecturer at the Kenya Methodist University and has published extensively in refereed journals.

Ms. Bernadette Njoroge



Ms. Bernadette Njoroge is the Director Legal and Enforcement. She holds an LLB (Hons) degree from the University of Nairobi, LLM; and she is a Certified Public Secretary CPS (K) Previously she worked as a Lecturer at Inoorero Centre; Senior State Counsel at the Attorney General's Office and Legal Counsel at Kenya Tourist Board. She is an Advocate of the High Court of Kenya.



Eng Peter Njaggah

Eng Peter Njaggah is the Director Technical Services. He holds a Bachelor of Science degree in Civil Engineering from the University of Nairobi and Master of Science degree in Environmental Engineering from the University of New Castle –Upon Tyne in UK.

Eng. Njaggah has over 23 years experience and knowledge in the water sector having previously worked as a senior manager in several water utilities as the Managing Director of Western Water Services Company; as Head of Water and Wastewater departments in Central District Council, South East District Council and Ghanzi District Council- all in the Republic Of Botswana, and also in the then Water & Sewerage Department- Nairobi City Council- Republic of Kenya.

He is a Professional Engineer with the Engineers Board of Kenya, a Corporate Member of the Institution of Engineers of Kenya (I.E.K) and member of Institute of Waste Management of Southern Africa.

Herbert A Kassamani



Mr. Kassamani is the Director Consumer and Public Affairs. He holds an MBA (Marketing) and a Post-Graduate Diploma in Mass Communication from the University of Nairobi; and a Bachelor of Education from Kenyatta University. He has held senior positions in marketing and communications both in the public and private sector. He has also published extensively in magazines, journals and the local media

4.0 ROLE OF WATER SERVICES REGULATORY BOARD

BACKGROUND

Water Services Regulatory Board (WASREB) is a non-commercial State Corporation established in march 2003 as part of the comprehensive reforms in the water sector. The mandate of the institution is to oversee the implementation of policies and strategies relating to provision of water and sewerage services. WASREB sets rules and enforces standards that guide the sector towards ensuring that consumers are protected and have access to efficient, adequate, affordable and sustainable services.

4.1 VISION

The Vision of the Board is “To be a model regulator of water services”.

4.2 MISSION

The Mission is “To regulate water services in line with the human right to water and sanitation.

4.3 STRATEGIC OBJECTIVES

The Boards five objectives are as follows:-

1. To enforce the legal and regulatory framework governing provision of water services.
2. To ensure efficiency and viability in provision of water services,
3. To monitor sector progress in realizing universal access.
4. To strengthen Wasreb institutional capacity.
5. To promote stakeholders participation in the provision of water services.

4.4 RESPONSIBILITIES

The Responsibilities of the Water Services Regulatory Board according to the Water Act 2002 are to:-

- Issue license to the eight Water Services Boards for the provision of water services
- Develop and review standards for use in the Water Sector
- Establish procedures for handling complaints made by consumers against licensees

- Monitor and enforce license conditions
- Develop guidelines for fixing tariffs
- Advice on cost effective and efficient management and operations of water services.
- Develop model performance agreements for use between licensees and water service providers.
- Monitor the operations of the agreement and take appropriate actions to improve their effectiveness.
- Disseminate information about water services
- Promote water conservation and demand management measures
- Monitor National Water Services Strategy
- Determine fees, levies to be imposed on water services
- Gather and maintain information on water services
- Liaise with other bodies for better regulation and management of water services.
- Advice the Minister on matters concerned with water services
- With the consent of the Director of Public Prosecution undertake prosecution of any offences arising under the act.

5.0 CORPORATE GOVERNANCE STATEMENT

The Water Services Regulatory Board is committed to the values and principles of good corporate governance. Good corporate governance requires that the board of directors must govern the corporation with integrity and enterprise in a manner which entrenches and enhances the mandate it has under section 47 of the Water Act 2002. This mandate is not only regulatory but embraces the corporation's interaction with government and other stakeholder such as the water services boards and their providers, consumers of water services, the media, public opinion makers and pressure groups.

The directors and management of WASREB regard corporate governance as pivotal to the successes of the corporation and are unreservedly committed to ensuring that good corporate governance is practised so that WASREB remains a sustainable and viable vehicle for regulating water services in Kenya.

As a public service organization, the Board's decisions are guided by the core tenets prescribed in the Public Officers Ethics Act, and internal codes of conduct. We continually strive to strengthen and sustain the trust that the government, the water sector and the public have placed on us. Accordingly the Board and its committees regularly evaluate the latest national and international standards with the aim of incorporating them in the business processes of WASREB so as to consistently deliver on our mandate.

5.1 Board of Directors

The board of directors meets at least four times a year. The directors are given appropriate information so that they can maintain full and effective control over strategic, financial, operational and compliance issues. Except for direction and guidance on general policy, the board has delegated authority for conduct of day to day business to the Chief Executive Officer. The board nonetheless retains oversight responsibility for establishing and maintaining the control of financial, operational and compliance issues.

5.2 Committees of the Board

The board has set up the following committees which meet under well defined terms of reference set by the board. This is intended to facilitate efficient decision making of the board in discharging its duties and responsibilities.

5.2.1 Corporate Services Committee

This Committee deals with strategic, financial, employment and administrative issues. It meets at a minimum of four times a year or as necessary. Its membership comprises of Ms. Leah Naikanae (Chairperson), Ms. Mariam Njoroge, Daniel Mutua, Eng L Simitu and James Mithika. Its responsibilities include; Performance contract negotiation; Reviewing of Annual Accounts; Reviewing Development and Recurrent Budgets; Recommendation of Board's Strategic Document, monitoring all human resources matters and monitoring the financial management of the corporation.

5.2.2 Technical Services Committee

There is a Technical Services Committee whose membership comprises Mr. Kalembe Ndile (Chairman), Ms Eunice Karanja, Eng. Mohammed Noor. Its responsibilities include; Overseeing development and enforcement of regulations and laws; Approval of tariffs; Reviewing of Water service standards and ensuring compliance; Approval of Service Provision Agreements; Recommending issuance of licenses to Water Service Boards and making recommendations as regard setting and determination of fees, levies, premiums and other charges to be imposed for water services.

5.2.3 Audit and Risk Management Committee

The board has constituted an audit committee which meets four times a year or as necessary. Its membership comprises of Mr. Paul Logisoi, Eng. Mohammed Noor, Mr. James Mithika (Chairman). Its responsibilities include; examining and assessing the effectiveness of the internal control system; approving the Internal Audit programs; carry out special audits, verifying Boards assets and liabilities and receiving reports from the Internal Auditor.

5.3 Corporate Social Responsibility

WASREB acknowledges its responsibility to society in its capacity as a corporate citizen; consequently, it endeavors to play an active role in national matters as per its mandate besides contributing to various worthy causes. In the financial year under review WASREB continued to offer advices to different stakeholders in the sector to facilitate access to quality water services.

6.0 STATEMENT OF DIRECTORS RESPONSIBILITIES

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

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with IPSAS. This responsibility includes: designing, implementing and maintaining internal controls relevant to preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with IPSAS and in the manner required by State Corporations Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Water Services Regulatory Board as at 30th June 2016 and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statement, as well as adequate systems of internal financial controls.

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

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



MIRIAM .N. NJOROGE
DIRECTOR
DATE:



ENG. ROBERT GAKUBIA
CHIEF EXECUTIVE OFFICER
DATE:

REPUBLIC OF KENYA

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

P.O. Box 30084-00100
NAIROBI



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON WATER SERVICES REGULATORY BOARD FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Water Services Regulatory Board set out on pages 1 to 16, which comprise the statement of financial position as at 30 June 2016, 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 as well as a summary of significant accounting policies and other explanatory information, in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act 2015 and submit the report in compliance with Article 229 (7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

Report of the Auditor-General on the Financial Statements of Water Services Regulatory Board for the year ended 30 June 2016

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 management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Outstanding Receivables

Included in the trade and other receivables balance of Kshs.112,090,314 as at 30 June 2016 is an amount of Kshs.576,500 being unpaid penalties. Though the Board suspended penalty charges due to devolution, collection of outstanding penalties remains unclear. Also included in receivables balance are debtors totalling to Kshs.68,745,788 which are over one year old and whose recoverability is therefore doubtful. Although management has made a doubtful debtors' provision of Kshs.50,080,447, the provision appears inadequate. No evidence has been presented by management to show efforts made or mechanisms put in place to recover the receivables.

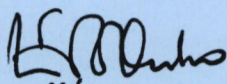
In the circumstance, the accuracy and recoverability of the receivables balance of Kshs.112,090,314 cannot be confirmed.

2. Administrative Costs

During the year under review, the Board spent Kshs.127,094,166 on administrative expenditure against the approved budget of Ksh.87,649,603 resulting to an over-expenditure of Kshs.39,444,563 or 45% of the approved budget contrary to Section 12 of the State Corporations Act Cap 446 of the Laws of Kenya. No evidence of approval of the over-expenditure was availed for audit review.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Water Services Regulatory Board as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Water Act, 2002 and state corporations Act Cap. 446 of the laws of Kenya.



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

Nairobi

07 June 2017

**I. WATER SERVICES REGULATORY BOARD
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30th JUNE 2016**

	Note	2015-2016 Kshs	2014-2015 Kshs
Revenue from non-exchange transactions			
GOK Grants	3	15,000,000	30,245,100
Regulatory Levy	4	185,864,297	156,834,355
Miscellaneous Income	5	4,243,795	3,662,507
Donor Grants	6	36,117,275	52,255,783
Total revenue		<u>241,225,367</u>	<u>242,997,745</u>
Expenses			
Employee costs	7	101,888,294	73,850,658
Board expenses	8	19,869,364	12,675,513
Administrative Expense	9	128,556,269	157,638,577
Total expenses		<u>250,313,927</u>	<u>244,164,748</u>
(Deficit)/Surplus for the period		<u>(9,088,560)</u>	<u>(1,167,003)</u>

**II. WATER SERVICES REGULATORY BOARD
STATEMENT OF FINANCIAL POSITION
AS AT 30th JUNE 2016**

	Note	2015-2016 Kshs	2014-2015 Kshs
Assets			
Current assets			
Cash and cash equivalents	10	72,883,467	88,387,507
Receivables	11	112,090,314	100,500,593
Other current assets	12	4,053,159	4,581,826
		189,026,940	193,469,926
Non-current assets			
Property, plant and equipment	13	12,834,306	15,589,063
Total assets		201,861,245	209,058,989
Liabilities			
Current liabilities			
		14,174,097	9,699,652
Net assets		<u>187,687,149</u>	<u>199,359,337</u>
Capital Reserve	15	36,487,577	36,487,577
Revaluation Reserve	16	5,686,265	8,283,065
Accumulated surplus	17	145,513,307	154,588,695
Total net assets and liabilities		<u>187,687,149</u>	<u>199,359,337</u>

M. Njoroge

**MIRIAM .N. NJOROGE
DIRECTOR
DATE:**

**ENG. ROBERT GAKUBIA
CHIEF EXECUTIVE OFFICER
DATE:**

**III. WATER SERVICES REGULATORY BOARD
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30th JUNE 2016**

	Capital Reserves	Revenue Reserve	Revaluation Reserve	Total
	Kshs	Kshs	Kshs	Kshs
Balance as at 1st July 2014	36,487,577	155,635,373	10,879,865	203,002,815
Depreciation on the revalued assets	-	-	(2,596,800)	(2,596,800)
Surplus/ (Deficit) for the period	-	(1,167,003)	-	(1,167,003)
Prior Year Adjustments	-	120,325	-	120,325
Balance as at 30th June 2015	<u>36,487,577</u>	<u>154,588,695</u>	<u>8,283,065</u>	<u>199,359,337</u>
Balance as at 1st July 2015	36,487,577	154,588,695	8,283,065	199,359,337
Depreciation on the revalued assets	-	-	(2,596,800)	(2,596,800)
Surplus/ (Deficit) for the period	-	(9,088,560)	-	(9,088,560)
Prior Year Adjustments	-	13,172	-	13,172
Balance as at 30th June 2015	<u>36,487,577</u>	<u>145,513,307</u>	<u>5,686,265</u>	<u>187,687,149</u>

**IV. WATER SERVICES REGULATORY BOARD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30th JUNE 2016**

	<u>2015/16</u>	<u>2014/15</u>
	KShs.	KShs.
Surplus/Deficit generated from Operating activities	(9,088,560)	(1,167,003)
Adjustment for		
Prior Year Adjustment	13,172	120,325
Depreciation	1,462,103	2,038,238
Cashflow from operating activities before	<hr/>	<hr/>
Working capital changes	(7,613,285)	991,560
(Increase)/Decrease in Receivables & other		
Current assets	(11,061,054)	4,361,652
Increase/ (Decrease) in Payables	4,474,445	75,182
	<hr/> <u>(6,586,609)</u>	<hr/> <u>4,436,834</u>
Net Cash flow from operating activities	(14,199,894)	5,428,394
Cash flow from investing activities		
Acquisition of assets	(1,304,145)	(3,323,059)
Cash flow from financing activities	(15,504,039)	2,105,335
Increase in Capital reserves	-	-
Decrease in Revenue reserves	-	-
Net increase in cash and cash equivalent	(15,504,039)	2,105,335
Cash and cash equivalents at start of year	88,387,506	86,282,172
Cash and cash equivalents at end of year	<u>72,883,467</u>	<u>88,387,507</u>

**V. WATER SERVICES REGULATORY BOARD
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2015-2016	2015-2016	2015-2016	2015-2016	2015-2016
Revenue					
Regulatory levies	120,500,000	19,000,000	139,500,000	185,864,297	46,364,297
Government grants and subsidies	60,000,000	(30,000,000)	30,000,000	15,000,000	(15,000,000)
Miscellaneous Income	2,500,000	-	2,500,000	4,243,795	1,743,795
Donor Grants	-	-	-	36,117,275	36,117,275
Retained Earnings	28,000,000	11,000,000	39,000,000	-	(39,000,000)
Total income	211,000,000	-	211,000,000	241,225,367	30,225,367
Expenses					
Compensation of employees	92,024,260	9,864,034	101,888,294	101,888,294	-
Administrative expenses	103,175,740	(15,526,137)	87,649,603	127,094,166	39,444,563
Board Expenses	12,000,000	8,000,000	20,000,000	19,869,364	(130,636)
Other payments - Depreciation	3,800,000	(2,337,897)	1,462,103	1,462,103	-
Total expenditure	211,000,000	-	211,000,000	250,313,927	39,313,927
Surplus for the period	-	-	-	(9,088,560)	(9,088,560)

VI. ACCOUNTING POLICIES

1. Statement of compliance and basis of preparation – IPSAS 1

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

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

2. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Regulatory levy and fines

Wasreb recognizes its revenues from levies and fines when the event occurs and the asset recognition criteria are met. 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. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

Transfers from other government entities

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

ii) Revenue from exchange transactions – IPSAS 9

Miscellaneous income

These include penalties charged, sale of tender and interest income which is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the

expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Budget information – IPSAS 24

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

c) Taxes – IAS 12

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

e) Property, plant and equipment – IPSAS 17

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

Per Annum	%
Motor Vehicle	- 20

Water Services Regulatory Board

Furniture, Fittings and Office Equipment	-	15
Computers, software	-	33.33

g) Intangible assets – IPSAS 31

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

The useful life of the intangible assets is assessed as either finite or indefinite.

h) Research and development costs

The Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

i) Provisions – IPSAS 19

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

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

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

Contingent liabilities

The Entity does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

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

j) Nature and purpose of reserves

Wasreb creates and maintains reserves in terms of specific requirements. Wasreb maintains both capital and revenue reserves.

k) Changes in accounting policies and estimates – IPSAS 3

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

l) Employee benefits – IPSAS 25

Retirement benefit plans

Wasreb provides retirement benefits for its employees. Defined contribution plans are post employment benefit plans under which an entity pays 20% fixed contributions based on the

employees basic salaries and the employee contributes 10% of their basic salaries into a separate fund, and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

m) Related parties – IPSAS 20

Wasreb regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the board directors, the executive chairperson, the CEO, and senior managers.

n) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term deposits, cash and cash at bank.

o) Comparative figures

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

p) Significant judgments and sources of estimation uncertainty – IPSAS 1

The preparation of Wasreb's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Provisions for bad debts

Trade receivables are recognized and carried at original amount less any unrecoverable amount and the general provision for bad debts at 10% of the amount outstanding and specific provision at 50%.

q) Subsequent events – IPSAS 14

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30th, 2016.

VII. NOTES TO THE ACCOUNTS

3. GOK Grants

	2016 Shs	2015 Shs
Unconditional grants		
Recurrent/ Development Grant	15,000,000	30,000,000
Salary Paid by Ministry to Seconded Staff in Wasreb	-	245,100
Total government grants and subsidies	<u>15,000,000</u>	<u>30,245,100</u>

4. Regulatory Levy

Regulatory levy	185,864,297	156,834,355
Total	<u>185,864,297</u>	<u>156,834,355</u>

5. Miscellaneous Income

Prequalification of suppliers	59,000	21,000
Surcharges & Loss Recovery	240,000	240,000
Interest Income	3,944,795	3,401,507
Total other income	<u>4,243,795</u>	<u>3,662,507</u>

6. Donor Grants

Tana Water Services Board	-	6,871,652
Athi Water Services Board	24,700,808	25,931,501
GIZ	11,416,467	19,452,630
Total Donor Grants	<u>36,117,275</u>	<u>52,255,783</u>

7. Employee costs

No of employees	31	31
Salaries and wages	79,417,098	61,151,658
Contributions to pensions	5,413,333	4,720,553
Gratuity	6,597,363	4,573,002
Actuarial Deficit	6,386,286	-
Leave Allowance	4,074,214	3,405,444
Employee costs	<u>101,888,294</u>	<u>73,850,658</u>

8. Board Expenses

Chairpersons Honoraria	1,020,000	1,020,000
Sitting Allowance	18,849,364	11,655,513
Total Board remuneration	<u>19,869,364</u>	<u>12,675,513</u>

NOTES TO THE ACCOUNTS CONT'**9. Administrative Expenses**

	2016	2015
	Shs	Shs
Advertising & Publicity	19,548,841	12,856,353
Audit fees	464,232	464,232
Conferences expenses	3,210,385	5,766,364
Consulting fees	16,082,150	39,170,562
Office running Expenses	4,150,111	4,421,977
Computer Expense	2,049,585	1,182,578
Repair & Maintenance expenses	1,005,680	957,704
Insurance expenses	10,127,051	10,018,334
Internet	1,349,751	482,400
Printing and stationery	2,250,377	134,095
Rental	15,099,327	14,578,549
Bank Charges & Other Operating Exp	1,977,645	2,610,252
Telecommunication	249,694	237,290
Capacity building	13,311,021	9,286,083
Allowances for Impairment (General)	2,636,415	1,878,066
Allowances for Impairment (Specific)	8,992,868	25,035,678
Travel & Accommodation Expenses	23,630,288	25,560,178
Fuel and oil	958,745	959,644
Depreciation	<u>1,462,103</u>	<u>2,038,238</u>
Total Administrative Expenses	<u>128,556,269</u>	<u>157,638,577</u>

10. Cash and cash equivalents

Cash In Bank	72,883,467	47,923,945
Short-term deposits	=	40,463,562
Total cash and cash equivalents	<u>72,883,467</u>	<u>88,387,507</u>

11. Receivables**Current receivables**

Staff Debtors	1,651,753	4,220,399
Water Service Boards	576,500	576,500
Trade debtors	159,942,508	134,154,858
Less: impairment allowance	<u>(50,080,447)</u>	<u>(38,451,164)</u>
Total current receivables	<u>112,090,314</u>	<u>100,500,593</u>

NOTES TO THE ACCOUNTS CONT'

Reconciliation of impairment of receivables

As at 1 st July 2015	38,451,164	11,537,420
Charges in provision for the year (General)	2,636,415	1,878,066
Charges in provision for the year (Specific)	<u>8,992,868</u>	<u>25,035,678</u>
As at June 2016	<u>50,080,447</u>	<u>38,451,164</u>

12. Other Current Assets

	2016	2015
	Shs	Shs
Prepaid Insurance	4,053,159	4,119,332
Prepaid Internet	-	368,150
Prepaid training	-	94,344
Total	<u>4,053,159</u>	<u>4,581,826</u>

13. Property, plant and equipment

	Motor Vehicles	Furniture & Fittings	Computer & Equipment	Total
Cost	Shs	Shs	Shs	Shs
At 1 July 2014	12,984,000	7,478,160	17,401,959	37,864,119
Additions	-	1,153,965	2,169,094	3,323,059
At 30 June 2015	12,984,000	8,632,125	19,571,053	41,187,178

Depreciation and impairment

At 1 July 2014	-	(5,263,994)	(15,699,083)	(20,963,077)
Charge for the year	(2,596,800)	(567,480)	(1,470,758)	(4,635,038)
At 30 June 2015	(2,596,800)	(5,831,474)	(17,169,841)	(25,598,115)
Net book values				
At 30 June 2015	<u>10,387,200</u>	<u>2,800,651</u>	<u>2,401,212</u>	<u>15,589,063</u>

**NOTES TO THE ACCOUNTS
CONT'**

Cost	Shs	Shs	Shs	Shs
At 1 July 2015	12,984,000	8,632,125	19,571,053	41,187,178
Additions	-	407,865	896,280	1,304,145
At 30 June 2016	12,984,000	9,039,990	20,467,333	42,491,323
Depreciation and impairment				
At 1 July 2015	(2,596,800)	(5,831,474)	(17,169,841)	(25,598,115)
Charge for the year	(2,596,800)	(623,187)	(838,915)	(4,058,902)
At 30 June 2016	(5,193,600)	(6,454,661)	(18,008,756)	(29,657,017)
Net book values				
At 30 June 2016	<u>7,790,400</u>	<u>2,585,329</u>	<u>2,458,577</u>	<u>12,834,306</u>

14. Trade and other payables

	2016	2015
	Shs	Shs
Trade payables	6,386,286	334,918
Audit fees	464,464	464,232
Performance Guarantee	979,500	979,500
Gratuity	6,343,847	7,921,002
Total trade and other payables	14,174,097	9,699,652

15. Capital Reserve

Brought Forward	36,487,577	36,487,577
Carried Forward	<u>36,487,577</u>	<u>36,487,577</u>

16. Revaluation Reserve

Amortization in the year	(2,596,800)	(2,596,800)
Carried Forward	<u>5,686,265</u>	<u>8,283,065</u>

**NOTES TO THE ACCOUNTS
CONT'**

17. Revenue Reserve

Brought Forward	154,588,695	155,635,373
Surplus for the years	(9,088,560)	(1,167,003)
Prior Year Adjustment	<u>13,172</u>	<u>120,325</u>
Carried Forward	<u>145,513,307</u>	<u>154,588,695</u>