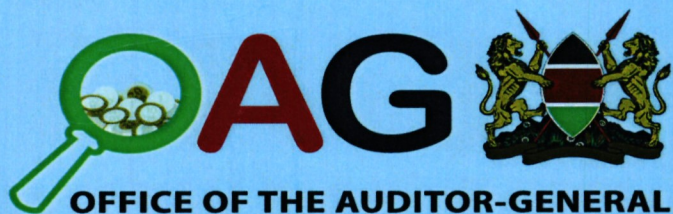


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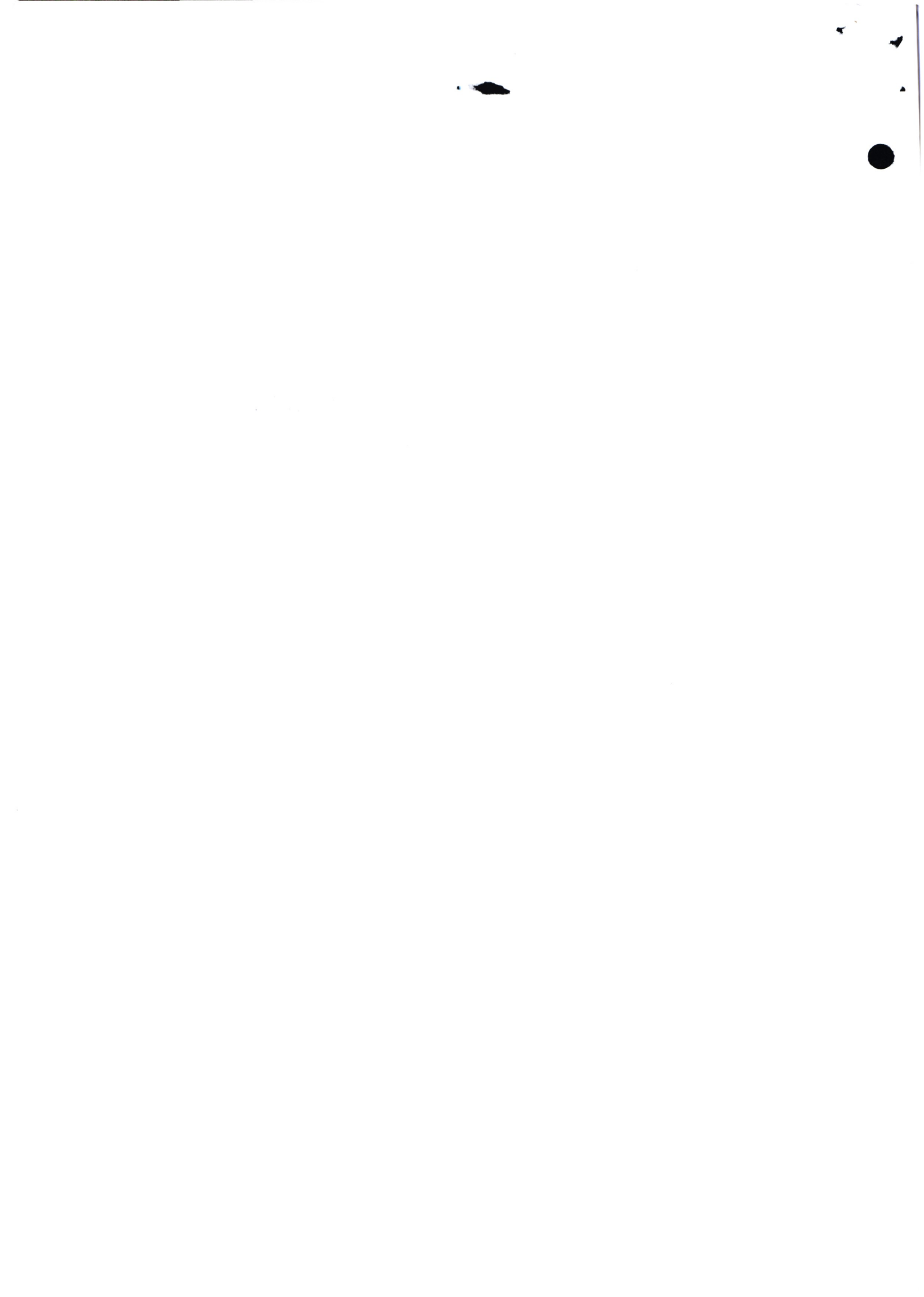
OF

THE AUDITOR-GENERAL

ON

WATER SERVICES REGULATORY BOARD

**FOR THE YEAR ENDED
30 JUNE, 2021**





WASREB
Water Services Regulatory Board

WATER SERVICES REGULATORY BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING

30TH JUNE 2021

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

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1. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

Water Services Regulatory Board is a corporate body established under the provisions of the Water Act 2016 and operating under the provisions of the State Corporations Act, Cap 446 of the laws of Kenya and it is domiciled in Kenya. On April 21st 2017 the Water Act 2002 was repealed by the Water Act 2016.

(b) Principal Activities

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.

The principal activities of the Water Services Regulatory Board according to the Water Act 2016 which repealed the Water Act 2002 are to: -

- (i) Determine and prescribe national standards for the provision of water services and asset development for water services providers;
- (ii) Evaluate and recommend water and sewerage tariffs to the county water services providers and approve the imposition of such tariffs in line with consumer protection standards;
- (iii) Set licence conditions and accredit water services providers;
- (iv) Monitor and regulate licensees and enforce licence conditions;
- (v) Develop a model memorandum and articles of association to be used by all water companies applying to be licensed by the regulatory board to operate as water services providers;
- (vi) Monitor compliance with standards including the design, construction, operation and maintenance of facilities for the provision of water services by the water works development bodies and the water services providers;
- (vii) Advise the cabinet secretary on the nature, extent and conditions of financial support to be accorded to water services providers for providing water services;
- (viii) Monitor progress in the implementation of the water strategy and make appropriate recommendations;
- (ix) Maintain a national database and information system on water services;
- (x) Establish a mechanism for handling complaints from consumers regarding the quality or nature of water services;

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- (xi) Develop guidelines on the establishment of consumer groups and facilitate their establishment;
- (xii) Inspect water works and water services to ensure that such works and services meet the prescribed standards;
- (xiii) Report annually to the public on issues of water supply and sewerage services and the performance of relevant sectors and publish the reports in the gazette;
- (xiv) Make regulations on water services and asset development which shall include business, investment and financing plans in order to ensure efficient and effective water services and progressive realization of the right to water services;
- (xv) Advise the cabinet secretary on any matter in connection with water services; and
- (xvi) Make recommendations on how to provide basic water services to marginalised areas.

Vision

The Vision of the Board is “A proactive and dynamic water services regulator”.

Mission

To provide a regulatory environment that facilitates efficiency, effectiveness and equity in the provision of water services in line with the human right to water and sanitation.

Strategic Objectives

The Board's five objectives are as follows: -

- a. Enhance consumer and other stakeholders' confidence in water services regulation
- b. Strengthen governance in water services provision,
- c. Ensure a financially sustainable and socially responsive water services sector.
- d. Enhance compliance with regulations.
- e. Strengthen institutional capacity.

(c) Key Management

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

- Board of Directors
- Chief Executive Officer
- Management
- Staff

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(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30 June 2021 and who had direct fiduciary responsibility were:

S/no	Designation	Name
1.	Chief Executive Officer	Eng. Robert N. Gakubia, HSC
2.	Director Corporate Services	Dr. Julius Kirimi Itunga
3.	Director Licensing, Standards and Advocacy	Eng. Peter Njaggah
4.	Director Monitoring and Enforcement	Richard Cheruiyot
5.	Manager Finance and Accounting	David Kibai Leleito
6.	Manager Supply Chain Management	Joyce Moturi

(e) Fiduciary Oversight Arrangements

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.

(i) Corporate Services Committee

This Committee deals with strategic, financial, employment and administrative issues. 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 and matters of WASREB information, communication and media system and plans.

(ii) Technical Services Committee

There is a Technical Services Committee whose 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.

(iii) Audit and Risk Management Committee

As per the requirements of the Public Finance Management Act 2012, there is the audit and risk management committee. 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 and to adopt a pro- active risk-based approach in the internal audit system.

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(f) WASREB Headquarters

NHIF Building
Ngong Road
Nairobi, Kenya

(g) WASREB Contacts

P.O. Box 41621-00100
NAIROBI
TEL: 0202733561
Email: info@wasreb.go.ke
Website: www.wasreb.go.ke

(h) WASREB Bankers

1. National Bank of Kenya
Hill Branch
P.O. Box 45219-00100
Nairobi
2. Kenya Commercial Bank
Capital Hill
3. Co-operative Bank of Kenya
Upper hill Branch

(i) Independent Auditors

The Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084
Nairobi, Kenya.




(j) Principal Legal Advisor

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



2. THE BOARD OF DIRECTORS

Ref.	Directors	Details
1.	 <p data-bbox="225 622 560 678">Hon. Joshua W. Irungu</p>	<p data-bbox="592 309 1503 678">He was appointed on 8th February 2019. He holds an MSC Degree in Agriculture and Rural Development. He has over 20 years' experience in public administration and agriculture. He has served the government as the first governor of Laikipia County and previously worked for PACT Kenya.</p>
2.	 <p data-bbox="225 1032 560 1081">Dr. Ezra K. Ronoh</p>	<p data-bbox="592 678 1503 1081">He is an independent director appointed on 8th February 2019. He holds a PHD in Entrepreneurship Management and Master of Business Administration (MBA). He serves as the Program's Co-ordinator at Kabarak University Nakuru Town Campus. He previously served as a Consultant in Assessing SMEs with Best Practices and as a Business Advisor Ministry of Industrialization.</p>
3.	 <p data-bbox="225 1435 560 1496">Mrs. Fakira Kassim</p>	<p data-bbox="592 1081 1503 1496">She is an independent director appointed on 8th February 2019. She holds a Higher National Diploma in Clinical Medicine and Surgery. She is also qualified in Quality Assurance and Standards. She has worked for National Hospital Insurance Fund (NHIF) as a Quality Assurance Officer, Mandera District Hospital and KICC, Nairobi.</p>
4.	 <p data-bbox="225 1827 560 1883">Ms Esther W. Njogu</p>	<p data-bbox="592 1496 1503 1883">She is an independent director appointed on 8th February 2019. She holds a Diploma in Leadership. She is an astute businesswoman in real estate and construction. Currently she works as an Administration Manager at Jubilee Party Headquarters where she provides guidance in leadership and governance. Previously, she served at Nyandarua County Council in Alcoholic Drinks Regulation Committee.</p>



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5.	 <p>Dr. Erick K. Ruto</p>	<p>He is an independent director appointed on 8th February 2019. He holds a Masters Degree in Tropical and Infectious Diseases and a Bachelors Degree in Medicine and Surgery. He is currently pursuing a PHD in Medical Microbiology. He is the Medical Director and Chairman of Reale Hospital and Clinics and a lecturer at Moi University School of Medicine.</p>
6.	 <p>Ms. Irene W. Kamau</p>	<p>She is an independent director appointed on 8th February 2019. She is a holder of Masters in Counselling Psychology. She is the Founder and Managing Director of 3M Overseas Education Advisory Committee. She was also the Headmistress at Pan African Girls High School.</p>
7.	 <p>Dr. Edward Kobuthi</p>	<p>Dr.Kobuthi is an independent director appointed on 24th September 2020. He holds a PhD in Business Administration in Strategic Management, specializing in corporate governance from the University of Nairobi. He has a Masters Degree in Strategic Management and a Bachelor's degree in marketing and finance both from United States International University.</p> <p>His vast work experience spans from Project Manager at East African Breweries Limited, Airport Manager at Jomo Kenyatta International Airport, General Manager, Kenya Airways, CEO at AMREF's Meat Processing Plant in Turkana, Part Time Lecturer at KCA University, USIU, to Senior Lecturer at Africa International University. He currently runs EBN Creations Limited as a Safaricom Dealer.</p>

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8.	 <p>Ms. Gladys Wekesa Alternate Member PS Ministry of Water, Sanitation and Irrigation</p>	<p>Ms. Wekesa is the Director, Department of Transboundary Water Resources under the Ministry of Water, Sanitation and Irrigation. She was appointed to the WASREB Board on 31st March 2020.</p> <p>She holds a Master’s of Science degree in Geology and a Bachelor of Science Degree in Geology from the University of Nairobi. She has held senior positions in the Ministry, among them member of the Nile Technical Committee on the Technical Advisory Committee, member of the Technical Committee of the African Ministers’ Council on Water (AMCOW), IGAD Technical Committee on water and the Mara River Basin MoU.</p>
9.	 <p>Mr. Godfrey N. Karanja Alternate CS, The National Treasury</p>	<p>Mr. Karanja is a Senior Economic Policy Analyst in Financial and Sectoral Affairs Department. He was appointed to WASREB Board on 30th September 2019. He holds a Master of Business Administration Degree (MBA) specializing in Strategic Management from Jomo Kenyatta University of Agriculture and Technology (JKUAT) and a Bachelor of Economics Degree from Kenyatta University (KU). He has over 30 years’ experience in economic and policy matters. He has held senior positions in the Ministry of Finance, among them, being the Head of Competition matters in the Coast region from 1998 to 2000. He is currently working in the National Treasury.</p>
10.	 <p>Eng. Robert N. Gakubia, HSC</p>	<p>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.</p> <p>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.</p> <p>CEO from 1 July 2020 to 18th May 2021</p>

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11.	 <p>Joseph K. Keter 'ndc'(K)</p>	<p>Joseph K. Keter 'ndc'(K) assumed the office as the Acting Chief Executive Officer at the Water Services Regulatory Board (WASREB) on 13th January, 2022. Mr. Keter is a holder of Master of Business Administration (Project Management) from Kenyatta University and a Bachelor of Arts in International Relations from United States International University of Africa.</p> <p>Prior to joining WASREB, he served as Secretary Administration in the Ministry of Water, Sanitation and Irrigation between 2017 and 2021. During the period, he coordinated the rolling out of three successive Rapid Results Initiatives (RRI) waves which led to completion of over 120 water, irrigation and sanitation projects. He also participated in the preparations of the successful Kenya Sanitation Conference held in October, 2019 at Kenyatta International Conference Centre. While at the Ministry, Mr. Keter was Alternate Director to Principal Secretary at Athi Water Works Development Agency.</p>
12.	 <p>Eng. Peter Njaggah</p>	<p>Eng. Peter Njaggah is the Director Licensing, Standards and Advocacy. 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.</p> <p>Eng. Njaggah has over 25 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 and 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.</p> <p>Ag. CEO from 18th May 2021 to 18th December 2021.</p>

3. MANAGEMENT TEAM

Water Services Regulatory Board re-organized its Organization Structure effective 1st June 2020 as follows:


To effectively carry out its functions and fulfil its strategic objectives and mandate, WASREB is structured into three (3) Directorates and five (5) Departments reporting directly to the CEO as shown below:

DIRECTORATES



1. Licensing, Standards and Advocacy
2. Monitoring and Enforcement
3. Corporate Services


DEPARTMENTS

1. Corporation Secretary & Legal Services
2. Corporate Communication
3. Research, Planning and Quality Assurance
4. Supply Chain Management
5. Internal Audit

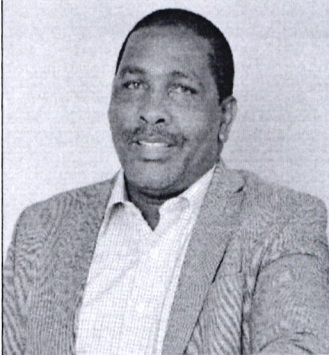
Reference	Management	Details
1.	 <p>Eng. Robert N. Gakubia, HSC</p>	<p>Eng. Gakubia is the Chief Executive Officer of WASREB. He has held senior positions in the Ministry of Water and Irrigation, rising to the position of Director of Water services.</p> <p>He holds BSc degree in Engineering from University 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.</p> <p>CEO from 1 July 2020 to 18th May 2021</p>

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2.	 <p>Joseph K. Keter 'ndc'(K)</p>	<p>Joseph K. Keter 'ndc'(K) assumed the office as the Acting Chief Executive Officer at the Water Services Regulatory Board (WASREB) on 13th January, 2022. Mr. Keter is a holder of Master of Business Administration (Project Management) from Kenyatta University and a Bachelor of Arts in International Relations from United States International University of Africa. Prior to joining WASREB, he served as Secretary Administration in the Ministry of Water, Sanitation and Irrigation between 2017 and 2021. During the period, he coordinated the rolling out of three successive Rapid Results Initiatives (RRI) waves which led to completion of over 120 water, irrigation and sanitation projects. He also participated in the preparations of the successful Kenya Sanitation Conference held in October, 2019 at Kenyatta International Conference Centre. While at the Ministry, Mr. Keter was Alternate Director to Principal Secretary at Athi Water Works Development Agency.</p>
3.	 <p>Eng. Peter Njaggah</p>	<p>Eng. Peter Njaggah is the Director Licensing, Standards and Advocacy. 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 25 years' experience and knowledge in the water sector, having previously worked as a senior manager in several water utilities as the Managing Director</p>

		<p>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 and Sewerage Department- Nairobi City Council- Republic of Kenya.</p> <p>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.</p> <p>Ag. CEO from 18th May 2021 to 18th December 2021</p>
4.	 <p>Dr. Julius K. Itunga</p>	<p>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</p>

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		<p>and National Biosafety Authority. He also worked as an Associate Lecturer at the Kenya Methodist University and has published extensively in referenced journals.</p>
5.	 <p>Richard K. Cheruiyot</p>	<p>Richard Cheruiyot is the Director Monitoring and Enforcement. He holds a Bachelor of Science degree in Analytical Chemistry from the University of Nairobi. He is also a holder of two Masters degrees in Environmental Chemistry and Business Administration both from the University of Nairobi.</p> <p>Mr. Cheruiyot has over 23 years' experience in management of water services both at policy levels, regulation and operations with a bias in regulation, with a specific focus on the development and monitoring of compliance to the regulatory framework. Prior to joining WASREB, he worked with the National Water Conservation and Pipeline Corporation as the Deputy Regional Manager in charge of Technical Services in the Western Region.</p>

4. CHAIRMAN'S STATEMENT



As the demand for water services continue to increase, so will the demand for water resources increase. This implies that greater efforts will be required in water resources management and development. This calls for increased coordination in planning and financing, both at the regional and national levels through a basin management approach that respects natural boundaries. Increased efforts are therefore required from all actors if sustainable progress is to be realized.

The Constitution creates two levels of government, national and county. Given the shared role in water service provision, with regulation and development of national public works retained at the national level, while service provision retained at county level, there is dire need for effective coordination between these actors to assure citizens of water and sanitation services.

According to IMPACT 13, only 19 utilities down from 21 were able to meet their O&M costs on the basis of data from utilities within these counties. A major contributing factor to this, is the lack of justified tariffs for a majority of the utilities. The counties should therefore push their utilities to ensure they have justified tariffs. They should also reduce inefficiencies. Although good progress has been made in terms of counties reporting, six counties either had no data in this indicator or the data was not credible.

Apart from providing the targeted subsidies where applicable to their utilities, County Governments are also expected to work with their respective utilities in resource allocation. This is expected of the County Governments since they are responsible for planning water services within their areas. The resources used for planning could either be those generated internally or allocated from the county revenues.

WASREB commits to monitoring utilities with the sole purpose of improving services to citizens. However, collaboration between the Regulator, National government and County governments is desirable to realize this dream.

A handwritten signature in blue ink, appearing to read 'Dr. Edward Kobuthi', written over a light blue grid background.

DR. EDWARD KOBUTHI

AG. CHAIRMAN OF THE BOARD OF DIRECTORS

5. REPORT OF THE CHIEF EXECUTIVE OFFICER



Regulation has pushed utilities to ensure that there is equity and non-discrimination in the provision of services, consumers have the correct information and are well informed on their rights and obligations. Under sector development, the gains have been realized in ring fencing of revenues and thus avoiding capital leakage and drain, enhancing and optimizing financing and increasing transparency. In all these areas great developments have been witnessed. One key lesson for the sector drawn from the COVID-19 pandemic is that sustainable services provided by regulated utilities are key in any public health emergency. In a post-COVID era this situation must change and Government at both levels must lead the change.

During the current reporting period, there was a general decline in performance with only three indicators recording improvement while five declined and one stagnated. This, is a departure from the previous reporting period where improved performance was recorded in four indicators, a drop in three and stagnation in two.

Water coverage for areas served by regulated utilities declined from 59% in 2018/19 to 57% in 2019/20 mainly as a result of population growth surpassing growth in access. In absolute terms, there was an additional 854,514 people served against a population increase in service area of 2,229,267. Similarly, sewer coverage declined from 17% recorded in 2018/19 to 15% in the current period. If we look at the total water coverage; considering the contribution of the Small-Scale Service Providers (SSSPs), the national coverage is 45%. On the bright side, Sanitation Coverage improved by seven percentage points up from 81 to 88 while Hours of Supply moved from 14 to 15. To get to the national target of universal by 2030, the required annual growth is at least four percentage points but this is only to the extent of the areas with WSPs.

As we look to the future, our focus continues to be formalization of service provision through licensing of all WSPs. Over 50 utilities have submitted applications for licensing with 35 having been licensed, laying a foundation for better services with serious commitment and responsibility for customer satisfaction and driving the progressive realization of the right to water.

WASREB remains committed to enforcing high performance in the sector which cannot happen without support from all our stakeholders.

A handwritten signature in blue ink, appearing to read 'Joe Keter', written over a white background.

JOSEPH K. KETER 'ndc'(K)

AG. CHIEF EXECUTIVE OFFICER

6. STATEMENT OF WASREB'S PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2020/2021

WASREB recognizes that the financial health of any institution is a key determinant for sustainability. Therefore, in the review period, the Regulator continued employing measures to ensure that a sound financial base was maintained. Among the measures put in place in the year included increased surveillance of the sector to ensure the payment of the regulatory levy and imposing penalties to those who failed to comply with regulatory requirements. In addition, cost control measures were undertaken to ensure efficiency in all operations.

During the period under review, the regulatory levy increased from Kshs. 168.4 million to Kshs 229.9 million. This facilitated the internal financing of development and operational expenditures.

The approved budget for the period was strictly followed and this, coupled with cost control measures, ensured a healthy cash flow position during the year.

Key Strategic Issues To realize its vision and achieve its purposes, this strategy is premised on four (4) key thematic areas: -

- a) Governance
- b) Access to Water Services
- c) Collaboration
- d) Effective Regulator

Governance

Good stewardship ensures proper deployment of resource and curbs revenue leaks in enterprises. Wasreb will aim at promoting improved governance framework in the country both at National and County levels. To this end, the Board will put in place a licensing and monitoring framework that will ensure proper management of resources towards realization of increased access to water services. The water sector has fundamental characteristics that make it highly sensitive to and dependent on multi-level governance. The Constitution of Kenya 2010 allocated increasingly complex and resourceintensive responsibilities to County Governments, resulting in inter-dependencies across levels of government that require co-ordination to ensure efficiency, effectiveness and equity in service delivery. The Board will foster mutual co-operation with the County Governments on governance of water (WSPs), identify and prescribe solutions for regulatory issues and ensure seamless service delivery to the citizenry. The

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capacity of WSPs will require enhancement to enable them to carry out effective, efficient and sustainable water services provision. Wasreb will consequently enhance monitoring of licensees and ensure compliance with the regulatory framework.

Access to Water Services

Development and management of water services infrastructure is capital-intensive business. Water utilities are torn between the need to invest in replacing aging infrastructure while at the same time finding the financial resources to expand their coverage in an environment of increased water demand due to rapid urbanization. In light of the funding gaps in the sector, Wasreb will endeavour to enhance the revenue inflows into the sector through diversification of revenue sources. This will be achieved by assessing and implementing justified cost-recovery tariffs (internal financing); building the confidence of development partners in the sector (development partners financing); lobbying for increased resource allocation (exchequer) to the sector (public sector financing), promoting access to private sector financing and ensuring the ring-fencing of water revenues.

In order to enhance equity and the right to water, Wasreb will prescribe suitable models for water service provision in marginalized areas and make recommendations to County Government for targeted subsidy for WSPs whose justified tariffs cannot cover the O+M costs to enhance success. However, the recommendation for subsidies will have to be linked to performance. Additionally, the regulator will encourage Public Private Partnerships (PPPs) and Public Partnerships (PPs) in the management of water service provision. Wasreb will in addition, promote strategies towards building the capacity of the WSPs to ensure that they are managed and run by persons with the requisite skills. Wasreb will also seek to offer technical assistance and develop programs that facilitate knowledge sharing and transfer between and amongst the utilities.

Collaboration

This theme is aimed at creating a framework for engagement with key stakeholders namely; consumers, National Government, County Governments, development partners, learning/professional institutions, regulatory entities among others. An enabling development environment and stakeholder goodwill in water services provision is greatly influenced by the level engagement with the stakeholder in addition to satisfaction amongst the customers of water service providers. Accordingly, the stakeholder engagement framework will seek to avail information required for necessary advocacy and partnerships; provide for platforms for partnerships and envisage modalities for consumer complaint handling and dispute resolution. Wasreb will enhance consumer protection through the regulated utilities. Knowledge

is power and ensuring that all players and actors understand their inter-linked roles and responsibilities in water service provision will be the solution to ensure efficient service delivery. To achieve this objective, Wasreb will seek to strengthen its brand as a valuable leader and resource point in water services provision.

Effective Regulator

Wasreb recognizes that the employee is integral to the successful achievement of organizational strategy. In line with this, Wasreb will develop optimal staffing structures to enable the effective discharge of its mandate and incorporate a progressive corporate culture that will attract, retain and promote a vibrant workforce. In addition, physical infrastructure necessary to support service delivery will be enhanced, while focused resource mobilization will be undertaken to support to fund the regulatory programs.

WASREB develops its annual work plan based on the 4 strategic pillars. assessment of the Board's performance against its annual workplan is done on quarterly basis. The Board achieved its performance targets set for the FY 2020/2021 for its 4 strategic pillars as indicated below: -

(a) Compliance with License Conditions on Established Standards Monitored

The Board carried out inspections on 18 WSPs for Water Quality Surveillance that included Matungulu, Machakos, Mavoko, Kiambu, Githunguri, Gatundu, Limuru, Narok, Bomet, Ol Kalou, Nyandarua, Nyahururu, Mathira, Gatamathi, Muranga South, Ngandori, Ngagaka and Kyeni.

Routine Inspections were done in 9 WSPs that include; Busia, Isiolo, Kwale, Mombasa, Tavevo, Nzoia, Kakamega, Amatsi and Migori.

Tariff Implementation Reviews were done in 7 WSPs that include Nakuru Rural, Nanyuki, Embu, Siboi, Eldoret, Kibwezi and Rukanga

(b) Implementation of Non-Revenue Water (NRW) Standards Monitored

The Board enforced the implementation of NRW standards to reduce the NRW levels through the following activities during the year: -

- Reviewed NRW reports and NRW reduction plans submitted by WSPs
- Ensuring NRW requirements are included in the licensing of the WSPs
- Ensuring all tariffs evaluated have a condition on NRW.

(c) Advisories in Water Services Provision Provided to National and County Governments

During the year, two advisories were issued:

- Advisory on Bulk water supply framework under the water act 2016 to all WWDAs
- Advisory on Eligibility Criteria for Board of Directors to all WSPs

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(d) County Engagement Strategy Implemented

The Board engaged Kajiado county regarding the Nol Turesh Bulk water supply system in May 2021 where the county senior officials were in attendance.

The Board is ensuring constant provision of advisories in identified and emerging issues.

(e) Consumer Engagement in Water Services Delivery Facilitated

WASREB facilitated Consumer Engagement in Water Service Delivery by:

- i) Implementing the findings of the Customer Satisfaction Survey which was undertaken in 2019/20.
- ii) Enhancing capacity of utilities to improve on their creditworthiness through 4 workshops and sessions held.
- iii) Having mainstreaming campaigns on Non-Revenue Water reduction.
- iv) Enhancing consumer engagement through media and other communication channels.

(f) Guidelines on Regulation of On-Site Sanitation (OSS) Developed

The Board developed the OSS guidelines for regulation and was presented to the Board of Directors by end of the year.

(g) Annual Sub-Sector Performance Report Developed and Published

Data collection and analysis for 88 WSPs and Rural Small Scale Water Service Providers for the year 2019/20 was undertaken. The Board published and disseminated the performance of the water services sector by 30th June 2021.

(h) Governance workshops

WASREB in conjunction with Kenya Markets Trust held a regional dissemination workshop on Guidelines for the provision of Water Services in Rural and Underserved areas in Kenya in the following regions

- a. Kisumu on the 2nd and 3rd June 2021. The counties and utilities represented were Kakamega, Migori, Nyamira, Bomet, Nandi, Kisumu and Homabay.
- b. Nakuru region for the counties and utilities represented were Nakuru, Laikipia, Nyandarua and Baringo, the Northern and Central rift Valley WWDAs were also in attendance.
- c. Mwatate, Taita Taveta bringing together Counties and utilities under the Coast and Tanathi WWDAs.

7. 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 71 of the Water Act 2016. 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 MWONGOZO, the Public Officers Ethics Act, and signed 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.

(a) Board of Directors

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. The directors met five (5) times during the 2020/2021 financial year.

(b) 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.

i. Corporate Services Committee

This Committee deals with strategic, financial, employment and administrative issues. Its responsibilities include; Performance contract negotiation; Reviewing of Annual Accounts;

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Reviewing Development and Recurrent Budgets; Recommendation of Board's Strategic Document, monitoring all human resources matters and monitoring the financial management of the corporation and matters of WASREB information, communication and media system and plans. The Corporate Services Committee met eleven (11) times during the financial year 2020/2021.

ii. Technical Services Committee

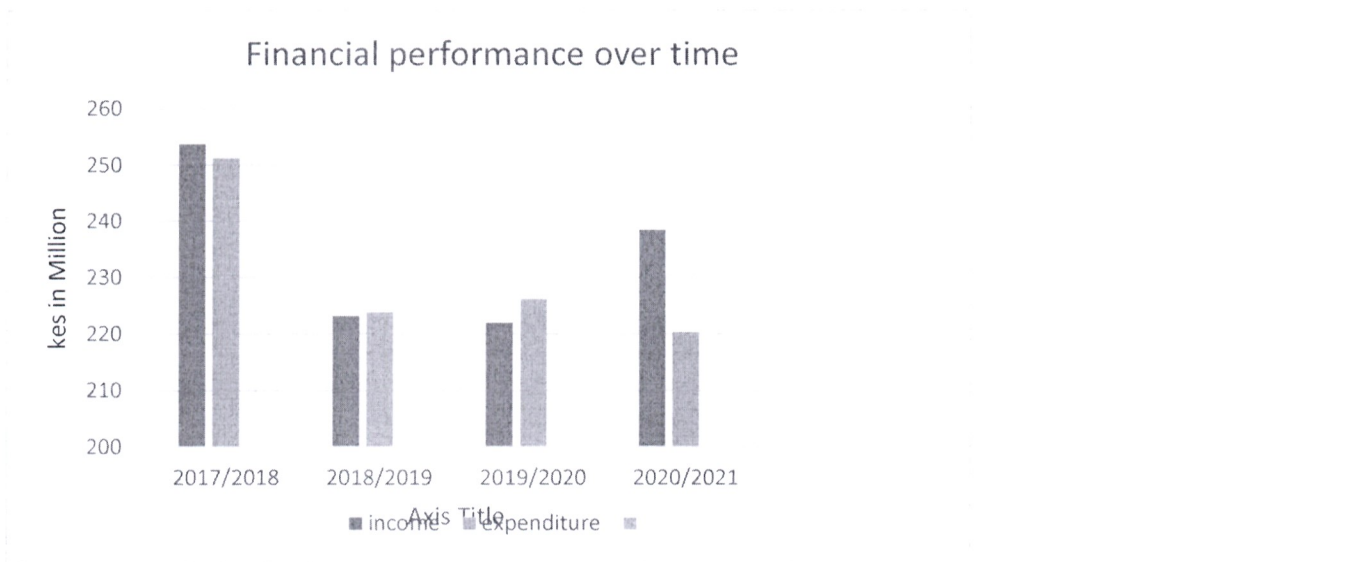
There is a Technical Services Committee whose responsibilities include; Overseeing development and enforcement of regulations and laws; Approval of tariffs; Reviewing of water service standards and ensuring compliance; Approval of Service Provision Agreements; Recommending issuance of licenses to water service boards and making recommendations as regard setting and determination of fees, levies, premiums and other charges to be imposed for water services. The Technical Services Committee met five (5) times during the financial year 2020/2021.

iii. Audit and Risk Management Committee

As per the requirements of the Public Finance Management Act 2012, there is the audit and risk management committee. 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 and to adopt a pro- active risk-based approach in the internal audit system. The Audit and Risk Management Committee met four (4) times during the financial year 2020/2021.

8. MANAGEMENT DISCUSSION AND ANALYSIS

WASREB operational and financial performance for the last four years were as depicted in the table below



(i) Internal Controls

WASREB has defined procedures and financial controls to ensure accurate reporting and safeguarding of resources. The system of internal control defines procedures to ensure that assets are safeguarded, transactions are authorized and recorded, and that material errors and irregularities are either prevented or detected within a reasonable period of time. The performance of WASREB is reported regularly to the Board of Directors through performance trends, forecasts, actual performance analysis and budgets. The Board reviews the effectiveness of internal control systems by assessing the work of both internal and external assurance providers. Internal assurance is carried out by the Internal Audit section, which reports to the Audit and Risk management Committee. The section provides confirmation that standards and policies are complied with. External assurance is provided by the Office of the Auditor General.

The Board is responsible for reviewing internal control systems. Over the period of reporting, the Board was satisfied that the system was effective. However, it is recognized that any system of internal control can only provide reasonable but not absolute assurance against material mis-statement or loss. Internal control and risk management systems are designed to mitigate rather than eliminate the risks identified in the financial reporting process.

(ii) Risk Assessment and Control Activities

The risk assessment process related to financial reporting is conducted annually. The significant accounts in the financial statements are identified based on the evaluation of the impact and likelihood of the risks materializing. Internal audit ensures objective and independent assessment of the adequacy, efficacy and quality of internal controls.

Management is responsible for ensuring that internal control activities are performed and documented, and is required to report to the Corporate Services Committee on compliance on a quarterly basis. In addition, WASREB has implemented a formal audit of the strategy, budget and financial performance. The monitoring of internal controls and risk management systems is performed at multiple levels such as periodical reviews of documentation. The audits are performed by the internal audit and monitored by the Audit Committee. The Audit Committee charter outlines its roles and responsibilities related to supervision and monitoring of internal control and risk management systems. The monitoring is performed on the basis of periodical reporting from Finance, Internal and External Audits.

(iii) Challenges

While it can be reported that the financial health of the institution was generally sound, challenges were encountered in the collection of the regulatory levy as most companies were unable to clear their arrears on time. In addition, water companies did not fully adhere to the tariff condition on the remission of levy provided in the approved tariff.

(iv) Impact of COVID-19 Pandemic on Water Service Provision

With the confirmation of COVID-19 in mid-March 2020, the Government of Kenya requested citizens to adhere to guidelines on handwashing, hygiene and social distancing. To support the prevention and containment of the pandemic in these areas, the government issued a directive and pronounced measures requiring public Water Services Providers (WSPs) to ensure continuous and accessible supply of water and hygiene services.

An assessment done jointly between WASREB and WASHFIN Kenya in May 2020 on experiences of five WSPs in providing water services to informal settlements during the pandemic from Kilifi, Kiambu, Nakuru, Mombasa and Nyeri Counties, revealed that WSPs are struggling. COVID-19 has exposed the gaps and inequalities in water services provision especially as these relate to residents in informal settlements. According to WASREB, 40% of the urban population in Kenya lives in low-income informal settlements. Of this population, only 53% are served by WSPs.

(v) Interventions to Mitigate the Effects of COVID-19 on the Water Sector

In response to the Government's directive, the assessment showed that the WSPs were undertaking a range of tasks including; installation of water storage tanks for domestic use and handwashing in public places, trucking water to vulnerable consumers and reactivation of disconnected accounts and hygiene promotion among other interventions.

Whilst these responses from the utilities have made a difference, it was far from adequate, largely temporary, and not part of a long-term solution. It was also costly. On average each of the regulated WSPs spent Kshs. 7 Million on these emergency activities. By the end of four months, approximately Kshs. 6 Billion was spent on a non-permanent solution. This is equivalent to 26% of the sector turn over.

As a follow up to the above efforts and cognizant of the impact posed by COVID-19 pandemic in the provision of water and sanitation services across the country, the Government through the Ministry of Water, Sanitation and Irrigation (MWSI), invested Kshs. 1.62 Billion to drill and equip 193 boreholes and construct 193 elevated steel water tanks to supply 33 million litres per day of water to enable 1,600,000 residents access water in the informal settlements in Nairobi.

In addition, the World Bank moved to allocate the Ministry Kshs. 6.9 Billion early 2021 for the implementation of a Conditional Liquidity Support Grant (CLSG) Programme with the objective to provide short-term liquidity support to Water Service Providers (WSPs) to maintain operations and service levels during the COVID-19 crisis.

Further, the Government through the Ministry of Water, Sanitation and Irrigation, is implementing key water projects across the country. Sewerage projects are also being implemented in Narok, Olkalou, Marsabit, Mandera and Kapenguria.

The Kenya Towns Sustainable Water Supply and Sanitation Program (KTSWSSP) is another key project being implemented with support from the African Development Bank. The project's main objective is to improve access, quality and availability of water supply in 19 towns and wastewater management services in 17 towns.

The Water and Sanitation Development Project (WSDP) being funded by the World Bank, is being implemented in six counties namely; Mombasa, Wajir, Garissa, Kwale, Kilifi and Taita Taveta.

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Apart from being in the forefront in guiding the Ministry and development partners in identifying deserving WSPs for support to deal with the ravages of COVID-19, the regulator has come up with initiatives and strategies to ensure continuity of services in the new normal. WASREB developed and disseminated Guidelines for conducting virtual public consultation meetings on licence and tariff consultations. The guidelines allowed the WSPs to engage with their stakeholders virtually and in certain cases and in compliance with the protocols issued, a hybrid system was adopted. This has ensured that the WSPs engage stakeholders in decision making while meeting public health guidelines to ensure continuity of service.

The regulator also continued with the surveillance of the sector with minimal on-site activities. The WSPs were also encouraged to move their services to on-line platforms and avoid as much as possible physical contacts with their consumers.

(vi) Water Service Provision Declines

WASREB undertakes a continuous exercise of monitoring the performance of the water services sector as a way of taking stock on gains made so that desired improvements can be made. The product of this monitoring exercise is IMPACT Report which is published annually. Water coverage for areas served by regulated utilities declined from 59% in 2018/19 to 57% in 2019/20 mainly as a result of population growth surpassing growth in access. In absolute terms, there was an additional 854,514 people served against a population increase in service area of 2,229,267. Similarly, sewer coverage declined from 17% recorded in 2018/19 to 15% in the current period. If we look at the total water coverage; considering the contribution of the Small-Scale Service Providers (SSSPs), the national coverage is 45% with huge variances between counties. Embu County has the highest coverage at 84% while Narok is the lowest at 10%.

Other highlights include;

- Hours of Supply marginally improved from 14 to 15
- Non-Revenue Water increased from 43% to 47%. In financial terms 47% and the sector turnover of Kshs. 22.8 Billion, against an acceptable sector benchmark of 20%, the sector is losing slightly more than Kshs. 11.61 Billion
- Metering level recorded an increase of two percentage points from 94% to 96%
- Cost coverage declined two percentage points from 105% to 103% .

(vii) Regulatory Actions to Improve Performance in the Sector

The COVID-19 pandemic has exposed the fragility of the sector. As we do the countdown to 2030, it is critical that there is improved utility performance. Enhanced coordination and expansion of access is required, if business continuity and minimal interruption of services is to be guaranteed, in an emergency such as experienced by the advent of COVID-19 pandemic. Looking at the target of universal access to water and sanitation in the next 10 years, the challenge is huge. Deliberate efforts must be taken by both levels of government, if these targets are to be realized. The time to take the first step in the remaining part of this journey is now.

(viii) Build Resilience

It is estimated that approximately 40% of the global population face water scarcity, while floods and other water-related disasters account for 70% of all deaths related to natural disasters. It is therefore evident that climate change will continue to have far reaching effects on drinking water supplies; ranging from quantity to quality aspects. As interventions are being put in place to mitigate the impacts of climate change, the sector should build resilience of the water supply systems. This will act as means of adaptation and hence minimize these impacts. The sector needs to review policies on water storage and flood control; manage water demand, among competing needs. There is need to improve operation and maintenance, to reduce wastage as an intervention to deal with the challenge.

(ix) Increase Investment

It is appreciated that the gap between the available financial resources for the sector against the investment requirements remains huge. It is however noted that a majority of the investments lack the last mile infrastructure. This presents a challenge since investments on first mile without a supporting last mile, implies that consumers cannot receive the much-needed service. It is also noted that a number of players have a role in asset development and synergies need to be built to avoid duplication. Duplication makes the investments ineffective. To optimise on investments, the sector requires a coordinated approach. The Ministry of Water, Sanitation and Irrigation, is in the process of developing a national investment plan which will guide all investments in the sector.

(x) Sanitation is Wanting

It is estimated that 68% of the population is served through non-sewered sanitation system. This percentage is expected to increase as we move towards 2030. The establishment of a sanitation department at the policy level will go a long way in providing the much-needed policy guidance on NSS. The regulator has developed some standards both technical and operational on NSS. These however, may not realise much impact without a proper policy framework.

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Going forward, a number of incentive mechanisms have been proposed to achieve this including:

- a. Monitoring and annual reporting on sewer and on-site sanitation
- b. Cost accounting for water and sewerage/sanitation services
- c. Tariff increases with improved sewer and on-site sanitation
- d. Ranking influenced by engagement in sewer and on-site sanitation
- e. Introduction of a sanitation development levy to support improvement in access to sanitation services
- f. Implementation of CWIS Services Assessment and Planning Tool.

The regulator is considering incorporating sanitation as a ranking KPI in the assessment of utilities in future.

(xi) Reduce Water Losses

The increasing level of losses currently at 47%, coupled with the decreased production and an increasing population, negatively impacts on the progressive realization of the right to water. At the current NRW level of 47% and sector turnover of Kshs. 22.796 Billion, the sector is losing approximately Kshs. 11.61 Billion after factoring in the acceptable level of losses of 20%. The regulator will continue to enforce a number of interventions to deal with this challenge. These include:

- a. Incorporating in the license condition a requirement for a strategy to deal with NRW including having the requisite structure and staff
- b. Revision of the NRW management standards to incorporate the lessons learnt in the last six years of implementation
- c. Having NRW as a key component in assessing the potential of a utility to turn around.

(xii) Management of Water Resources

As the demand for water services continues to increase, so will the demand for water resources increase. This implies that greater efforts will be required in water resources management and development. This calls for increased coordination in planning and financing, both at the regional and national levels through a basin management approach, that respects natural boundaries. This is to ensure that a need-based allocation of the resources is in place. SDG target 6.5 assesses the degree of integrated water resources management implementation, with the country reporting a figure below 50% in the last SDG report (2016/17). Increased efforts are therefore required from all actors if sustainable progress is to be realized.

(xiii) Enhance Inclusivity

The present population served by the regulated WSPs is just about 53%, implying that the rest of the population is still reliant on services that are not regulated. The Guideline on Provision of Water Services in the Rural and other Underserved Areas aims at driving the objective of uniform standards under the rights to water and sanitation. The current report has provided a baseline of the type of water services that this segment of the population receives. Counties are expected to use the data collected to improve planning and management of water services in these areas. It is therefore incumbent upon the counties and WSPs to develop realistic roadmaps for the implementation of this Guideline. This is important to guarantee the health and safety of consumers by ensuring that operators adhere to standards in terms of quality, cost and customer service.

In furtherance of this obligation, the regulator in partnership with the counties will require all water system operators to register and obtain licenses for their operations. The initiative follows the successful registration of the same in Nairobi County.

(xiv) Improve Governance

Inadequate governance continues to be an impediment to effective delivery of services by utilities. Preservation and enforcement of proper governance standards, is crucial to the stability of the sector. Realizing this however, takes time and utilities have to be continually engaged to drive this agenda. The regulator has continued to engage with key actors in this area including the top county management, the Boards of the utilities and the top management. A governance handbook is being prepared to assist counties in enforcing governance standards. Further, the regulator will continue to monitor utilities to ensure they adhere to prescribed service standards by means of a collaborative framework that facilitates transparency through proper reporting and makes the activities of each player predictable for a more robust sector.

9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

WASREB acknowledges its responsibility to society in its capacity as a corporate citizen; consequently, it endeavours to play an active role in national matters as per its mandate besides contributing to various worthy causes.

Despite the challenges posed by the COVID-19 pandemic, WASREB continued to offer advices to different stakeholders in the sector to facilitate access to quality water services through the following activities;

i) Shows and Exhibitions

WASREB joined the rest of Kenyans in marking this year's World Water Day celebrations held at Kibirichia Boys High School, Meru County on 22nd March 2021. During the event tree seedlings were planted and a roof catchment commissioned.

ii) Workshops

The Ministry of Water, Sanitation and Irrigation held a virtual training for WASREB staff on the Water Sector Reforms under Water ACT 2016. The purpose was to sensitize staff on the expanded mandate of WASREB within the new ACT for effective service delivery. WASREB undertook Mid Term Review of its Strategic Plan 2018-2022. Board of Directors and Management undertook the exercise in Naivasha in February 2021.

WASREB conducted a two-day validation workshop on the new Guideline on Sanitation Trade and Effluent in Naivasha from 23rd-24th March, 2021. MDs from Kisumu, Eldoret, Mavoko, Thika, Malindi, Nyeri were present. Partners WSUP, WRA, NEMA and CECMs from Kisumu and Kericho were in attendance.

iii) Charitable Events

WASREB carried out a tree planting exercise at Muruguma Primary School in Meru County, as part of CSR activities and in line with the Presidential Directive on tree planting in March 2020. WASREB donated 2,500 indigenous seedlings towards the venture.

iv) County Engagement Activities

WASREB Board of Directors and Management held workshops besides having face to face engagements with Governors and County Executive Committee Members in 26 Counties between November, December 2020 and June 2021. The purpose was to enforce the County Engagement Strategy developed to thrash out emerging water service provision in the Counties.

Among the Counties visited were Nyeri, Embu, Murang'a, Kirinyaga, Meru, Kiambu and Kajiado.

v) Public Consultation for Renewal of Licenses among WSPs

WASREB held public consultations meetings for renewal of licences in 25 WSPs namely, Nakuru, Mombasa, Nzoia, Ngagaka, Wajir, Limuru, Meru, Runda, Nakuru Rural, Tachasis, Gatanga, Ol Kalou, Karuri, Machakos, Nol-Turesh – Loitokitok, Narok, Siboi, Nyasare, Gikakima, Kikuyu, Kwale, Mandera, Elwak, Lamu and Bajun.

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10. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2021 which show the state of Water Services Regulatory Board (WASREB) affairs.

i. Principal activities

The principal activity of WASREB is to protect the interests and rights of consumers in the provision of water services.

ii. Results

The results of the entity for the year ended June 30, 2021 are set out on page 1-6

iii. Directors

The members of the Board of Directors who served during the year are shown on page vii-viii

iv. Surplus remission

In accordance with Regulation 219 (2) of the Public Financial Management (National Government) Regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. ***WASREB did not make any surplus during the year (FY 2019/2020)***

v. Auditors

The Auditor General is responsible for the statutory audit of *WASREB* in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board

**JOHN HOSEA MURUKA
CORPORATE SECRETARY/SECRETARY TO THE BOARD**

SIGNATURE.....

DATE.....

12th July 2022

11. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and (section 14 of the State Corporations Act, water Act 2016, require the Directors to prepare financial statements in respect of WASREB, which give a true and fair view of the state of affairs of WASREB at the end of the financial year/period and the operating results of WASREB for the year ended 30 June 2021. The Directors are also required to ensure that WASREB keeps proper accounting records which disclose with reasonable accuracy the financial position of WASREB. The Directors are also responsible for safeguarding the assets of the WASREB.

The Directors are responsible for the preparation and presentation of WASREB's financial statements, which give a true and fair view of the state of affairs of WASREB for and as at the end of the financial year (period) ended on June 30, 2021. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of WASREB; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for WASREB's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act), *Water Act 2016*. The Directors are of the opinion that WASREB's financial statements give a true and fair view of the state of WASREB's transactions during the financial year ended June 30, 2021, and of WASREB's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for WASREB, which have been relied upon in the preparation of WASREB's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that WASREB's will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Board's financial statements were approved by the Board on 29th September 2021 and signed on its behalf by:



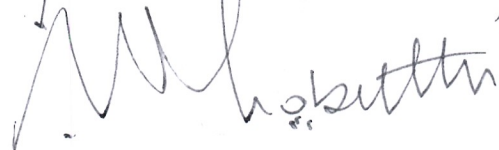
**JOSEPH K. KETER 'ndc' (K)
AG. CHIEF EXECUTIVE OFFICER**

DATE: 12th July 2022



**CPA DR. JULIUS ITUNGA
DIR. CORPORATE SERVICES,
ICPAK NO 8541**

DATE: 12th July 2022

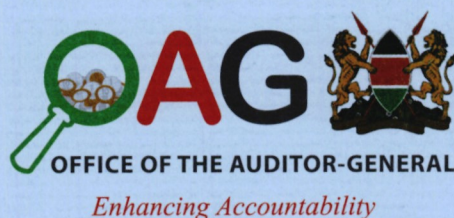


**DR. EDWARD KOBUTHI
AG. CHAIRMAN**

DATE: 12th July 2022

REPUBLIC OF KENYA

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HEADQUARTERS
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON WATER SERVICES REGULATORY BOARD FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Water Services Regulatory Board set out on pages 1 to 29, which comprise the statement of financial position as at 30 June, 2021, 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 in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Water Services Regulatory Board as at 30 June, 2021, 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, 2016 and State Corporation Act, Cap 446 of the laws of Kenya and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Incomplete Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.10,751,169 as disclosed in Note 20 to the financial statements. Review of the records relating to the Board's assets revealed that Management had acquired and implemented five (5) software applications for various aspects of the Board operations. However, fair values of the software applications had not been recognized as intangible assets in line with Paragraphs 43 and 74 of International Public Sector Accounting Standards Board (IPSAS) 31 – Intangible Assets. Further, software applications with a cost of Kshs.4,272,260 were categorized under computers and equipment asset class and not as an intangible assets.

In the circumstances, the accuracy and completeness of property, plant and equipment valued at Kshs.10,751,169 as at 30 June, 2021 could not be confirmed.

2. Inconsistencies in Recognition of Receivables from Non-Exchange Transactions

The Management adopted revenue recognition criteria where revenue from levies, penalties and fees are recognized when received as disclosed in Note 4(a) of the summary of significant accounting policies. However, the adoption of the criteria, contradicts clause 11(2) of the licensing guidelines for Water Service Providers (WSPs) which provides that license fees comprise a one-off fee of 0.1% based on last audited turnover payable upon issuance of the license and license operation fee of 4% payable by the 15th day of each month. Therefore, this makes revenue recognized by the Board inconsistent with the asset recognition criteria issued under IPSAS 23 - Revenue from Non-Exchange Transactions. The inconsistency resulted to non-recognition of significant debt obligations owed to the Board by various WSPs.

In the circumstances, the accuracy and completeness of receivables from non-exchange transaction of Kshs.42,155,677 could not be confirmed.

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

Key Audit Matters

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

Other Matter

Unresolved Prior Year Issues

In the audit report of the previous year, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, these issues remain unresolved contrary to Section 149(2)(l) of the Public Finance Management Act, 2012 which require the Accounting Officers to resolve any issues resulting from an audit that remain outstanding.

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, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, I confirm that, nothing else 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

1. Exclusion of Notes to the Financial Statements

The Management did not make key disclosures on credit risk, capital commitments and surplus remission in the Notes to financial statements as required by the Annual Financial Reporting Template of 30 June, 2021.

Therefore, the Management was in breach of the financial reporting guidelines issued by the Public Sector Accounting Standards Board.

2. Budget Over-Expenditure

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.230,436,678 and Kshs.243,337,477 respectively resulting to an over-funding of Kshs.12,900,799 of the budget. Similarly, the Management spent a total of Kshs.220,348,511 against an approved budget of Kshs.210,000,000

3. Unsupported Board Expenses

The statement of financial performance reflects Board expenses amounting to Kshs.17,752,058 as further disclosed in Note 13 to the financial statements. However, relevant supporting documents for the expenditure such as evidence of travel, mileage claims, attendance registers and journal adjusting vouchers for expenditure amounting to Kshs.12,104,936 were not provided for audit. The Management also did not provide a notice of meeting and an attendance register for a virtual full Board meeting held on the 10 July, 2020 and for which, allowances amounting to Kshs.236,574 were paid contrary to Regulation 104 of the Public Finance Management (National Government) Regulations, 2015.

Therefore, the accuracy and completeness of the expenditure of Kshs.12,104,936 could not be confirmed.

4. Unsupported Motor Vehicles Maintenance, Fuel and Oil Expenses

The statement of financial performance reflects expenditure on use of goods and services amounting to Kshs.57,781,922. The expenditure, as disclosed in Note 14 to the financial statements, includes repairs and maintenance of motor vehicles expenses amounting to Kshs.3,062,198, out of which, payments totalling Kshs.995,913 were not adequately supported by invoices and inspection reports for repair services and spare parts supplied. Further, the Management operated without an approved Transport Policy and its motor vehicles lacked repairs and service logbooks (GP.55) contrary to its Human Resource Policies and Procedures Manual 2020.

In the circumstances, the accuracy and completeness of the expenditure on repairs and maintenance of motor vehicles amounting to Kshs.995,913 could not be confirmed.

5. Unsupported Journal Entries

Review of accounting records and books presented for audit revealed that journal entries made in the system with a net effect of Kshs.16,678,823 and credit memos amounting to Kshs.4,246,163 were processed during the year under review in various accounts. However, journal adjusting vouchers supporting the entries were not provided for audit. This is contrary to the provisions of Regulation 103(1) of the Public Finance Management (National Government) Regulations, 2015, which states that Journal entries prepared for all adjustments shall be authorized by the Accounting Officer or an officer designated by him or her before posting them in a financial record.

In the circumstances, the accuracy and completeness of revenue of Kshs.230,981,599 and expenses of Kshs.220,348,511 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Water Services Regulatory Board Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe

resulting to an over-expenditure of Kshs.10,348,511 or 5% of the budget. This was contrary to the provisions of Regulation 43(b) of the Public Finance Management (National Government) Regulations, 2015.

3. Enforcement of Collection of Regulatory Levy

Review of records relating to licenses revenue revealed that only two (2) out of forty-seven (47) Water Service Providers were compliant with the requirement of remitting a license operation fee of 4% of turnover the 15th day of each month to the regulator. This meant that the Board lost realizable revenue from regulatory levies due to non-compliance of Water Service Providers to the licensing conditions and prevailing service level agreements.

Further, Management did not demonstrate efforts made to enforce the licensing conditions, thus not complying with its statutory obligation as provided under Section 72(1)(d) of Water Act, 2016.

4. Outstanding Imprest

Review of the system generated data on imprests revealed that a balance of Kshs.25,427,998.80 was outstanding in the imprest and advance control account beyond the stipulated period, contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015 that states a holder of a temporary imprest should account or surrender the imprest within seven (7) days after returning to duty station.

Management was therefore in breach of the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Lack of Receipt Vouchers

The Management made postings of revenue receipts into the general ledger without preparation of pre-numbered receipt vouchers in the year under review and no such voucher(s) in whatever form were provided for audit. By not conforming to requirements of preparation of receipt vouchers. Therefore, the Management was in contravention of Regulation 104 of the Public Finance Management (National Government) Regulations of 2015 104(1) which states that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, the mitigation of risks associated with collection and banking of all revenue could not be confirmed.

2. Incomplete Fixed Assets Register

During the year under review, there was no register of fixed assets maintained in the form prescribed in Appendix 6 of the Guidelines on Asset and Liability Management in the Public Sector of July, 2020 which requires maintenance of a separate folio for each class of assets. The Management also did not capture details of the financier or source of funds, serial number, tag numbers, make and model of motor vehicles, date of delivery or installation, payment voucher number, original location, current location, replacement date (if applicable), date of disposal, disposal value, responsible officer, asset condition, and any other relevant information in a fixed asset register.

In the circumstances, the Management ability to effectively manage and safeguard its assets could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Board of Directors

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 that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Board's ability to continue to sustain its services, disclosing, as applicable, matters related

to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Board or to cease operations,

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that

might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Board to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

31 August, 2022

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**13. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE
2021**

	Notes	2020-2021 Kshs	2019-2020 Kshs
Revenue from non-exchange transactions			
Transfers from other government Agencies	6	1,060,000	22,846,952
Transfers from Ministries Departments & Agencies	7	-	15,000,000
Licenses, Fees & Permits	8	229,921,599	168,442,611
		230,981,599	206,289,563
Revenue exchange transactions			
Sale of goods	9	53,200	-
Finance income	10	19,286	-
		72,486	-
Total revenue		231,054,085	206,289,563
Expenses			
Employee costs	12	143,668,292	134,225,699
Board expenses	13	17,752,058	21,860,607
Use of goods and services	14	57,781,922	58,603,740
Depreciation	15	1,146,239	3,744,377
Transfer to Government Entity	16	-	7,793,000
Total expenses		220,348,511	226,227,423
Other Gains/(Losses)	11	12,283,392	15,813,932
Surplus/(Deficit) for the period		22,988,966	(4,123,928)

The notes set out on pages 7 to 31 form an integral part of these Financial Statements. The Financial Statements set out on pages 1 to 6 were signed on behalf of the Board of Directors by:



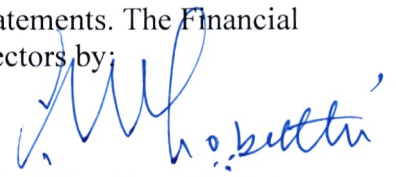
JOSEPH K. KETER 'ndc' (K)
AG. CHIEF EXECUTIVE OFFICER

DATE: 12th July 2022



CPA DR. JULIUS TUNGA
DIR. CORPORATE SERVICES,
ICPAK NO 8541

DATE: 12th July 2022



DR. EDWARD KOBUTHI
AG. CHAIRMAN

DATE: 12th July 2022


**Water Services Regulatory Board
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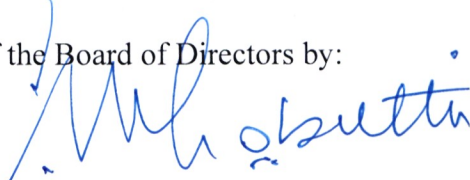
14. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Notes	2020-2021 Ksh.	2019-2020 Ksh.
Assets			
Current assets			
Cash and cash equivalents	17	342,347,338	135,147,501
Receivables from non- exchange transactions	18	42,155,677	55,306,306
Other current assets	19	10,406,066	10,238,112
Total Current Assets		394,909,081	200,691,919
Non-current assets			
Property, Plant and Equipment	20	10,751,169	9,164,819
Long-term Mortgage Facility	21	39,869,171	27,164,900
Total Non- Current Assets		50,620,340	36,329,719
Total Assets		445,529,421	237,021,638
Liabilities			
Trade and other payables	22	5,283,074	5,324,209
Refundable deposits from customers	23	180,012,152	903,000
Deferred Income	24	7,020,800	-
Total Liabilities		192,316,026	6,227,209
Net Assets			
Capital Fund	25	36,487,577	36,487,577
Revaluation Reserve	26	3,630,000	4,200,000
Accumulated Surplus	27	213,095,818	190,106,852
Total Net assets		<u>253,213,395</u>	<u>230,794,429</u>
Total Net Assets and Liabilities		<u>445,529,421</u>	<u>237,021,638</u>

The Financial Statements set out on pages 1 to 6 were signed on behalf of the Board of Directors by:


JOSEPH K. KETER 'nde' (K)
AG. CHIEF EXECUTIVE OFFICER


CPA DR. JULIUS ITUNGA
DIR. CORPORATE SERVICES,
ICPAK NO 8541


DR. EDWARD KOBUTHI
AG. CHAIRMAN

DATE: 12th July 2022

DATE: 12th July 2022

DATE: 12th July 2022

**Water Services Regulatory Board
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15. STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 30 JUNE 2021


	Capital Fund	Accumulated Surplus	Revaluation Reserve	Total
	Kshs	Kshs	Kshs	Kshs
Balance as at 1st July 2019	36,487,577	194,254,614	5,250,000	235,992,191
Amortisation of revalued assets	-	-	(1,050,000)	(1,050,000)
Salary advance adjustment	-	(23,834)	-	(23,834)
Surplus/ (Deficit) for the period	-	(4,123,928)	-	(4,123,928)
Balance as at 30th June 2020	<u>36,487,577</u>	<u>190,106,852</u>	<u>4,200,000</u>	<u>230,794,429</u>
Balance as at 1st July 2020	<u>36,487,577</u>	<u>190,106,852</u>	<u>4,200,000</u>	<u>230,794,429</u>
Revaluation Reserve			600,000	<u>600,000</u>
Amortisation of revalued assets	-	-	(1,170,000)	(1,170,000)
Surplus/ (Deficit) for the year	-	22,988,966	-	22,988,966
Balance as at 30th June 2021	<u>36,487,577</u>	<u>213,095,818</u>	<u>3,630,000</u>	<u>253,213,395</u>

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16. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2021

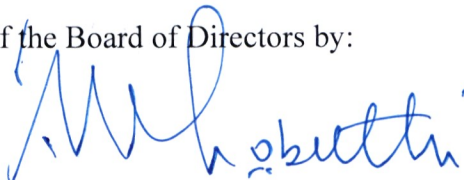
	Note	2020/2021 Kshs	2019/2020 Kshs
Surplus /Deficit generated from operating activities		22,988,966	(4,123,928)
Adjustment for Depreciation/Amortization	15	1,146,239	3,744,377
Working capital changes		24,135,205	(379,551)
(Increase)/Decrease in Receivables & other Current Assets	18 & 19	12,982,675	64,479,312
Increase/ (Decrease) in Payables	22 & 23	179,068,017	(3,337,963)
Increase/ (Decrease) in Deferred Income	24	7,020,800	-
Cash flow from changes in working capital		199,071,492	61,141,349
Net cash Flow from operating activities	29	223,206,697	60,761,798
Cash Flow from Investing Activities			
Acquisition of assets	20	(3,302,589)	(1,642,180)
Cash flow from financing activities		219,904,108	59,119,618
Increase in Long term Mortgage Facility	21	(12,704,271)	6,128,019
Decrease /Increase in Revenue Reserves		-	(23,834)
Net increase in cash and cash equivalent		207,199,837	65,223,803
Cash and cash equivalent at the start of the year		135,147,501	69,923,698
Cash and cash equivalent at the end of the year	17	342,347,338	135,147,501

The Financial Statements set out on pages 1 to 6 were signed on behalf of the Board of Directors by:


JOSEPH K. KETER 'ndc' (K)
AG. CHIEF EXECUTIVE OFFICER

DATE: 12th July 2022


CPA DR. JULIUS ITUNGA
DIR. CORPORATE SERVICES,
ICPAK NO 8541
DATE: 12th July 2022


DR. EDWARD KOBUTHI
AG. CHAIRMAN

DATE: 12th July 2022

17. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2021

	Original Budget (Kshs)	Adjustments (Kshs)	Final Budget (Kshs)	Actual comparable basis (Kshs)	Performance difference (Kshs)	% utilization
	A	B	C=(A+B)	D	E=(C-D)	F=D/C
Revenue	2020-2021		2020-2021	2020-2021	2020-2021	
Regulatory levies	210,000,000	-	210,000,000	229,921,599	(19,921,599)	109.5%
Deferred Income	-	8,080,800	8,080,800	1,060,000	7,020,800	13%
Miscellaneous Income	-	72,486	72,486	72,486	-	100%
Other gains/(losses)	-	12,283,392	12,283,392	12,283,392	-	100%
Total income	210,000,000	20,436,678	230,436,678	243,337,477	(12,900,799)	105.6%
Expenses						
Employee costs	133,000,000	-	133,000,000	143,668,292	(10,668,292)	108%
Use of goods and services	58,000,000	-	58,000,000	57,781,922	218,078	99.6%
Board Expenses	18,000,000	-	18,000,000	17,752,058	247,942	98.6%
Other payments - Depreciation	1,000,000	-	1,000,000	1,146,239	(146,239)	114.6
Total expenditure	210,000,000	-	210,000,000	220,348,511	(10,348,511)	104.9
Surplus for the period	-	-	-	22,988,966	-	

Notes on the statement of Comparison of Budget and Actual Amounts as at 30th June 2021

Performance difference

- The Deferred Income relates to donations received during the financial year, where a portion of it (Kshs. 1,060,000) was spent as conditions were met. The difference (Kshs. 7,020,800) was carried forward to next financial year due to unmet conditions in the current financial year.
- On the compensations of employees. the overutilization was caused by the replacement of vacant positions within the staff establishment.
- On the regulatory fees/levies we surpassed the target due to improvement of revenue collection strategies employed during monitoring and evaluation of Water Services Providers.
- The overutilization of provision for depreciation costs was caused by introduction of re-valuation cost of motor vehicles in the Property Plant and Equipment.

18. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Water Services Regulatory Board (WASREB) is established by and derives its authority and accountability from Water Act 2016. WASREB is wholly owned by the Government of Kenya and is domiciled in Kenya. WASREB's principal activity is to protect the interests and rights of consumers in the provision of water services.

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying WASREB'S accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5 of these financial statements.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of WASREB.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

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3. Adoption of New and Revised Standards

Standard	Impact
IPSAS 40: Public Sector Combinations	WASREB has not undergone any form of business combinations and any combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations.
IPSAS 33: First time adoption of Accrual Basis IPSAS	WASREB adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first-time adoption of accrual basis does not apply to WASREB.
IPSAS 34: Separate Financial Statements	WASREB does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.
IPSAS 35: Consolidated Financial Statements	WASREB does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.
IPSAS 36: Investments in Associates and Joint Ventures	The entity does not have investments in associates or joint ventures
IPSAS 37: Joint Arrangements	The entity does not have an interest in a joint arrangement and therefore the standard does not apply.
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only)

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Standard	Impact
IPSAS 40: Public Sector Combinations	WASREB has not undergone any form of business combinations and any combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations.
IPSAS 33: First time adoption of Accrual Basis IPSAS	WASREB adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first-time adoption of accrual basis does not apply to WASREB.

Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2020/2021.

4. Summary of Significant Accounting Policies

(a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Levies, fines and penalties

The entity recognizes revenues from levies, penalties, and fees 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.

(d) 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
Furniture, Fittings and Office Equipment	-	15
Computers, software	-	33.33

NB: WASREB does not charge depreciation during the year of purchase but fully charges depreciation during the year of disposal.

(e) 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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

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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 chairperson, the CEO, senior managers, Ministry of Water and Sanitation, UNICEF and ESAWAS.

(n) Dividends/Surplus remission

The entity made surplus during the year financial year 2020/2021 and hence will remit to the Consolidated Fund.

(o) 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.

(p) Comparative figures

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

5. 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.

a) 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%.

b) 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 30th June 2021.

c) Currency

The financial statements are presented in Kenya Shillings (Kshs).

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Transfers from Other Government Entities

	2020/2021 Kshs	2019/2020 Kshs
Water Sanitation Development Project (WSDP)	-	21,725,852
ESAWAS Grants	<u>1,060,000</u>	<u>1,121,100</u>
	<u>1,060,000</u>	<u>22,846,952</u>

7. Transfers from Ministries, Departments and Agencies (MDAs)

Revenue From Non -Exchange Transactions (Unconditional grants)	2020/2021 Kshs	2019/2020 Kshs
Recurrent/ Development Grant	-	15,000,000
Total Unconditional Grants	<u>≡</u>	<u>15,000,000</u>

8. Levies, Fines and Penalties

	2020/2021 Kshs	2019/2020 Kshs
Licenses	227,821,779	167,317,611
Fees	2,099,820	1,125,000
Total	<u>229,921,599</u>	<u>168,442,611</u>

9. Sale of goods

	2020/2021 Kshs	2019/2020 Kshs
Sale of goods	53,200	-
Total	<u>53,200</u>	<u>-</u>

10. Finance income

	2020/2021 Kshs	2019/2020 Kshs
Interest Income	19,286	-
Total	<u>19,286</u>	<u>-</u>

11. Other Gains/Losses

	2020/2021 Kshs	2019/2020 Kshs
Reduction in provision of debtors	12,283,392	15,813,932
Total Other Gains/ (Losses)	<u>12,283,392</u>	<u>15,813,932</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. Employee costs

	2020/2021 Kshs	2019/2020 Kshs
Salaries and wages	67,585,284	96,688,714
Housing benefits and allowances	16,863,433	
Performance and other bonuses	2,493,297	
Other employee related costs	11,824,430	
Travel, motor car allowances	24,861,539	16,698,358
Contributions to pensions	9,360,014	9,943,309
Staff Welfare and HIV AIDS	825,800	671,850
Gratuity	4,218,337	5,076,042
Leave Allowance	<u>5,636,158</u>	<u>5,147,426</u>
Employee costs	<u>143,668,292</u>	<u>134,225,699</u>
No of employees	37	34

13. Board expenses

	2020/2021 Kshs	2019/2020 Kshs
Chairpersons Honoraria	1,020,000	1,020,000
Sitting & Accommodation Allowances	16,318,964	20,840,607
Insurance Expenses	<u>413,094</u>	
Total Board remuneration	<u>17,752,058</u>	<u>21,860,607</u>

14. Use of Goods and services

	2020/2021 Kshs	2019/2020 Kshs
Advertising & Publicity	3,698,464	8,006,609
Audit fees	464,000	464,000
Conferences expenses	6,264,865	3,487,605
Consulting fees	1,432,551	1,664,315
Office running Expenses	3,026,333	3,790,494
Computer Expense	1,781,781	825,981
Insurance expenses	10,688,132	14,963,104

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	2020/2021 Kshs	2019/2020 Kshs
Internet expenses	1,420,353	1,232,160
Printing expenses	1,242,450	1,599,330
Rental expenses	16,325,952	16,329,910
Bank Charges & Other Operating Expenses	2,090,963	1,380,712
Telecommunication expenses	162,418	256,417
Capacity building expenses	6,121,462	2,189,844
Motor vehicle maintenance, fuel and oil expenses	3,062,198	2,413,259
Total Use of Goods and services	<u>57,781,922</u>	<u>58,603,740</u>

15. Depreciation and Amortization

	2020/2021 Kshs	2019/2020 Kshs
Furniture and Fittings	306,815	306,815
Computer and Equipment	839,424	3,437,562
Total Board remuneration	<u>1,146,239</u>	<u>3,744,377</u>

16. Transfer to Government Entity

	2020/2021 Kshs	2019/2020 Kshs
Transfer to Government Entity	-	<u>7,793,000</u>

17. Cash and cash equivalents

	2020/2021 Kshs	2019/2020 Kshs
National Bank of Kenya Account No 01001032110300)	217,408,686	69,787,573
National Bank of Kenya (Account No 01001032110301)	755,978	755,978
National Bank of Kenya (Account No 01071032110300)	19,744,750	19,744,750
National Bank of Kenya (Account No 01288032110300)	56,231,950	12,626,681
Kenya Commercial Bank (Account No 1117496953)	31,190,299	24,140,558
Cooperative Bank of Kenya (Account No 01136160928601)	9,913,533	8,004,081
Cooperative Bank of Kenya (Account No 01136160928600)	7,102,142	87,880
Total cash and cash equivalents	<u>342,347,338</u>	<u>135,147,501</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. Receivables from non-exchange transactions

	2020/2021 Kshs	2019/2020 Kshs
Current receivables		
Staff Debtors	490,540	1,357,777
Trade debtors	83,330,273	107,897,057
Less: impairment allowance	<u>(41,665,136)</u>	<u>(53,948,528)</u>
Total current receivables	42,155,677	55,306,306

Reconciliation of impairment of receivables		
As at 1 st July 2020	53,948,528	69,762,460
Reduction in provision for impairment	(12,283,392)	(15,813,932)
Impairment Allowance	<u>41,665,136</u>	<u>53,948,528</u>

19. Other Current Assets

	2020/2021 Kshs	2019/2020 Kshs
Mortgage Facility	5,136,311	5,307,759
Car loan Facility	571,428	0
Prepaid Insurance	4,698,327	4,930,353
Total	<u>10,406,066</u>	<u>10,238,112</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. Property, Plant and Equipment

	Motor Vehicles	Furniture & Fittings	Computer & Equipment	Work-In- Progress	Total
Cost	Kshs	Kshs	Kshs	Kshs	Kshs
As at 1 st July 2019	18,234,000	9,523,590	30,778,361	Nil	58,535,951
Additions			1,642,180	Nil	1,642,180
As at 30 June 2020	18,234,000	9,523,590	32,420,541	Nil	60,178,131
Additions	600,000	1,074,200	902,219	1,326,170	3,902,589
As at 30th June 2021	18,834,000	10,597,790	33,322,760	1,326,170	64,080,720
Depreciation and impairment					
As at 1 st July 2019	(10,879,865)	(8,426,616)	(26,912,454)	Nil	(46,218,935)
Charge for the year		(306,815)	(3,437,562)	Nil	(3,744,377)
Amortization	(1,050,000)	-	-	Nil	(1,050,000)
As at 30 th June 2020	(11,929,865)	(8,733,431)	(30,350,016)	Nil	(51,013,312)
Charge for the year	(0)	(306,815)	(839,424)	Nil	(1,146,239)
Amortization	(1,170,000)			Nil	(1,170,000)
As at 30th June 2021	(13,099,865)	(9,040,246)	(31,189,440)	Nil	(53,329,551)
Net book Values					
As at 30th June 2021	5,734,135	1,557,544	2,133,320	1,326,170	10,751,169
As at 30th June 2020	6,304,135	790,159	2,070,525	Nil	9,164,819

20. (b) Property plant and Equipment includes the following assets that are fully depreciated:

	Cost or valuation	Normal Annual Depreciation charge
Motor vehicles, including motor cycles	34,400,048	-
Computers and related equipment	20,467,331.70	-
Office equipment, furniture and fittings	7,478,160	-
Total	62,345,539.70	-

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. Long Term Mortgage Finance

	2020/2021 Kshs	2019/2020 Kshs
Mortgage	38,631,079	27,164,900
Car loan	1,238,092	-
Total	39,869,171	27,164,900

22. Trade and Other Payables

	2020/2021 Kshs	2019/2020 Kshs
Trade payables		-
Audit fees	1,856,464	1,392,464
Gratuity	3,426,610	3,931,745
Total trade and other payables	<u>5,283,074</u>	<u>5,324,209</u>

Current provisions

Description	Audit fees Shs	Gratuity Shs	Bad & Doubtful Debts Shs
Balance B/D (01/07/2020)	1,392,464	3,931,745	53,948,528
Additional provisions	464,000	4,255,795	-
Provisions utilized	-	(4,723,472)	(12,283,392)
Change due to discount and time value for money	-	-	-
Transfers from non-current provisions	-	-	-
Total provisions as at 30-06-2021	<u>1,856,464</u>	<u>3,464,068</u>	<u>41,665,136</u>

23. Refundable Deposits and Prepayments from Customers

	2020/2021 Kshs	2019/2020 Kshs
Performance Guarantee	180,012,152	903,000
Total trade and other payables	<u>180,012,152</u>	<u>903,000</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. Deferred Income

	2020/2021 Kshs	2019/2020 Kshs
UNICEF	7,020,800	
Carried Forward	<u>7,020,800</u>	=

The Deferred income Movement is as follows:

	Public Contributions and Donations
Balance brought Forward	-
Additions	7,020,800
Transfers to Capital Fund	-
Transfers to Income Statement	-
Other Transfers	=
Balance Carried Forward	<u>7,020,800</u>

25. Capital Fund

	2020/2021 Kshs	2019/2020 Kshs
Brought Forward	36,487,577	36,487,577
Carried Forward	<u>36,487,577</u>	<u>36,487,577</u>

26. Revaluation Reserve

	2020/2021 Kshs	2019/2020 Kshs
Opening Balance	4,200,000	5,250,000
Amortization in the year	(1,170,000)	(1,050,000)
Revaluation in the year	600,000	-
Balance Carried Forward	<u>3,630,000</u>	<u>4,200,000</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. Accumulated Surplus

	2020/2021 Kshs	2019/2020 Kshs
Brought Forward	190,106,852	194,254,614
Salary Advance Adjustment	0	(23,834)
Deficit /Surplus for the years	22,988,966	(4,123,928)
Total	<u>213,095,818</u>	<u>190,106,852</u>

28. Related Party Transactions

	2020/2021 Kshs	2019/2020 Kshs
WASREB's CEO & Senior Management	24,222,746	21,829,160
Board of Directors	17,752,058	21,860,607
ESAWAS-Belinda Gates	1,060,000	1,121,100
Water Sanitation Development Project	-	21,725,852
Ministry of Water and Sanitation	-	15,000,000
UNICEF	7,020,800	-
Total	50,055,604	81,536,719

29. Cash Generated from Operations

	2020-2021 Kshs	2019-2020 Kshs
Surplus for the year before tax	22,988,966	(4,123,928)
Adjusted for:	-	
Depreciation	1,146,239	3,744,377
Working Capital adjustments	-	
Increase in receivables	12,982,675	64,479,312
Increase in payables	179,068,017	(3,337,963)
Increase in Deferred Income	7,020,800	
Net cash flow from operating activities	223,206,697	60,761,798

30. Financial Risk Management

WASREB's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Board's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Board does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history. The Board's financial risk management objectives and policies are detailed below:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The Board manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
As at 30 June 2021				
Provisions	-	464,000	1,392,464	1,856,464
Employee benefit obligation	-	-	3,426,610	3,426,610
Total	-	464,000	4,819,074	5,283,074
As at 30 June 2020				
Current portion of borrowings	-	464,000	928,464	1,392,464
Employee benefit obligation	-	-	3,931,745	3,931,745
Total	-	464,000	4,860,209	5,324,209

b) Capital Risk Management

The objective of the Board's capital risk management is to safeguard the Board's ability to continue as a going concern. The entity capital structure comprises of the following funds:

	2020-2021	2019-2020
	Kshs	Kshs
Revaluation reserve	3,630,000	4,200,000
Retained earnings	220,116,618	190,106,852
Capital reserve	36,487,577	36,487,577
Total funds	260,234,195	230,794,429
Total borrowings	185,295,226	6,227,209
Less: cash and bank balances	292,347,338	135,147,501
Net debt/(excess cash and cash equivalents)	(107,052,112)	(128,920,292)
Gearing	71.2%	2.7%

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Appendix 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No of the external audit report	Issue/observation from the auditor	Management comments	Status (resolved /not resolved)	Timeframe
1	<p>Regulatory levy As disclosed in note 5 to the financial statements, the statements of financial performance reflect regulatory levy of Ksh. 167,317,611 for the year ended 30th June 2020. However, records maintained by the board indicated that a total Ksh242, 603,154 regulatory levy was received during the year under review. The receipts were however adjusted to Ksh 167,317,611 thorough journal vouchers of Ksh75, 285,543 which related to debtors accrued in previous year but received in the current year. This is contrary to the Board's policy whereby, revenue from levies is recognized when it is received. Under no circumstance, the accuracy and completeness of regulatory levy of Ksh 167,317,611 for the year ended 30 June 2020 could not be confirmed.</p>	<p>The Board recognizes revenues from levies, penalties and fees when received. However, while this was the case, we had receivables in the books which were realized in the financial period under review. And given that this was a transition period of adoption of the policy, collection of previous outstanding receivables will not be part of the current Income until the previous recognized receivables are exhausted.</p>	Resolved	
2	<p>Unsupported Expenditure The statement of financial performance reflects an expenditure of Ksh 134,225,699 under employee costs which, as disclosed in Note 8 to the financial statements, includes an amount of Ksh 16,698,358 in respect of travel and motor car allowances. The latter balances include an amount of Ksh 15,472,226 relating to surrendered imprest, out of which an amount Ksh 4,817,356 was not supported by boarding passes,</p>	<p>The original receipt for the surrender vouchers and imprest register relating to the above expenditure is available and has since been submitted for audit verification.</p>	Resolved	

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Reference No of the external audit report	Issue/observation from the auditor	Management comments	Status (resolved /not resolved)	Timeframe
	original receipts, work tickets and other supporting evidence.			
3	<p>Un-budgeted donor fund As disclosed in note 7 to the financial statements, the statement of financial performance reflects revenue receipts of Ksh1, 121,100 being donor funds received by the board during the year under review. However, the funds were not included in the board's final; approved budget. Further, there was no evidence that the cabinet secretary, the national treasury was informed of this budgetary change, arising from the additional revenue, contrary to provisions of section 47(1) of the public finance management (National government) regulations, 2015 which require such disclosure. The management was in breach of the regulations.</p>	<p>The management did include the donor funds in the Actual budget utilization report it in the quarterly returns to the National treasury and the final budget as a disclosure to the changes to the budget. The agreement came long after the budget process had been finalized and approved. The delay in the completion of the Activities was caused by distractions occasioned by the covid-19 Pandemic.</p> <p>NB: WASREB is a member of ESAWAS and the Activities were/are being implemented in that capacity and that the grant from Melinda Gates to ESAWAS is not a grant to WASREB as an entity.</p>	Resolved	
4	<p>Procurement plan- Development grants The statement of comparison of budget and actual amounts reflects development grants and subsidies of Ksh18, 000,000 out of which an amount of Ksh15, 000,000 was spent on development and refining of two (2) regulatory systems of the board. However, the budgeted funds were not included in the board's procurement plan for use on the intended purpose of developing and refining the systems. In the absence of a fully developed and refined regulatory system, the board's regulatory activities may not have been effective as envisaged.</p>	<p>The board did include the utilization of the funds in the procurement plan</p> <p>The Ksh 18 million under development vote was included in the procurement plan under the implementation and refining of regulatory systems /tools. The following tools were reviewed: -</p> <ul style="list-style-type: none"> • Licencing guidelines • Corporate governance guidelines • Rural water supply guidelines • Non-revenue standards guidelines 	Resolved	

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Reference No of the external audit report	Issue/observation from the auditor	Management comments	Status (resolved /not resolved)	Timeframe
	Under the circumstances, it was not possible to confirm that the funds allocated for development and refining of the regulatory systems was utilized in an effective way.	<ul style="list-style-type: none"> Water vending guidelines 		
5	<p>Procurement of ipads During the year under review, the Board purchased nine (9) ipads for its board members at a unit price of Ksh 112,520, all totalling to Ksh 1,012,680. The ipads were procured through request for quotations instead of using the framework agreement developed by Ministry of ICT. Further, there was no evidence that the board sought and received approval from the ministry of ICT, for use of the alternative procurement method. This was contrary to the government directive issued by the head of public service vide circular no OP/CAB.39/1A of 23 February,2028 centralizing procurement of all information and communication Technology (ICT) equipment under the Ministry of ICT for purposes of managing price, quality, quantity and standards, as well as to ensure economies of scale in procurement. The board was therefore in breach of government directive on procurement of ICT equipment.</p>	<p>The Board achieved value for money for procuring the Ipads directly because it was cheap compared to What the framework contractor was offering. Similarly, at the time of acquisition the available Ipads with the contractor were not meeting the specifications of the Board. The Board uses the framework contract where items/computers meet the technical specifications. In the framework, one model of the IPAD per unit was costing Kshs. 240,900 and another model was costing Kshs. 210,800 without the covers and screen protectors. The Board purchased each IPAD at a cost of Kshs. 112,520 hence achieving value for money. WASREB is determined to use prudence in the procurement function to ensure value for money for the Board.</p>	Resolved	
6	<p>Procurement of Conference and Workshop Services The financial statements reflect conference and workshop expenses of Kshs. 3,487,605, as disclosed in note 10 (a) to the financial statements. However, management did not avail a list of</p>	As per section 93 (2) of the PPADA 2015, Pre-qualification shall be for complex and specialized goods, works and services. Conference facilities were procured under the provision of the PPADA 2015 section	Resolved	

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Reference No of the external audit report	Issue/observation from the auditor	Management comments	Status (resolved /not resolved)	Timeframe
	<p>prequalified suppliers for conference and workshops services, for audit verification. Further, the Board's expenditure of Kshs. 3,487,605 exceeded the respective budget of Kshs. 2,000,000 disclosed in the procurement plan, resulting to over-expenditure of Kshs. 1,487,605 or 74%.</p> <p>In the absence of a list of prequalified suppliers for conference and workshop services, it was not possible to confirm that the Board used the recommended method of procurement for the conference services.</p> <p>It was further not possible to confirm that the expenditure on conference and workshops was as per the Board's procurement plan.</p>	<p>105 which states that a procurement entity may use a request for quotations from the register of suppliers for a procurement; section 105(b) qualifies the process by stating that : the procurement is for goods, works or non-consultancy services that are readily available in the market: and section 105 (c) states the procurement is for goods, works or services for which there is an established market; this is supported further by section 106 of the PPADA 2015 and the provider of conference facilities is determined through a complete evaluation process as per the evaluation criteria.</p> <p>The procurement of such services for conference is done competitively based on the location where the function will be carried out and reports are available. The budget for procurement of conferences and workshops was adequate since the workshops were plan based on various functions that required the holding of workshop to deliver the function.</p>		
7	<p>Non-compliance with executive order on procurement</p> <p>During the year under review, the board did not publish its processed tenders in the public procurement information portal. This is contrary to the government executive order No.2 of 2018 which required all public</p>	<p>The Board did publish some procurement in the government E-Procurement portal and even we were sighted as among the institutions which complied by PPRA in its report on "Status of compliance with Mandatory reporting and</p>	Resolved	

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Reference No of the external audit report	Issue/observation from the auditor	Management comments	Status (resolved /not resolved)	Timeframe
	<p>entities to publish all tenders processed by the respective entities, through the Public Procurement Regulatory Authority website, and the Public Procurement Regulatory platforms. Further, Executive order No. 6 of 2016 required all public entities to migrate their procurement processes to E-procurement. However, the board had not migrated its procurement processes to E-procurement and all procurements were processed manually during the year under review.</p> <p>The board was in breach of government directive on procurement.</p>	<p>the executive order No.2 of 2018 by procuring entities during the 2019/2020 Financial year”.</p>		
8	<p>Fringe Benefits Tax and owner Occupier Interest Tax Relief</p> <p>The board extended loans to its employees at interest rates which are below the market rates, as well as the rate prescribed by the commissioner of income tax, for the purpose of computation of fringe benefit tax. However, no fringe benefit tax was deducted in relation to the fringe benefit arising from the low interest rate loan. This is contrary to Section 12(B)(1) of the income tax act, which requires an employer to deduct from its employees such tax and remit it to the Kenya Revenue Authority (KRA)</p> <p>Further, review of employee records revealed that some board employees had house mortgages . However, the employees did not benefit from owner occupier interest deduction, as provided for under Section 15(3) (b) of the income tax act and section 6(b) of</p>	<p>Management will endeavour to comply with Income Tax Act.</p>	Resolved	

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Reference No of the external audit report	Issue/observation from the auditor	Management comments	Status (resolved /not resolved)	Timeframe
	the Finance Act, 2016, which provides for deduction of interest paid on amounts borrowed from a financial institution, when determining the taxable income.			

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APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Project title	Project Number	Donor	Period/ duration	Donor commitment (Kshs)	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidat ed in these financial statements (Yes/No)
Water and Sanitation Development Project (WSDP)	P156634- WASREB-134249- CS-QCBS	World Bank	18months	21,725,852	No	Yes
ESAWAS- Belinda Gates			6 months	1,060,000	No	Yes
UNICEF		UNICEF	6 months	7,020,800	No	Yes

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Appendix III: INTER-ENTITY TRANSFERS

ENTITY NAME:		WATER SERVICES REGULATORY BOARD		
BREAK DOWN OF TRANSFERS FROM THE MINISTRY OF WATER & SANITATION				
		Bank Statement Date	2020/2021	2019/2020
			Kshs	
Ministry of Water and Sanitation				15
		Total		
ESAWAS-Belinda Gates		16-03-2021	1,060,000	
Water Sanitation Development Project			-	21,72
UNICEF		16-06-2021	7,020,800	-
		Total	8,080,800	22,846,952

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