

REPUBLIC OF KENYA



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**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
COAST WATER SERVICES BOARD**

**FOR THE YEAR ENDED  
30 JUNE 2018**



# COAST WATER SERVICES BOARD

OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
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## **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30.6.2018**

**COAST WATER SERVICES BOARD**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

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## 1.0 KEYS ENTITY INFORMATION AND CONFIRMATION

### (a) Background information

The Coast Water Services Board is a corporate body established under the Provisions of the Water Act 2002 of the laws of Kenya and it is domiciled in Kenya.

### (b) Principal Activities

The principal activity of the Board is to ensure efficient, effective and sustainable provision of quality and affordable water services (defined to include sewerage) in its area of jurisdiction - Mombasa County, Kilifi County Lamu, Kwale, Taita Taveta and Tana River County.

The key responsibilities of Coast Water Services Board therefore include:

- i) Ownership and holding of water and sewerage assets/infrastructure on behalf of the National Government.
- ii) Planning, development and expansion of water and sewerage infrastructure on behalf of the National Government.
- iii) Assisting the County Governments within its jurisdiction, during the transition period, in contracting out water and sewerage services provision to Water Services Providers (WSPs) and in the monitoring of water and sewerage services provision.

### (c) Key Management

The *entity's* day-to-day management is under the following key organs:

- Chief Executive Officer
- Head of Technical Services
- Head of Corporate Services
- Head of Finance

### (d) Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June, 2018 and who had direct fiduciary responsibility were:

- Chief Executive Officer
- Head of Technical Services
- Head of Corporate Services
- Head of Finance

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(e) **Fiduciary Oversight Arrangements**

The ultimate oversight authority of Coast Water Services Board is exercised by the Board of Directors through the Full Board. To ensure that good corporate governance is enhanced and that power is properly exercised in the stewardship of the corporation's total portfolio of assets and resources to maintain stakeholder value, the Board of Directors has established three committees:

- (i) Finance, Human Resource Committee
- (ii) Audit, Risk and Governance Committee
- (iii) Technical, Planning and Development Committee

(f) **Entity Headquarters**

Coast Water Services Board  
Mikindani Street  
Off Nkrumah Road  
P.O Box 90417-80100  
**MOMBASA**

(g) **Entity Contacts**

TEL: 041-2315230  
FAX: 041-2316471  
EMAIL: info@cwsb.go.ke

(h) **Entity Bankers**

KCB Bank  
Treasury Square  
P.O. Box 90254, 80100  
**MOMBASA**

Co-operative Bank  
Digo Road  
P.O. Box  
**MOMBASA**

Consolidated Bank of Kenya  
Nkrumah Road  
P.O Box  
**MOMBASA**

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(i) **Independent Auditors**

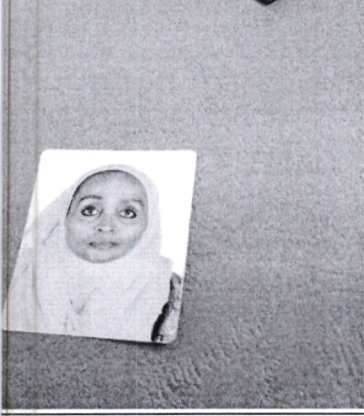


Auditor - General  
Anniversary Towers  
P.O. Box 30084-00100  
**NAIROBI**

(j) **Principal Legal Advisor**

The Attorney - General  
State Law Office  
Harambee Avenue  
P. O. Box 40112  
City Square 00200  
**NAIROBI**




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**1.1 THE BOARD OF DIRECTORS**

<b>Name of DIRECTOR</b>	<b>Position</b>	<b>Profile</b>
 <p>Mrs. Sureya Roble  P. O. Box 95614-80100  <b>MOMBASA</b></p>	<p><b><u>Acting Chairperson</u></b></p>	<p>Master's in Business Administration  BA degree in Political Science &amp; Public Administration  Diploma in Management of NGO's</p> <p>National Vice Chairperson of Maendeleo ya Wanawake Organisation  Executive Director at Advocacy for women in peace &amp; security - Africa</p>
 <p>Mr .Gharib S. Gharib.  P. O. Box 97-80500  <b>LAMU</b></p>	<p><b><u>Member</u></b></p>	<p>Bachelor's degree in International Studies &amp; Diplomacy  Diploma in Clearing, Warehousing &amp; Practical Freight Forwarding  Diploma in Hotel and Catering Management</p> <p>Member of Kenya Institute of Management</p>
 <p>Faustin M. Mghendi  P.O Box 204-80300  <b>VOI</b></p>	<p><b><u>Member</u></b></p>	<p>Masters in Business Administration (MBA)  Bachelor of Commerce, Accounting Major  CPA Part 1, Section 1</p> <p>Founder member &amp; Treasurer of Kenya Hospices Palliative Care Association</p>


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 <p>Ms. Mary Chiriba P.O. Box 275-80108 <b><u>KILIFI</u></b></p>	<p><b><u>Member</u></b></p>	<p>Masters in Statistics (ongoing) BSc. Mathematics &amp; Computer Science</p>
 <p>Dr. Mathias Kai P.O. Box 296-80200 <b><u>MALINDI</u></b></p>	<p><b><u>Member</u></b></p>	<p>Bachelor of Medicine  Bachelor of Surgery  Certificate in Public Health Administration</p>
 <p>Dr. Fatma Mohamed Haji P.O. Box 8 <b><u>MSAMBWENI</u></b></p>	<p><b><u>Member</u></b></p>	<p>Doctor of Medicine (M.D) degree Certificate in Community Lead Total Sanitation  Certificate in Integrated Disease Surveillance &amp; Response  Certificate in Malaria in Pregnancy Pursuing Environmental Impact Assessment Audit</p>
<p>Daniel M Kihara Ministry of Water and Sanitation P.O. Box 49720 <b><u>NAIROBI</u></b></p>	<p><b><u>Member</u></b></p>	

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 <p>Ms. Alice Nyariki Representative of The Principal Secretary, The National Treasury P.O. Box 30007 <b>NAIROBI</b></p>	<p><b><u>Member</u></b></p>	<p>Masters In Risk Management  Bachelor of Arts (Sociology)</p>
<p>Mr. Jacob K. Torutt Chief Executive Officer P.O. Box 90417 <b>MOMBASA</b></p>	<p><b><u>Member</u></b></p>	<p>Master's In Business Administration Bachelor of Commerce Certified Public Accountant (K) Diploma Corporate Governance</p>

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**1.2 KEY MANAGEMENT TEAM**

Name of the Staff	Responsibility
Mr. Jacob Torutt	Chief Executive Officer
Mr. Martin Tsuma	Technical Manager
Ms. Harriet Ngeera	Finance Manager
Mr. Simon Charoh	Human Resource Manager
Mr. Alex Masake	Company Secretary
Ms. Fatma Gakuria	Corporate Manager

### **1.3 STATEMENT BY THE CHAIRMAN**

I am delighted to report the Corporation's performance during the financial year and share the achievements we have made and initiatives we have put in place to achieve our mandate.

The Board posted an impressive performance in our business as a result of continued focus on key areas of our strategy: Infrastructure Development, Resource Mobilization, Stakeholder Management, Governance and institutional capacity with a view to building a resilient and sustainable business. Coast Water Services Board experienced unprecedented catastrophe at Baricho which slowed down its operations for one month whose impact was felt in both Counties of Kilifi and Malindi. However with an able Technical department and the support from both the National and County Governments the entity was able to revive five of the eight boreholes that had been destroyed by the floods.

On 12<sup>th</sup> December 2017, His Excellency President Uhuru Kenyatta announced his new plan, the '*Big Four*', which will guide the development agenda of the country in the period 2018-2022. It focuses on key basic needs that are critical in uplifting the standard of living of Kenyans on the path to becoming an upper middle-income country by 2030. Prioritized is affordable and decent housing, affordable healthcare, food and nutritional security, and employment creation through manufacturing. These four areas are expected to bolster strong inclusive economic growth.

#### **Water Sector Review**

The Government increased the development expenditure budget of water and related services for the Ministry of Water and Sanitation from Kshs.22.6 Billion in 2016/2017 to Kshs.48.7 Billion in 2017/2018 financial year. Coast Water Services Board received Kshs. 664Million from the Government exchequer while Development partners (notably the World Bank) contributed Kshs.1.7Billion. The Ministry has its own task of making sure it realigns its development activities to these Big Four.

Coast Water Services Board produced 41Million Cubic metres of water during the year. This was a 7% decrease in volume compared to 2016/2017 production. This was as a result of rampant disconnections of Power at Baricho and Tiwi boreholes by KPLC. Further the catastrophe of April 2018 which saw all boreholes at Baricho rendered un operational for one month contributed to this situation.

#### **Key Regulatory Highlights**

The regulatory environment remains an area of significance to our operations. The Government enacted the Water Act 2016 with a focus on improving water storage, strengthening regulation, creating viable water utilities and improving sector planning. Under the Act, sector coordination between the National Government and the County Governments under devolved water services provision will be enhanced. Further, the mandates of the eight Water Services Boards have been revised and once operationalized these institutions will perform slightly different roles from the case now.

### **Performance**

The present water production from all the sources is approximately 160,000m<sup>3</sup>/d up from 96,000m<sup>3</sup>/d in 2005 when the Board started operating. This represents 67% increase in production. The increase in production has been achieved through the support of the Ministry of Water & Sanitation (MWS), the World Bank (WB), French Development Agency (AfD) who have continued to provide funding to rehabilitate and develop new sources. In addition, pro-poor strategies have been implemented through funds from WSTF, SIDA/DANIDA and UNICEF.

The Board posted a slightly lower performance this year compared to last years. This was attributed to the interruption of water production at Baricho due to flooding which took place in April 2018 that rendered all boreholes inoperational. The daily water production from the eight operational wells of 90,000 m<sup>3</sup> was interrupted for one full month before five of the boreholes were rehabilitated and made operational now producing 65,000m<sup>3</sup> daily. The current bulk water production has gone down by 7%. This led the Board record a 29% dip in revenue earned from bulk water sales of Kshs. 656M from Kshs. 919 M last financial year of 2017.

### **Corporate Governance:**

The Board's corporate governance structure and practices are in line with the guidelines issued by the Ministry of Water and Sanitation (MWS) and also the State Corporations Act. CWSB has eleven directors, including the Chief Executive Officer (CEO). The BoD is headed by a non-executive Chairman. The Board of Directors is responsible for policy formulation, general direction, coordination and overall management of the Board's operations. All the members of the Board have committed themselves to observing ethical behavior and practices in all the Board's business. In addition, all the members of the Board have undergone the corporate governance course. Some board members resigned in March last financial year to venture into elective politics and their posts were not filled. By the Close of this financial year the number of directors was five. The Board has constituted appropriate Board committees namely, the HR and Administration Committee, Finance and Technical Committee, the Audit and Risk Committee. All the Board meetings are scheduled and are held on quarterly basis. Ad hoc board meetings are also held whenever necessary. The minutes of the Board are prepared by the Corporation Secretary.

### **Stakeholder Management**

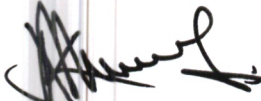
Coast Water Services Board has various types of stakeholders who perform different roles complimentary to it. Some of these are: the various water institutions like WASREB, WARMA, Water Appeals Board, Water Services Providers, Water Services Trust Fund, The hospitality Industry players, etc. During the year, the Board engaged them in the Water Distribution Master Plan, The Tariff Review and the New Bulk Water Company.

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**Appreciation**

On behalf of the Board of Directors, I express my sincere gratitude to all those who have supported our Corporation. I wish to thank our Government and development Partners for their continued support in building the Parastatal.



**Daniel M. Kihara**  
**DIRECTOR**

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### 1.4 STATEMENT BY THE CHIEF EXECUTIVE OFFICER

#### Execution of our mandate

Coast Water Services Board's mandate is implemented principally through the Bulk Water Supply unit which produces water for sale to the Water Services Providers namely Mombasa, Kilifi-Mariakani, Malindi, Kwale and Tavevo Water Companies.

The Bulk Unit (established under the technical department) is responsible for the operation and maintenance of the bulk system which comprises of Baricho, Marere, Tiwi and Mzima schemes. Currently the Bulk Unit is semi-autonomous with offices at Mazeras and headed by acting Managing Director. All the support in terms of recurrent expenditure is from CWSB.

The Operation and Maintenance (O & M) of the Bulk Water Supply System involves patrolling of the system's pipelines, attending to leaks and bursts, servicing and repair of electrical installations, bulk meter reading and bulk water billing, servicing and repair of bulk water meters. In undertaking these activities, BWSU is able to serve the WSPs and CBOs effectively.

The existing major water supply schemes under CWSB are summarized in below. The Table also compares the total production between 2005 and 2017 showing the effect of the rehabilitation and improvement works that have been undertaken by CWSB since its establishment in 2004. Other small schemes like Mkanda Dam, Taveta Lumi supply, Nyalani water supply, community boreholes and wells also exist.

The Bulk Water Supply System consists of four schemes:-

- Marere Water Supply pipeline*, a **40km** gravity system, was constructed in **1923**. The water source is the Marere springs and the scheme supplies bulk water to **two** main WSPs namely; KWAASCO and MOWASCO.
- Mzima Waterworks and pipeline* including main storage and distribution tanks at Mazeras. This was constructed in **1953** and is a **220km gravity system**. This scheme supplies bulk water to **four** main WSPs namely; TAVEVO, KWAASCO, KIMAWASCO and MOWASCO.
- Tiwi well field* was developed in the 1970's. This scheme supplies bulk water to **two** main WSPs namely; KWAASCO and MOWASCO.
- Baricho Water Works and pipeline*, a **104km** pumping system was constructed in 1980 with Sabaki River as the source, and in 1990 Sabaki well field was developed. This scheme supplies bulk water to **three** main WSPs namely; MAWASCO, KIMAWASCO and MOWASCO

Table: Current Water Sources and Production

Bulk Water Source	Water Production 2017	Water Production 2018
	M <sup>3</sup>	M <sup>3</sup>
Mzima Springs	2,397,076.00	2,510,920.00
Marere Springs	14,691,950.00	14,720,000.00
Baricho Wellfield	2,936,983.28	5,806,852.00
Tiwi Boreholes	23,424,555.00	17,489,584.25

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<b>Totals</b>	<b>43,450,564.28</b>	<b>40,527,356.00</b>
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Due to high levels of Non-Revenue Water (NRW), the amount of water reaching the consumer is considerably lower than the production figures. The estimated values for NRW for CWSB bulk water supply are:

	<b>Water Production 2017</b>	<b>Water Production 2018</b>
	<b>M<sup>3</sup></b>	<b>M<sup>3</sup></b>
Production	43,450,564.28	40,527,356.00
Billing	39,161,780.00	35,056,960.00
NRW	4,288,784.28	5,470,396.00
%	10%	13%

This NRW level is too high compared to global standard for bulk water supply non-revenue water which stands at 5%. Efforts have been made by CWSB to tackle this menace by procuring a consultant who is handling this and for all the WSPs within Coast Region. It is expected that the recommendations drawn from this exercise will go a long way in reducing the NRW.

#### **Revenue collection**

Coast Water Services Board has had challenges with collection of its revenue that emanates from the bills generated and delivered to the WSPs. There has been a reluctance by these WSPs to pay in full their bills. For a very long time the efficiency level has been way below the standard set by WASREB of 90% and above. Efforts to involve the Counties have yielded minimal results.

Below are the trends that reflect the dilemma CWSB is in.

	<b>Billed (Excl. Lease fees)Kshs</b>	<b>Collected (Kshs)</b>	<b>Collection Efficiency (%)</b>
2017- 2018	715,296,860.00	627,900,869.69	88%
2016-2017	918,687,205.00	540,604,224.00	59%
2015-2016	880,163,226.00	679,797,375.00	77%
2014 2015	845,834,810.00	613,562,151.49	73%
2013-2014	837,150,767.00	687,479,470.10	82%

#### **Government funded Projects**

##### **Drought Mitigation**

Water insecurity can be worsened by drought. More people are affected by drought than any other disaster type. In 2016, 411 million people worldwide were affected by disasters and 94% of those were drought affected. In Kenya Drought affects almost 40% of the population and area. The Government has perennially funded drought mitigation projects countrywide to the tune of Kshs.6 billion. This financial year it disbursed Kshs.50 Billion to tackle. Coast region saw the disbursement of Kshs.90M for this exercise that saw all the five counties affected by drought benefit.

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### Equalization Fund Projects

The Kenya Constitution 2010 created this fund to narrow the gap between counties that are known to have economic and social development levels way above the others. The national government uses this Equalization Fund only to provide basic services including water, roads, health facilities and electricity to marginalized areas to the extent necessary to bring the quality of those services in those areas to the level generally enjoyed by the rest of the nation, so far as possible.

During the year under review Coast water Services Board was allocated Kshs.1, 833,000,000 as follows:

County	Amount (Kshs)
Lamu	225,000,000
Tana River	654,000,000
Kilifi	448,000,000
Kwale	340,000,000
Taita Taveta	166,000,000
<b>TOTAL</b>	<b>1,833,000,000</b>

### Priority Projects

County	Amount (Kshs)
Tana River	10,000,000
Kilifi	40,000,000
Kwale	20,000,000
Taita Taveta	30,000,000
Mombasa	10,000,000
<b>TOTAL</b>	<b>110,000,000</b>

### Donor Funded Projects

To respond to the immediate water and sanitation challenges, CWSB is currently undertaking the Water and Sanitation Services Improvement Project – Additional Financing (WaSSIP-AF) which is jointly financed by the WB and GoK. Through this project, an additional 22,000m<sup>3</sup>/d is expected to be produced from the Baricho wellfield by drilling 3No additional boreholes. Furthermore, the separation of Mombasa and Kilifi transmission pipelines will ensure increased flows to Mombasa. Rehabilitation of network reticulation in Mombasa together with improvement of supply to Mombasa and Malindi informal settlements are also being undertaken. Other key projects under WaSSIP-AF include Waste Water Master Plan, Water Distribution Master Plan and Drought Mitigation Measures for CWSB and NWSB regions. The project also offers institutional support in terms of capacity building and technical assistance for design and supervision of works.

Further to the ongoing immediate measures under WaSSIP-AF, the Board has engaged the World Bank under the proposed Water and Sanitation Development Project (WSDP) to finance activities that can bring immediate impact in terms of water and sanitation service provision. The allocation

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for CWSB under the WSDP is USD 40 million to be used to improve Bulk Water Services. The WSDP project will also support Counties, WSPs, MWI and WASREB. The African Development Bank (AfDB) is also supporting CWSB under the Small Towns Water Supply and Sanitation Programme – Phase II currently under preparation. The targeted projects under the AfDB programme are the rehabilitation of the 2,500m<sup>3</sup>/day Pemba Dam and the rehabilitation of Changamwe Repooling secondary sewer network.

There are challenges facing the implementation of these projects. There have been delays due to slow pace of some of the contractors, disbursement of money from Treasury, Resettlement and approval of ESIA reports by NEMA. Overall the WaSSIP-AF projects are coming to an end with Baricho Lot 3 expected to close in December 2019.

### **Working with Stakeholders**

Stakeholders play an important role in our ability to deliver on our strategy and meet our customer expectations. We continue to engage with them, and are committed to developing and maintaining healthy relationships. These are Ministry of Environment, Water and Natural Resources, WASREB, WSTF, WAB, WRMA, WSPs', County Governments, Political Leaders, Development Partners, Financial Institutions, Water consumers/general public, The Media, Board of Directors, CWSB Staff etc. All these have different expectations that the Board tries to meet through its mandate.

### **Appreciation**

In conclusion, I thank the Government of Kenya for its confidence in our ability to execute our strategy to ensure efficient and economical provision of water and sewerage services within our area of jurisdiction, the employees for their commitment and dedication in delivering on our mandate and our development partners who have continued to support our expansion of water infrastructure.



**Jacob K. Torutt**  
**CHIEF EXECUTIVE OFFICER**

## **1.5 CORPORATE GOVERNANCE STATEMENT**

### **Introduction**

The Board is committed to maximizing business performance, generating appropriate levels of stakeholder's value and financial returns, and sustaining the growth and success of Coast Water Services Board (CWSB). In conducting business in accordance with these objectives, the Board seeks to ensure that CWSB is properly managed to protect and enhance stakeholder interests, and that CWSB, its directors, officers and employees operate in an appropriate environment of corporate governance.

The Board has in place a framework for governing CWSB which includes adopting internal controls, risk management processes and corporate governance policies and practices, designed to promote responsible management and ethical conduct.

Essential to the establishment of a good governance framework is formal governance structures designed to ensure accurate reporting to the Board to facilitate an informed decision making process assessment and continuing conformity.

Effective governance is achieved through a combination of strong process and structures, underpinned by the right values and culture. The principles of corporate governance are contained in the Director's Code of Conduct and Ethics. CWSB is in compliance with the governance tenets of the recently developed "Code of Governance for Government Owned Entities", Mwongozo. The Mwongozo offers a corporate governance code for all state corporations in which Government holds ownership.

Coast Water Services Board is committed to ensuring compliance with the provisions of Water Act 2002 among other regulatory and supervisory corporate governance requirements.

### **Board Organization and Structure**

#### **Roles and responsibilities of the Board and management**

The Board provides overall strategic guidance for Coast Water Services Board and effective oversight of management. Responsibility for the governance of CWSB, including establishing and monitoring key performance goals, rests with the Board. The Board monitors the operational performance and financial position of CWSB.

The Board Charter articulates the Board's roles and responsibilities, its membership and operation and which responsibilities may be delegated to committees or to management. Specific responsibilities have been reserved by the Board in key areas of strategy, governance, executive appointments and financial approvals.

The Board has established three standing committees to assist in performing its responsibilities by examining in detail particular issues and making recommendations to the Board

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The Chief Executive Officer has responsibility for managing the day-to-day affairs of CWSB. The Chief Executive Officer manages CWSB in accordance with the Board-approved corporate plan, the corporate strategy and policies.

Key areas of focus for the Board in 2017-2018 Financial year included:

- Chief executive officer succession and appointment of the new Chief Executive Officer
- Strategy, corporate plan, budget and performance targets
- Oversight of business performance
- Annual review and update of the strategic plan.
- Oversight of key projects funded by the Government of Kenya and development partners
- Regulatory compliance

### **Board Size, Composition and Appointment**

The structure of Coast Water Services Board starts with the Board of Directors comprising of 12 members: 9 independent directors, 1 director representing the Ministry of Water and Sanitation, 1 director representing the National Treasury and the Chief Executive Officer.

The public sector representatives are the Principal Secretaries or designated alternates not below the level of Deputy Secretary from the Ministries responsible for matters relating to Water affairs and finance.

The Board is well composed in terms of range and diversity of skills, knowledge, age and experience in various sectors which makes it effective and provides an appropriate balance for the oversight of the Board's mandate.

The Chief Executive Officer is an ex-official member of the Board but has no voting right at any meeting of the Board and is the secretary to the Board.

### **Independence, Separation of Roles and Responsibilities**

#### **Independence**

Directors are expected to bring an independent judgment to bear on all Board decisions. A director is considered independent if the director is a non-executive director who is not a member of management, and is free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgement or could reasonably be perceived to do so.

The Board has assessed the interests, positions, associations and relationships of each director as at the date of this report. It has determined that all of its non-executive directors are independent and were independent during the reporting period.

#### **Separation of Roles and Responsibilities**

The Board does not consider the Chief Executive Officer to be independent as this is an executive role. All Directors except the Executive Director are non-executive directors. The non-executive

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directors are independent of management, they appoint the Chief Executive Officer and establish a framework for the delegation of authority and ensure succession planning for the executive director and senior management is in place. Their role is to advise, constructively challenge and monitor the success the management is delivering the agreed strategy within the risk appetite and control framework that is set out by the Board.

The roles and responsibilities of the Chairman of the Board, the Chief Executive Officer and non-executive directors' remain distinct and separate which ensures a balance of power of authority and provides for checks and balances such that no one individual has unfettered powers of decision making. Their roles have been documented and are expected to be independent and free from conflict upon appointment.

The Chairman provides overall leadership to the Board without limiting the principles of collective responsibility for Board's decisions. The Chairman builds an effective board and sets the board agenda in consultation with the Chief Executive Officer and ensures effective communication to stakeholders.

The Chief Executive Officer is responsible to the Board and takes the overall responsibility for the management of the affairs of the Board. The Chief Executive Officer recommends the strategy to the Board and implements it and makes operational decisions. The Chief Executive Officer ensures appropriate and timely information flows within the Board, its committees and management.

#### **Board performance evaluation**

The State Corporations advisory Committee (SCAC) is responsible for reporting to the Board on the evaluation of the performance of the Chairman, Board and committees. During the Financial year 2017-2018 evaluation was not undertaken. Coast Water Services Board has a board calendar which guides on the number of full board meetings, special board meetings and committee meetings in each financial year.

#### **Board Committees and Responsibilities**

The Board delegates certain functions to well-structured committees but without abdicating its own responsibilities. The Board has developed a committee structure that assists in the execution of its duties, powers and authorities. Each Committee is guided by the Committee Charter/Terms of Reference, which outlines its responsibilities as mandated by the Board.

The Committees are appropriately constituted drawing membership from amongst the Board members with appropriate skills and experience. The Chairman of the Board, management and external parties/advisors are required to attend the committee meetings only by invitation.

The committees are expected to operate transparently, ensure full disclosure to the Board and conduct themselves within the rules and procedures set out by the Board. Matters deliberated by the Committees are presented to the Board by the respective chairman during the next Board meeting. The Board Committees are Finance and Human Resource, Audit Risk and Technical committee.

### **Conflict of Interest, Code of Conduct and Ethics**

The directors and employees of the Board have a fiduciary duty to act honestly and in the best interest of the Board. Business transactions with all parties must be carried out at arm's length and with integrity. The Board provides effective leadership based on ethical foundation and ensures all deliberations, decisions and actions are based on the Boards' core values underpinning good governance.

The Board has developed a Code of Conduct and Ethics Manual whose aim is to enhance relationships and foster teamwork among board members and staff and to build respect, confidence and credibility with its citizens. The Code provides guidance to its members regarding ethical and behavioral considerations as they address their duties and obligations during their appointment and their term in CWSB.

The Board has put various measures in place to ensure that there is no conflict of interest amongst its directors and staff. The Board has put in place Corruption Prevention and Code of Conduct & Ethics Policies that binds both the directors and the employees.

At the beginning of the financial year, all directors and employees signed a declaration of interest form declaring that they will disclose any interest that conflicts or possibly may conflict with the interests of the Board.

During the year, the Board carried out training on Corruption Prevention and Code of Conduct & Ethics Policies and all staff and directors declared their wealth as required to the Public Service Commission.

### **Accountability & Audit /Control Environment Management**

#### **Annual Report and Accounts**

The Board is required to present an objective and understandable assessment of the CWSB operation position and prospects. The Board has ensured that accounts are presented in accordance with the International Public Sector Accounting Standards.

### **External and Internal Audits**

#### **(i) External Auditors**

Coast Water Services Board accounts are audited by the Auditor-General. The Auditor-General is an independent office whose role and responsibilities are defined under the Constitution of Kenya.

#### **(ii) Internal Auditors**

Coast Water Services Board has an internal audit function. Its role is to provide independent and objective assurance to the Audit and Risk committee on the adequacy and effectiveness of the risk management framework, financial reporting processes and internal control and compliance systems.

The annual internal audit plan, which is approved by the committee, is developed using a risk-based approach and is driven by the risk framework, risk profile and governance principles. The head of the internal audit function is the Manager and to ensure the independence of the internal audit function the manager reports directly to the committee chairman, with an administrative reporting line to the Chief Executive Officer.

The Manager, Internal Audit & Risk reports to the committee meeting on progress against the annual internal audit plan, audit findings and recommendations and the status of management actions. The Board has qualified staff who carry out the internal audit function and present reports on compliance. The Audit, Risk and governance Committee currently comprises three non-executive directors. The chairman of the committee is an independent non-executive director who is not the chairman of the Board. Committee members are appointed based on their qualifications and experience to ensure that the committee can adequately discharge its duties.

### **Internal Controls and Risk Management**

The Board has the responsibility of identifying internal risk exposures and developing measures to mitigate against the identified risks. The Board reviews and monitors the development and implementation of systems of internal controls. The Board must have an understanding of these risks and mitigate them by implementing sound internal controls and risk management practices.

### **Relationship with Stakeholders**

The Board appreciates that stakeholder perception affects the organizations reputation. Therefore the Board strives to achieve an appropriate balance between its various stakeholders in the best interest of the organization by taking into account their legitimate interest and expectations in decision making.

The Board values the importance of complete, timely, transparent and effective communication with its stakeholders for building and maintaining their trust and confidence by providing regular information on its performance, activities and addressing their concerns whilst having regard to legal and strategic considerations.

## **COAST WATER SERVICES BOARD**

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

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The Board has developed a Corporate Communications Strategy which encompasses internal & external communication, customer service and public relations.

The main avenues for communication are through press releases, stakeholder forums and publications in print and social media, and annual reports and financial statements.

The Board has continued to encourage electronic communication through publishing documents in the corporate the website and has endeavored to ensure that the website is highly interactive and contains all the relevant information.

Additionally, the Board has dedicated staff to deal with complaints and public relations effectively and efficiently as possible. The Board has an established mechanism of receiving, resolving and giving feedback on complaints referred to it by its stakeholders. The Board submits quarterly reports to the Commission of Administrative Justice on the complaints handling and management.

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**1.6 MANAGEMENT DISCUSSION AND ANALYSIS**

**1.0 Financial Performance**

During the financial year ending 30<sup>th</sup> June 2017, Coast Water Services board (CWSB) generated total revenue amounting to Ksh.1,565,093,521 against an expenditure of Ksh.1,487,709,028. The transfer to the accumulated fund was Ksh.77,384,493

**CWSB key projects implemented or ongoing:**

During the year under review the CWSB continued to implement the projects under its Master plan as indicated in the table below:

S/No.	Bulk Water source	Water Production – 2005 (M <sup>3</sup> /day)	Water Production- 2018 (M <sup>3</sup> /day)	Additional People Served @100L per person per day
1.	Rehabilitation of Mzima springs	35,000	40,000	50,000
2.	Rehabilitation of Marere Springs	7,000	12,000	50,000
3.	Rehabilitation of Baricho Well Field	45,000	90,000	450,000
4.	Rehabilitation of Tiwi Boreholes	7,200	13,000	48,000
5	Drilling & Equipping of b/holes, Construction of medium sized pans, Rehab. of B/holes, Pipeline Extension, Construction of Djabias, installation of plastic tanks	0	25,000	500,000
<b>Totals</b>		<b>94,200</b>	<b>180,000</b>	<b>1,098,000</b>

	PROJECT NAME	START DATE	COMPLETION DATE	PROJECT SCOPE
6	Baricho Immediate Works with the following Lots: Augmentation of the Baricho Well field & Electromechanical Work.	2015	2018	Drilling and equipping 3No boreholes 220,000m <sup>3</sup> /day, Electromechanical works, 2.5 Km DN600 collector rising main

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7	Immediate Baricho Works Expansion & New Pipelines to Kilifi & Gongoni (Lot 3)	2016	2018	Construction of DN 500 Kakuyuni-Kilifi pipeline (56km) and DN 400 Kakuyuni-Gongoni Pipeline (37km).
8	Equalization funds project	2017	2018	Construction of Pipelines upto 100km (63-150 dia UpVC) Drilling and Equipping of Boreholes Construction of earth dams increasing storage in rural areas by 200,000m <sup>3</sup> , Construction of storage tanks increased storage of safe water by 4000m, Construction of sea walls

**Compliance with statutory requirements:**

During the financial year under review CWSB did not comply with all the statutory requirements that are necessary for its operation due to cash flow short fall occasioned by nonpayment by WSPs.

**Major challenges faced by the organization:**

In the Financial year under review the major challenges and constraints that hindered achievement of performance targets in the FY 2017/18 Performance Contract were:

1. Challenges in securing way leaves for the projects because of encroachment by communities.
2. Counterpart Funding - The disbursement of counterpart funding for the year is inadequate thus affecting the implementation of project activities.
3. Reduced remittance by the Water Service Providers.

**1.7**

**SUSTAINABILITY REPORTING**

**Introduction**

Sustainable development is all about ensuring a better quality of life for everyone, now and for generations to come. This can be achieved through the three strands of social equity which recognizes the needs of everyone, maintenance of stable levels of economic growth and employment, and using natural resources prudently, whilst protecting, and if possible enhancing, the environment. Sustainable or ecological development is a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are made consistent with the future as well as present needs.

Sustainability requires continuous technological, economical the social progress of continuous improvement that respects the limits of the Earth's ecosystems, and meets the needs and aspirations of everyone for a better quality of life, now and for future generations to come.

Coast Water Services Board commits to meeting our stakeholder's present and future requirements through a collaborative culture which provides the capability to provide services and knowledge allowing systematic change to take place whilst reinforcing mutually desired social, economic and environmental outcomes. The Board recognizes the importance of conducting operations in a manner that meets existing needs without compromising the ability of the future generation to meet their needs; therefore it carries out its operations in a manner that ensures the economic life of the community in which it operates. It remains the Board policy to ensure that activities meet and exceed the social, economic and environmental expectations of stakeholders.

The Board executes the objectives through the following:-

- (a) Our people, values and processes;
- (b) Stakeholder engagement;
- (c) Protecting the environment; and
- (d) Corporate Social Responsibility and Investment.

**Our People, Values and Processes**

The staff of CWSB are the primary asset. The Board therefore recruits, retains and invests in the best talent in the market.

**Diversity and Equal Opportunity**

The Board endeavors to preserve gender and cultural diversity in our employee mix and takes pride as an equal opportunity employer for all qualified persons.

**Our Culture and Values**

Our vision of "To be leader in the water and sanitation infrastructure development in the country" describes who we are, what we stand for and what makes our culture distinctive. The staff and directors are committed in upholding our core values in the discharge of our mandate.

**Employee Welfare**

The Board takes every effort to ensure that employees' well-being is considered as this affects them both at home and at work.

The Board has continued to ensure that all cross cutting issues have been addressed; in particular the policies and work plans for HIV/AIDs, Persons with Disability and Gender have been developed and are being implemented.

**Staff Training and Development**

To ensure that CWSB not only attracts but also retains the best talent, the Board aims to nurture people's careers by making relevant opportunities accessible and helping them to develop skills, knowledge and experience in different functions or specialism.

Staff training and development are a prerequisite for employees' growth. In FY 2017/2018, training continued to focus on departmental technical competencies and people management skills at all levels.

The Board also provides opportunities for groups of existing and future senior leaders to benchmark with best practices on management. Capacity building will remain a key objective for the Board.

**Occupational Health and Safety**

Good health and safety standards are ideal and remain an individual and corporate responsibility for the staff and the Board. The Board is committed to proactively managing all health and safety risks associated with its mandates.

The Board has a comprehensive medical scheme for its staff and directors. The policies are reviewed annually to ensure that the Board maintains a healthy workforce and safe environment.

**Zero Tolerance to Corruption**

CWSB has a zero tolerance policy towards corruption. During the year AWSB carried out corruption risk assessment and mitigation measures. In order to enhance integrity in public procurement, CWSB posted all advertisements and awards to the IFMIS Portal and advertised open tenders in the papers for everybody to participate.

**Corporate Social Responsibility and Investment**

Through stakeholder engagement, we have listened to and talked with our employees, customers, investors, regulators, suppliers, Non-governmental Organizations (NGOs) and community representatives, who have helped us to develop our water master plan.

Towards this, the Board continues to pay school fees for best performing student at Baricho primary school.

**Environmental Sustainability Report**

Environmental Sustainability refers to concerted efforts to mitigate against environmental degradation. It is the maintenance of the factors and practices that contribute to the quality of environment on a long term basis. It involves making decisions and taking action that are in the interests of protecting the natural world, with particular emphasis on preserving the capability of the environment to support human life.

## COAST WATER SERVICES BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

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Coast Water Services Board (CWSB) is cognizant of the possible impacts (both positive and negative) resulting from interaction of the organization's activities with both physical and social environment.

The objective of the CWSB's environmental sustainability is therefore to promote sustainable development within our area of jurisdiction by ensuring environmental protection, social equity, and economic development.

### **Approach**

CWSB environmental sustainability is guided by the Environmental Management and Coordination (Amendment) Act of 2015 which is the principal legislation governing the conduct of environmental management in Kenya; and the Constitution of Kenya, 2010. Other legislation related to natural resources such as Water Act, forest Act, Land planning Act and NEMA's environmental sustainability performance contract guidelines for ministries, departments and agencies.

CWSB also complies with the other environmental requirements of International Development Funding agencies such as World Bank, Africa Development Bank, French Development Bank among others.

During the year under review CWSB undertook the following activities in compliance with the guidelines:

### **Environmental sustainability planning**

CWSB developed an integrated workplace environment health and safety policy statement which states the organization's commitment to protect the environment, preserve the health and safety of CWSB employees and communities, and ensure safe development of water and sanitation infrastructure. This policy statement provides a framework for developing environmental objectives, targets and programs.

The organizational service charter also include the environmental considerations such as the enforcement of water quality monitoring.

CWSB subjects all the new water and sanitation infrastructure projects to environmental and social impact assessment process in line with the Environmental Management and Coordination Act, (EMCA), 1999 in order to identify both potential positive and negative impacts. This process allows for provision of enhancement, mitigation, restoration and compensation measures to ensure that the projects are environmentally and socially sustainable. The reports are submitted to NEMA for review and licensing and also to funding agencies (where applicable) for approval based on international standards.

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Some of the environmental and social impact assessment reports licensed by NEMA are for the following projects among others:

Rehabilitation of Mzima pipeline

Rehabilitation of Marere pipeline

Rehabilitation of Baricho Wellfields

Rehabilitation of Tiwi Boreholes

**1.8 REPORT OF THE DIRECTORS**

The Directors submit their report together with the un-audited financial statements for the year ended June 30, 2018 which show the state of the Board's affairs.

**Principal activities**

The principal activity of the Board is to ensure efficient and sustainable provision of quality and affordable water and sewerage services in its area of jurisdiction.

The main functions of Coast Water Services Board include:

- i) Ownership and holding of water and sewerage assets/Infrastructure on behalf of the National Government in the Coast Region.
- ii) Planning, development and expansion of water and sewerage services Infrastructure on behalf of the National Government in the Coast Region.
- iii) Provision of Bulk water services in the Coast region.

**Results**

The results of the entity for the year ended 30<sup>th</sup> June, 2018 are set out on page 32-33

**Auditors**

The Auditor General is responsible for the statutory audit of Coast Water Services Board in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board

For and on its behalf



**Legal Officer**

Date.....26/03/2019

## COAST WATER SERVICES BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

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### 1.9 STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and *section 14 of the State Corporations Act*, require the Directors to prepare financial statements in respect of Coast Water Services Board (CWSB), which give a true and fair view of the state of affairs of the *CWSB* at the end of the financial year and the operating results of CWSB for the year. The Directors are also required to ensure that CWSB keeps proper accounting records which disclose with reasonable accuracy the financial position of the *Board*. The Directors are also responsible for safeguarding the assets of the *Board*.

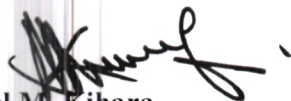
The Directors are responsible for the preparation and presentation of the *CWSB's* financial statements, which give a true and fair view of the state of affairs of the *Board* for and as at the end of the financial year ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial 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 Board; (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 the *Board*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for CWSB's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments 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). The Directors are of the opinion that CWSB's financial statements give a true and fair view of the state of *Board's* transactions during the financial year ended June 30, 2018, and of the *Board's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *Board*, which have been relied upon in the preparation of the *Board'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 Coast Water Services Board 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 23 August 2018 and signed on its behalf by:



Daniel M. Kihara  
DIRECTOR



MR. JACOB TORUTT  
CHIEF EXECUTIVE OFFICER

# REPUBLIC OF KENYA

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## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON COAST WATER SERVICES BOARD FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Coast Water Services Board set out on pages 32 to 54, which comprise the statement of financial position at 30 June 2018 and the statement of financial performance, statement of cash flows, statement of changes in net assets 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 Coast Water Services Board as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Water Act, 2002.

#### Basis for Qualified Opinion

##### 1. Property, Plant and Equipment

As previously reported, the property, plant and equipment balance of Kshs.2,702,182,126 as at 30 June 2018 (2016/2017-Kshs.2,862,504,166) excludes assets of undetermined value transferred to the Board from the Ministry of Water and Irrigation, and National Water Conservation and Pipeline Corporation pursuant to Legal Notice No.101 of 12th August, 2005. Further, the land and office buildings acquired while undertaking various Water and Sanitation Services Improvement Project (WaSSIP) and institutional projects such as Mkanda Dam of at least 53.79 hectares and acquired at a cost of Kshs.10,832,423 have been excluded in these financial statements and have also not been updated in the fixed assets register. In addition, the scrutiny of land status report revealed that approximately more than one third of Coast Water Services Board land has been encroached by private developers, including 22 acres of land occupied by staff houses in Shanzu, Mombasa. The land has been apportioned into 42 title deeds and issued to private developers. This is an indicative that the management has not played

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*Report of the Auditor-General on the Financial Statements of Coast Water Services Board for the year ended 30 June 2018*

its custodial role and the Board's assets have not been properly safeguarded in accordance with Section 72(1)(a)(b) of Public Finance Management Act, 2012 which states that the Accounting Officer for National Government entity shall be responsible for the management of the entity's assets and liabilities and manage those assets in a way which ensures that the national entity achieves value for money in acquiring, using and disposing of those assets.

In the circumstances it has not been possible to ascertain the accuracy, validity and completeness of the property, plant and equipment balance Kshs.2,702,182,126 as at 30 June 2018.

## **2. World Bank Loan**

As previously reported, included in the statement of financial position is an amount of Kshs.11,464,257,010 as at 30 June 2018 (2016/2017 – Kshs.9,191,715,426) in respect of World Bank Loan as reported in note 22 to the financial statements. Although the financial statements disclose a balance of Kshs.11,464,257,010, confirmation letter from the National Treasury dated 15 September 2018 reflects a balance of Kshs.12,241,117,290, resulting to unexplained nor reconciled variance of Kshs.776,860,280.

Further, in the year 2008, the Government of Kenya entered into a financing agreement with the World Bank to finance water and sanitation services in Coast Province through Coast Water Services Board and agreed to disburse Kshs.4,570,199,584.27 (USD.45,203,760) at an interest rate of 1.5 per cent per annum. The repayment period was given as thirteen (13) years with effect from 30 March 2013, with an annual repayment being USD.4,906,636 for which the principal amount was USD.3,168,030 and interest USD.1,738,606. Records confirming repayment of the loan were not provided for audit verification. The amount was also not disclosed separately as other current liabilities as required under paragraph 82 of IPSAS (accrual) 1 which states that current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables must be disclosed separately as other current liabilities. In addition, it was also observed that the loan under IDA-4376-KE credit was denominated in foreign currency. International Public Sector Accounting Standards (IPSAS) 4 paragraph 27 requires foreign currency monetary items to be translated using the closing rate. However, the loan balance was translated on transaction date rate hence foreign exchange gain/loss was not determined. Further, the accounting policy on translation of foreign denominated transactions and balances was not disclosed in the notes to the financial statements in line with accounting standards.

Consequently, it has not been possible to confirm whether the management is in conformity with the terms of the loan and the accuracy and completeness of the loan balance of Kshs.11,464,257,010 as at 30 June 2018 could not be confirmed.

## **3. Trade and Other Receivables**

As previously reported, the trade and other receivables balance of Kshs.3,369,025,039 as at 30 June 2018 (2016/2017 – Kshs.3,100,800,147) includes

Kshs.3,355,255,859 relating to amounts from Water Service Providers. However, the Water Service Providers balances reflected in the Board's financial statements as at 30 June 2018 differ by Kshs.626,724,828 from the books of the respective water service providers as detailed in the table below:

	<b>Water Service Provider</b>	<b>Balance as Per Board Kshs</b>	<b>Balance as Per Water Company Kshs</b>	<b>Difference Kshs</b>
1.	Mombasa Water and Sewerage company	1,359,401,344	1,134,686,884	224,714,460
2.	Malindi Water and Sewerage company	501,326,555	509,225,336	-7,898,781
3.	Kilifi-Mariakani Water and sewerage company	585,294,551	513,826,013	71,468,538
4.	Kwale Water and Sewerage company	417,589,376	161,048,211	256,541,165
5.	Taita/Taveta Water and Sewerage Company	479,722,304	401,974,377	77,747,927
6.	Lamu Water and Sewerage Company	11,057,729	7,770,210	3,287,519
7.	Tana River Water and Sewerage Company	864,000		864,000
<b>Total</b>		<b>3,355,255,859</b>	<b>2,728,531,031</b>	<b>626,724,828</b>

The total variances amounting to Kshs.626,724,828 has not been reconciled or explained. In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs.3,369,025,039 as at 30 June 2018 could not be ascertained.

#### **4. 0. Finance Costs**

Included in statement of financial performance and as disclosed in Note 13 to the financial statements is finance cost of Kshs.72,169,028. Review of documents availed for audit that the finance costs consist of interest incurred on three loans as per interest amortization schedule availed to support the expenditure. Two of the loans were from World Bank-IDA and one from AFD. However only two loan amortization schedules for loans obtained from World Bank-IDA were availed.

Comparison of the loan amortization schedule and finance costs schedule supporting financial statements for the loans revealed a variance of Kshs.(37,618,420) between interest as per loan amortization schedule and as disclosed in financial statements as per table below.

	<b>Amount as Per Financial Statements</b>	<b>Interest as Per Loan Amortization Schedule</b>	<b>Variance</b>
<b>WaSSIP I - IDA 4367</b>	17,132,810	44,994,578	-27,861,769
<b>WaSSIP-AF - IDA 5103</b>	9,110,616	18,867,267	-9,756,652
<b>Total</b>	<b>26,243,426</b>	<b>63,861,846</b>	<b>-37,618,420</b>

In the circumstances, the accuracy and completeness of finance cost of Kshs.72,169,028 for the year ended 30 June 2018 could not be ascertained.

## **5.0. Administrative Expenses**

Note 14 to the financial statement for the year ended 30 June 2018 reflects depreciation charge of Kshs.170,143,747. However, audit recalculation of depreciation charge for the year amounted to Kshs.110,278,473 resulting to unreconciled nor explained variance of Kshs.59,865,274.

In the circumstances, the accuracy of the depreciation charge of Kshs.170,143,747 for the year ended 30 June 2018 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Coast Water Services Board in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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. Except for the matter described in the Basis for Qualified Opinion and other Matter sections, I have determined that there are no Key Audit Matters to communicate in my report.

## **Other Matter**

### **1. Budgetary Control and Performance**

#### **1.1. Revenue Budget**

During the year under review, the Board's revenue budget was Kshs.1,533,650,775 against actual collections of Kshs.1,580,223,750 (103%), thus resulting to net over collection of Kshs.46,572,975 or 3% as detailed below:

Detail	Actual	Budget	Over Collection	Under Collection	% Over Collection
Bulk Water Sales	715,296,860	970,379,957		255,083,097	(26)
Administration Fees	176,637,529	196,398,298		19,760,769	(10)
Grants from GoK Development	677,070,037	362,000,000	315,070,037		87
Tender Sales	36,000	470,768		434,768	(98)
Rent Income	2,172,000	1,536,334	635,666		57
Donations	2,702,000	0	2,702,000		100
Community water Receipts	1,153,400	0	1,153,400		100
Miscellaneous Income	4,969,924	2,760,680	2,209,244		80
Laboratory Income	186,000	104,738	81,262		78
<b>Total</b>	<b>1,580,223,750</b>	<b>1,533,650,775</b>	<b>321,851,609</b>	<b>275,278,624</b>	

From the above table, grants received from the Government exceeded the budgeted amount by Kshs.315,070,037 or 87%. Also, total other incomes was more than double the budgeted amount by Kshs.6,781,572 or 154%. This could point to lack of proper budgeting. There is a need, therefore, to review the budgeting process to ensure that it is as realistic as possible.

Conversely, revenue earned from bulk water sales and administration fees were below the budgeted amounts by Kshs.255,083,097 or 26% and Kshs.19,760,769 or 10% respectively. The drop in revenue from bulk water sales could be explained by Unaccounted for Water, which was 8% above the required global standard of 5%.

## 1.2. Expenditure Budget

During the year under review, the Board had budgeted to spend a total of Kshs.1,692,553,878 on its various programs and activities. However, the Board spent Kshs.1,603,880,071, resulting to an overall underutilization of Kshs.88,673,807 or 5% as summarized below.

Item	Actual Amounts (Kshs)	Budgeted Amounts (Kshs)	Over Absorption (Kshs)	Over Absorption (%)	Under Absorption (Kshs)	Under Absorption (%)
Overtime Allowance	1,436,273	0	1,436,273	100		
Telephone, Fax, Internet, Courier and email	1,919,569	3,000,000			1,080,431	36
Travelling and accommodation	29,359,570	30,000,000			640,430	2

Item	Actual Amounts (Kshs)	Budgeted Amounts (Kshs)	Over Absorption (Kshs)	Over Absorption (%)	Under Absorption (Kshs)	Under Absorption (%)
Subscription to newspaper	68,623	130,878			62,255	48
Advertising & publicity	4,933,274	5,000,000			66,726	1
Trade show & exhibitions	3,752,533	4,700,000			947,467	20
World Water Day	4,891,099	0	4,891,099	100		
World Bank operations	0	5,000,000			5,000,000	100
Hire of transport, equipment & machinery	288,050	780,000			491,950	63
General office supplies	5,393,028	7,113,792			1,720,764	24
Laboratory expenses	952,645	1,000,000			47,355	5
Hospitality	1,653,138	4,124,134			2,470,996	60
Fuel & lubricants	6,534,615	8,099,588			1,564,973	19
Donations	0	100,000			100,000	100
Legal fees & related expenses	16,960,732	20,588,733			3,628,001	18
Contracted professional services	76,228,421	80,000,000			3,771,579	5
Audit fees	0	1,563,680			1,563,680	100
Maintenance expenses-vehicles	4,090,843	6,169,379			2,078,536	34
Maintenance of office furniture & equipment	451,711	964,540			512,829	54
Maintenance of buildings & stations	1,506,155	1,500,000	6,155	.4		
Baricho clinic expenses	517,283	750,000			232,717	31
Stationery office	2,451,804	2,819,654			367,850	13
Depreciation of Motor Vehicles	47,284,770	47,284,770	0			
Depreciation of Furniture	692,890	692,890	0			
Depreciation of Office Equipment	4,092,051	4,092,051	0			
Depreciation of Plant and Machinery	17,360,125	17,360,125	0			
Depreciation of Computers	1,098,987	1,098,987	0			

Report of the Auditor-General on the Financial Statements of Coast Water Services Board for the year ended 30 June 2018

Item	Actual Amounts (Kshs)	Budgeted Amounts (Kshs)	Over Absorption (Kshs)	Over Absorption (%)	Under Absorption (Kshs)	Under Absorption (%)
Depreciation expense for pipelines	67,621,329	67,621,329	0			
Depreciation of Pumps	2,385,996	2,385,996	0			
Depreciation of Bulk Meters	24,478,599	24,478,599	0			
Depreciation of Water Tanks	5,129,000	5,129,000	0			
Board expenses	15,449,173	20,164,526			4,715,353	23
Honoraria	0	522,000			522,000	100
Basic Salary	107,962,343	137,847,210			29,884,867	22
Medical Allowance	6,058,950	7,427,933			1,368,983	18
Commuter Allowance	13,659,867	16,665,552			3,005,685	18
Top up Allowances	797,556	920,257			122,701	13
Leave Allowance	2,358,865	3,168,182			809,317	26
Hardship Allowance	4,877,400	5,990,133			1,112,733	19
Acting Allowance	452,554	593,780			141,226	24
Airtime Allowance	2,256,000	2,780,666			524,666	19
Training expenses	3,572,875	4,709,258			1,136,383	24
World Bank staff Training	16,002,433	30,000,000			13,997,567	47
Transfer Allowance	186,862	249,149			62,287	25
Special Duty Allowance	66,835	561,220			494,385	88
Employer NSSF Contributions	491,800	561,220			69,420	12
Employer Pension Contributions	3,733,590	15,000,000			11,266,410	75
Employer WSIP Pension	9,087,846	0	9,087,846	100		
Medical Cover	9,397,997	11,000,000			1,602,003	15
Gratuity	5,796,453	5,986,950			190,497	3
Membership Fees, subscription	500,280	500,000	280			
House Allowance	38,433,533	40,000,000			1,566,467	4
Staff Uniform	1,078,660	1,500,000			421,340	28

Item	Actual Amounts (Kshs)	Budgeted Amounts (Kshs)	Over Absorption (Kshs)	Over Absorption (%)	Under Absorption (Kshs)	Under Absorption (%)
Pc cross cutting	716,000	3,500,000			2,784,000	80
Office electricity	775,580	622,702	152,878	25		
Motor Vehicle Insurance	2,945,082	3,069,211			124,129	4
Resettlement Compensation	21,718,254	25,000,000			3,281,746	13
Security expenses	12,790,797	14,149,390			1,358,593	10
Electricity – Operations	390,799,365	400,362,556			9,563,191	2
Chemicals & other related	18,285,720	19,592,348			1,306,628	7
Bank interest	72,169,209	72,169,209	0			
Maintenance of water assets	65,511,464	55,028,495	10,482,969	19		
Water user charges	17,285,524	13,941,073	3,344,451	24		
Lamu Projects	207,875	207,875	0			
Priority Project	27,625,980	27,625,980	0			
Mkanda Dam	151,109,424	151,109,424	0			
Drought mitigation expenses	132,825,455	132,825,455	0			
Equalization Projects	3,024,400	3,024,400	0			
Taita Projects	3,950,846	3,950,846	0			
Kwale Projects	31,534,279	31,534,279	0			
Finance Charge	72,169,209	72,169,209	0			
Small dams and pans	1,475,265	1,475,265	0			
Bank charges & commissions	1,205,358	1,500,000			249,642	17
<b>TOTAL</b>	<b>1,603,880,071</b>	<b>1,692,553,878</b>	<b>29,401,951</b>		<b>118,075,758</b>	

From the analysis the Board had budgeted to spend Kshs.313,905,226 on eighteen (18) activities and programs but ended up actually spending Kshs.343,307,177, resulting to an over absorption of Kshs.29,401,951 or 2%. Out of this over expenditure, three (3) items were not budgeted at all and yet incurred expenditure totalling to Kshs.15,415,218.

The Board has not provided a revised budget for approval of the over expenditure of Kshs.29,401,951 or 2%. The over expenditure is an indication of poor planning and lack of oversight in budget implementation.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Coast water Services Board in accordance with

ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Conclusion on Compliance and Effectiveness section of my report, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### Basis for Conclusion

#### 1. Board Expenses

Included in statement of financial performance for the year ended 30 June 2018 is Board expenses of Kshs.15,449,173. Review of the payment vouchers and support schedules availed for audit revealed payments of sitting allowances to persons not gazetted and listed as directors of the Board amounting to Kshs.300,000. The persons were from parent Ministry and were in attendance on behalf of the alternate to principal Secretary, Ministry of Water and Sanitation.

In the circumstances, the regularity of the payments amounting to Kshs.300,000 as directors' emoluments for the year ended 30 June 2018 could not be ascertained.

#### 2. Non-Revenue Water

The statement of financial performance for the year ended 30 June 2018 reflects operational income of Kshs.891,934,400. Included in this amount is bulk water sales amount of Kshs.715,296,860 as detailed in note 6 to the financial statements. The report of the Chief Executive Officer indicated water production was 40,527,356 cubic meters out of which 35,056,960M<sup>3</sup> was billed to customers. The balance of 5,470,396 M<sup>3</sup> approximately 13.52% of the water produced represents loss of water which is 8.5% over and above the allowable loss of 5% in accordance with the global standard. The abnormal loss or Unaccounted For Water (UFW) is 3,444,028 cubic metres may have resulted to loss of water estimated at Kshs.68,880,564 given the fact that the charge per cubic metre is a standard rate of Kshs.20 as per the approved tariff charged to the Water Service Providers.

The significant level of UFW may negatively impact the company and long term sustainability.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

### **Conclusion**

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

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 Those Charged with Governance**

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

In preparing the financial statements, management is responsible for assessing the Coast Water Services Board ability to continue as a going concern disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Coast Water Services Board or to cease operations, or have no realistic alternative but to do so.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are

in compliance with the authorities which govern them, and that public money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Coast Water Services Board financial reporting process, reviewing the effectiveness of how the entity 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

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

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

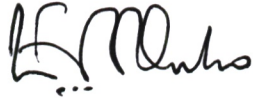
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 going concern 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 Coast Water Services Board ability to continue as a going concern or 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 Coast Water Services Board to cease to continue as a going concern or 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 Coast Water Services 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.



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

**Nairobi**

**09 May 2019**

**COAST WATER SERVICES BOARD**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

**2.1 STATEMENT OF FINANCIAL PERFORMANCE**  
**For the Year ended 30<sup>th</sup> June 2018**


Description	Notes	2018 Kshs.	2017 Kshs.
<b>REVENUE</b>			
Operational Income	6	891,934,400	1,091,903,755
Grants	8	677,070,037	963,676,066
Other Incomes	7	11,458,384	8,038,959
<b>TOTAL REVENUE</b>		<b>1,580,462,821</b>	<b>2,063,618,780</b>
<b>EXPENDITURE</b>			
Administrative Expenses	14	334,738,473	495,543,297
Board Expenses	15	15,449,173	24,656,710
Staff Costs	10	227,488,699	200,729,231
General Expenses	18	38,229,714	25,687,679
Operational Expenses	9	491,882,074	457,401,799
Project Costs	12	351,753,524	386,485,945
Finance Costs	13	72,169,209	151,296,766
<b>TOTAL EXPENDITURE</b>		<b>1,531,710,866</b>	<b>1,741,801,426</b>
<b>Surplus/(Loss)before Tax</b>		<b>48,751,955</b>	<b>321,817,354</b>

**COAST WATER SERVICES BOARD**  
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

**2.2 STATEMENT OF FINANCIAL POSITION**  
**As at 30<sup>th</sup> June 2018**

<b>ASSETS</b>	<b>Note</b>	<b>2018 Kshs</b>	<b>2017 Kshs</b>
<b>CURRENT ASSETS</b>			
Inventories	17	3,839,991	9,427,084
Trade and Other Receivables	20	3,369,025,039	3,100,800,147
Cash and Bank Balances	16	785,789,550	784,031,057
<b>TOTAL CURRENT ASSETS</b>		<b>4,158,654,580</b>	<b>3,894,258,288</b>
<b>NON CURRENT ASSETS</b>			
Property, Plant and Equipment	18	2,702,182,126	2,862,504,166
Work in Progress	19	7,446,600,926	5,158,385,917
<b>TOTAL NON CURRENT ASSETS</b>		<b>10,148,783,052</b>	<b>8,020,890,083</b>
<b>TOTAL ASSETS</b>		<b>14,307,437,632</b>	<b>11,915,148,370</b>
<b>CURRENT LIABILITIES</b>			
Trade and other Payables	21	1,200,750,669	1,129,754,947
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,200,750,669</b>	<b>1,129,754,947</b>
<b>NON-CURRENT LIABILITIES</b>			
World Bank Loan	22	11,464,257,010	9,191,715,426
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>11,464,257,010</b>	<b>9,191,715,426</b>
<b>TOTAL LIABILITIES</b>		<b>12,665,007,679</b>	<b>10,321,470,372</b>
<b>NET ASSETS</b>		<b>1,642,429,953</b>	<b>1,593,677,998</b>
<b>ACCUMULATED SURPLUS</b>		<b>1,642,429,953</b>	<b>1,593,677,998</b>
<b>TOTAL NET ASSETS AND LIABILITIES</b>		<b>1,642,429,953</b>	<b>1,593,677,998</b>

The Financial Statements set out on pages 32 to 54 were signed on behalf of Directors by:

  
**Daniel M. Kihara**  
**DIRECTOR**

  
**MR. JACOB TORUTT**  
**CHIEF EXECUTIVE OFFICER**

**COAST WATER SERVICES BOARD**  
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

**2.3**

**Statement of Cash Flows**  
**For the Year Ended 30<sup>th</sup> June, 2018**

<b>Cash flows from operating activities</b>		<b>2018</b>	<b>2017</b>
	<b>Notes</b>	<b>Kshs.</b>	<b>Kshs.</b>
Surplus for the year		48,751,955	321,817,354
<b>Adjust for:</b>			
Depreciation	14	170,143,747	172,173,020
		218,895,702	493,990,373
<b>Changes in Working Capital</b>			
Decrease/(increase) in Inventory		5,587,093	1,230,418
Decrease/Increase) in Trade and Other Receivables		(268,224,,892)	(567,847,120)
(Decrease)/increase in Trade and Payables		70,995,722	168,606,804
		(191,642,077)	(398,009,898)
<b>Net cash flows from operating activities</b>		<b>27,253,625</b>	<b>95,980,476</b>
<b>Cash flows from investing activities</b>			
Projects/Work in Progress		(2,288,215,009)	(200,604,939)
Purchase of Computers, Furniture and Equipment		(9,821,707)	(1,678,229,393)
<b>Net cash flows from investing activities</b>		<b>(2,298,036,716)</b>	<b>(1,878,834,332)</b>
<b>Cash flows from financing activities</b>			
World Bank Loan		2,272,541,584	2,438,078,556
<b>Net cash flows from financing activities</b>		<b>2,272,541,584</b>	<b>2,438,078,556</b>
Net increase in cash and cash Equivalents		1,758,493	655,224,699
Cash and Cash Equivalent at 1.07.2017		784,031,057	128,806,358
<b>Cash and Cash Equivalent at 30.06.2018</b>		<b>785,789,550</b>	<b>784,031,057</b>

**2.4**

**STATEMENT OF CHANGES IN NET ASSETS**  
**For the Year Ended 30 June 2018**

**Attributable to the owners of the controlling entity**

	<b>Accumulated surplus</b>	<b>Reserves Total</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Balance as at 30.6.2017</b>	<b>1,271,860,644</b>	<b>1,271,860,644</b>
Surplus for the period	321,817,354	321,817,354
<b>Balance as at 1.7.2018</b>	<b>1,593,677,998</b>	<b>1,593,677,998</b>
Surplus for the period	48,751,955	48,751,955
<b>Balance as at 30.6.2018</b>	<b>1,642,429,953</b>	<b>1,642,429,953</b>

**COAST WATER SERVICES BOARD**  
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

**2.5 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

**For the Quarter Ended 30<sup>th</sup> June, 2018**

DETAIL	ACTUAL	BUDGET	VARIANCE
Bulk Water Sales	715,296,860	970,379,957	255,083,097
Administration Fees	176,637,539	196,398,298	20,624,758
Grants from GoK Development	677,070,037	362,000,000	(302,070,037)
Tender Sales	36,000	470,768	434,768
Rent Income	2,172,000	1,536,334	869,634
Donations	2,702,000	0	(2,702,000)
Community water Receipts	1,153,400	0	(1,153,400)
Miscellaneous Income	4,969,924	2,760,680	(2,709,244)
Laboratory Income	186,000	104,738	(81,262)
<b>TOTAL</b>	<b>1,580,223,760</b>	<b>1,533,650,775</b>	<b>(46,572,985)</b>
Overtime Allowance	1,436,273	0	(1,436,273)
Telephone, Fax, Internet, Courier and email	1,919,569	3,000,000	1,080,431
Travelling and accommodation	29,359,570	30,000,000	640,430
Travelling foreign	0	0	0
Subscription to newspaper	68,623	130,878	62,255
Advertising & publicity	4,933,274	5,000,000	66,726
Trade show & exhibitions	3,752,533	4,700,000	947,467
World Water Day	4,891,099		-4,891,099
World Bank operations	0	5,000,000	5,000,000
Hire of transport, equipment & machinery	288,050	780,000	491,950
General office supplies	5,393,028	7,113,792	1,720,764
Laboratory expenses	952,645	1,000,000	47,355
Hospitality	1,653,138	4,124,134	2,470,996
Fuel & lubricants	6,534,615	8,099,588	1,564,973
Donations	0	100,000	100,000
Legal fees & related expenses	16,960,732	20,588,733	3,628,001
Fines and penalties	0		0
Contracted professional services	76,228,421	80,000,000	3,771,579
Audit fees	0	1,563,680	1,563,680
Maintenance expenses- vehicles	4,090,843	6,169,379	2,078,535
Maintenance of office furniture & equipment	451,711	964,540	512,829
Maintenance of buildings & stations	1,506,155	1,500,000	(6,155)
Baricho clinic expenses	517,283	750,000	232,717
Stationery office	2,451,804	2,819,654	367,850
Depreciation of Motor Vehicles	47,284,770	47,284,770	0
Depreciation of Furniture	692,890	692,890	0

## COAST WATER SERVICES BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

Depreciation of Office Equipment	4,092,051	4,092,051	0
Depreciation of Plant and Machinery	17,360,125	17,360,125	0
Depreciation of Computers	1,098,987	1,098,987	0
Depreciation expense for pipelines	67,621,329	67,621,329	0
Depreciation of Pumps	2,385,996	2,385,996	0
Depreciation of Bulk Meters	24,478,599	24,478,599	0
Depreciation of Water Tanks	5,129,000	5,129,000	0
Board expenses	15,449,173	20,164,526	4,715,353
Honoraria	0	522,000	522,000
Basic Salary	107,962,343	137,847,210	29,884,868
Medical Allowance	6,058,950	7,427,933	1,368,983
Commuter Allowance	13,659,867	16,665,552	3,005,685
Top up Allowances	797,556	920,257	122,701
Leave Allowance	2,358,865	3,168,182	809,317
Hardship Allowance	4,877,400	5,990,133	1,112,733
Acting Allowance	452,554	593,780	141,226
Airtime Allowance	2,256,000	2,780,666	524,666
Training expenses	3,572,875	4,709,258	1,136,383
World Bank staff Training	16,002,433	30,000,000	13,997,567
Transfer Allowance	186,862	249,149	62,287
Special Duty Allowance	66,835	561,220	494,385
Employer NSSF Contributions	491,800	561,220	69,420
Employer Pension Contributions	3,733,590	15,000,000	11,266,410
Employer WSIP Pension	9,087,846	0	-9,087,846
Medical Cover	9,397,997	11,000,000	1,602,003
Gratuity	5,796,453	5,986,950	190,497
Membership Fees, subscription	500,280	500,000	(280)
House Allowance	38,433,533	40,000,000	1,566,467
Staff Uniform	1,078,660	1,500,000	421,340
Pc cross cutting	716,000	3,500,000	2,784,000
Office electricity	775,580	622,702	(152,878)
Motor Vehicle Insurance	2,945,082	3,069,211	124,129
Resettlement Compensation	21,718,254	25,000,000	3,281,746
Security expenses	12,790,797	14,149,390	1,358,593
Electricity – Operations	390,799,365	400,362,556	9,563,191
Chemicals & other related	18,285,720	19,592,348	1,306,628
Maintenance of water assets	65,511,464	55,028,495	-10,482,969
Water user charges	17,285,524	13,941,073	-3,344,451
Lamu Projects	207,875	207,875	0
Priority Project	27,625,980	27,625,980	0
Mkanda Dam	151,109,424	151,109,424	0

## COAST WATER SERVICES BOARD

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Drought mitigation expenses	132,825,455	132,825,455	0
Equalization Projects	3,024,400	3,024,400	0
Taita Projects	3,950,846	3,950,846	0
Kwale Projects	31,534,279	31,534,279	0
Finance Charge	72,169,209	72,169,209	0
Small dams and pans	1,475,265	1,475,265	0
Bank charges & commissions	1,205,358	1,500,000	249,642
<b>TOTAL</b>	<b>1,531,880,071</b>	<b>1,692,553,878</b>	<b>88,673,807</b>

**COAST WATER SERVICES BOARD**  
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**2.6 NOTES TO THE FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

Coast Water Services Board is established by and derives its authority and accountability from the Water Act 2002. CWSB is wholly owned by the Government of Kenya and is domiciled in Kenya. CWSB's principal activity is to ensure efficient, effective and sustainable provision of quality and affordable water services (defined to include sewerage) in its area of jurisdiction - Mombasa County, Taita Taveta County, Kilifi County, Kwale County, Lamu County and Tana River County.

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

Coast Water Services Board's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of CWSB.

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

**3. ADOPTION OF NEW AND REVISED STANDARDS**

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

<b>Standard</b>	<b>Impact</b>
<b>IPSAS 33:</b> First time adoption of Accrual Basis IPSAS	CWSB adopted IPSAS in the year ended 30.6.2014 and therefore provision of first time adoption of accrual basis does not apply
<b>IPSAS;34</b> Separate Financial statement	The Board does not have any subsidiaries , joint ventures or investments and therefore the standard does not apply
<b>IPSAS:35</b> Consolidate Financial Statements	The Board does not have any subsidiaries , joint ventures or investments and therefore the standard does not apply
<b>IPSAS:36</b> Investment in Associates and Joint Ventures	The Board does not have investments in associates or joint ventures
<b>IPSAS:37</b> Joint Arrangements	The Board does not have an interest in a joint arrangement and therefore the standard does not apply
<b>IPSAS:38</b> Disclosure of interest in other Entities	The Board does not have interest in other entities and therefore the standard does not apply

## COAST WATER SERVICES BOARD

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ii) New Standards and Interpretation in use issue but not yet effective in Year Ended 30 June 2018

Standard	Effective date and impact
IPSAS 39: Employee Benefits	<b>Applicable ;1 January 2018</b> IPSAS 39 was to create convergence to changes in IAS 19. Employees benefits. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefits scheme by doing away with the corridor approach.
IPSAS 40: Public Sector Combinations	<b>Applicable 1 January 2019</b> Covers public combinations arising from exchange transactions in case they are treated similarly with IFRS 3 Business combinations and combinations arising from non – exchange transactions which are covered purely under Public Sector combinations as amalgamations.

iii) **Early adoption of standards**

Coast Water Services Board did not adopt any new or amended standards in year 2018.

#### 4. SIGNIFICANT ACCOUNTING POLICIES

a) **Revenue recognition**

Revenues from lease fees and miscellaneous income have been recognized as exchange transactions. Grants for the donors and Government of Kenya have been recognized as non-exchange transactions. Lease fees Income is recognized in the year in which it is due. A grant from the Government of Kenya and other donors for specific expenses is recognized as income in the same period as the relevant expense.

b) **Budget information**

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the 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) **Property, plant and equipment**

Property, Plant and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated on the Reducing balance basis to write down the cost of each asset to its residual value over its estimated useful life as follows;

## COAST WATER SERVICES BOARD

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Equipment	12.5 %
Furniture, Fittings	12.5 %
Computers	33.33 %
Water Infrastructure	2.5%
Motor Vehicles and Cycles	25 %

### d) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined by First in first out (FIFO) method. Net realizable value is the estimate of the selling price in the ordinary course of business less the selling expense. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

### e) Provisions

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.

### f) 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 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.

**COAST WATER SERVICES BOARD**  
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**j) Nature and purpose of reserves**

The Entity creates and maintains reserves in terms of specific requirements. Entity to state the reserves maintained and appropriate policies adopted.

**k) Changes in accounting policies and estimates**

The Entity recognizes the effects of changes in accounting policy prospectively.

**m) Foreign currency transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

**n) Borrowing costs**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

**o) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at the various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash Imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**p) Provisions**

Provisions are recognized when the company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle an obligation and a reliable estimate of the amount can be made.

**q) Taxation**

Coast Water services board is a non-commercial state corporation in the provision of essential services. Provision for taxation has not been made.

**5. Critical Accounting Estimates, Judgments and Assumptions**

In the process of applying the Board's accounting policies, the directors have made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The estimates and underlying assumptions are reviewed on an ongoing basis.

**(a) Critical Judgments in Applying the Board's Accounting Policies**

In the process of applying the Board's accounting policies, judgments have been made in determining:-

- Whether the assets are impaired;
- The classification of financial assets;
- The going concern.

**(b) Critical Accounting Estimates and Assumptions**

The key areas of judgments and sources of uncertainty in estimation are as set out below:

**(i) Useful lives of property and Equipment**

The directors make estimates in determining depreciation rates for property and equipment. The rates are set out in the accounting policy (g) above for property and equipment.

The Board reviews the estimated useful lives of plant and equipment at the end of each reporting period. During the financial year, no changes to the useful lives were identified by the board of directors.

**(ii) Provision for Doubtful Debts**

The Board reviews its travel advances portfolio to assess the likelihood of impairment. Provision for impairment of receivables is established when there is objective evidence that the Board will not be able to collect all amounts due. Where necessary an estimation of the amounts irrecoverable is made in that year. Provision for impairment shall be recognized upon approval by the Board of Directors.

**COAST WATER SERVICES BOARD**  
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**NOTE 6**

<b>Operational Income</b>	<b>2018</b>	<b>2017</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Bulky Water Sales	715,296,860	918,687,205
Administrative Fees	176,637,539	173,216,550
<b>Total</b>	<b>891,934,399</b>	<b>1,091,903,755</b>

The Board's major sources of revenues are the water sales which are earned from the sale of water to the Water Service Providers and Administrative fees that is earned from the lease of its assets to the Water Service Providers. The Board does not sale water directly to the customers.

**NOTE 7**

**Other Income**

The Board earned miscellaneous income from Laboratory, rent collection from its houses at Baricho, Shanzu and from sale of tender documents.

	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Laboratory	186,000	147,000
Rental Income	2,172,000	414,000
Tender Sales	36,000	293,000
Miscellaneous income	9,064,384	7,184,959
<b>Total</b>	<b>11,458,384</b>	<b>8,038,959</b>

**NOTE 8**

**Grants**

	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Government of Kenya Development	677,070,037	963,676,066
<b>TOTAL</b>	<b>677,070,037</b>	<b>963,676,066</b>

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**NOTE 9**

<b>Operating Expenses</b>	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Electricity	390,799,366	356,550,190
Water Use Charges	17,285,524	21,122,838
Cost of Specialized Materials	18,285,720	27,174,631
Maintenance Of Water Assets	65,511,464	52,554,140
<b>Total</b>	<b>491,882,074</b>	<b>457,401,799</b>

**NOTE 10**

<b>Staff Cost</b>	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Salaries and Wages	190,160,378	183,026,111
Staff Leave Allowance	2,358,865	2,235,556
Other Staff Allowances	9,397,694	7,774,225
Staff Training	19,575,308	6,583,531
Gratuity	5,796,453	1,109,808
<b>Total</b>	<b>227,488,698</b>	<b>200,729,231</b>

**NOTE 11**

<b>General Expenses</b>	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Office Electricity	775,580	403,187
Motor Vehicles Insurance	2,945,082	6,596,614
Resettlement compensation	21,718,254	8,485,177
Security Expense	12,790,797	10,202,701
<b>Total</b>	<b>38,229,714</b>	<b>25,687,679</b>

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**NOTE 12**

<b>Project Costs</b>	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Lamu Projects	207,875	12,905,514
Small dams and Pans	1,475,265	18,881,719
Mkanda Dam	151,109,424	98,128,384
Drought mitigation	132,825,455	82,089,843
Equalization	3,024,400	0
Marikani – Kiddp project	0	4,499,542
Taita Projects	3,950,846	52,856,621
Priority Projects	27,625,980	27,824,792
Kwale Projects	31,534,279	89,299,532
<b>Total</b>	<b>351,753,524</b>	<b>386,485,945</b>

**NOTE 13**

<b>Finance Cost</b>	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Financing cost	72,169,028	151,296,766

**NOTE 14**

<b>Administrative Expenses</b>	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Telephone, Fax, Internet, Courier & Email	1,919,569	2,854,237
Travelling and accommodation- local	29,359,570	37,793,331
Travelling & accommodation foreign	0	3,024,436
Overtime Allowance	1,436,273	
Subscription to newspaper & magazine	68,623	496,855
Advertising & Publicity	4,933,274	13,614,064
Trade show and Exhibition	3,752,533	0
World Bank Operations	0	49,929,924

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World Water Day	4,891,099	
Hire of transport equipment & machinery	288,050	166,500
General office supplies	5,393,028	3,876,739
Laboratory expenses	952,645	19,568
Hospitality	1,653,138	1,890,514
Donations	0	400,000
Fuel & Lubricant	6,534,615	5,194,700
Legal fees & related expenses	16,960,732	5,964,055
Bank charges	1,205,358	390,449
Contracted professional services	76,228,421	182,940,486
Audit fees	0	1,172,760
Maintenance expenses – vehicles	4,090,845	7,414,614
Maintenance of office furniture & equipment	451,711	1,222,399
Maintenance of buildings & stations	1,506,155	736,612
Baricho Clinic Expense	517,283	740,000
Stationery office	2,451,804	3,528,035
Depreciation	170,143,747	172,173,020
<b>TOTAL</b>	<b>334,738,473</b>	<b>495,543,297</b>

**NOTE 15**

<b>Board Expenses</b>	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Board Allowances	15,449,173	24,169,510
Honoraria	0	487,200
<b>TOTAL</b>	<b>15,449,173</b>	<b>24,656,710</b>

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**NOTE 16**

<b>Cash and Cash Equivalent</b>	<b>2018</b>	<b>2017</b>
Development	187,962,970	257,009,577
Operations		931,616
KWSP		35,093
Loan repayment	25,503	4,306,707
Projects	17,543,495	63,755,736
World Bank IDA – 4376KE		109,478
Drought Mitigation	83,883,455	42,069,434
Administration Fees	151,468	678,332
Unicef		187,472
World Bank – AF	449,079,271	385,205,114
Italy Debt		100,969
Bulk	21,732,957	0
Equalization	12,875,539	0
KCB KISSIP	12,534,892	29,641,528
<b>Total</b>	<b>785,789,550</b>	<b>784,031,057</b>

**NOTE 17**

	<b>2018</b>	<b>2017</b>
<b>Inventories</b>	<b>Kshs.</b>	<b>Kshs.</b>
Machinery, Pipes and Fittings	3,431,177	4,081,798
Chemicals	0	0
Stationery	408,814	1,361,471
Telephone ,Fax	0	0
Maintenance Motor Vehicle		42,500
General Office Supplies		101,315
Drought Collapsible Tanks		3,840,000
<b>Total</b>	<b>3,839,991</b>	<b>9,427,084</b>

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**NOTE 18**

**Property, Plant and Equipment**

	Motor Vehicles	Computers	Office Equipment	Furniture and Fittings	Water Equipment	Water Infrastructure	Land	Total
As at 1.7.2015	163,736,212	37,163,721	36,824,357	17,685,461	386,093,556	1,080,172,125	150,000	1,721,825,432
Additions	98,294,280	1,294,900						1,217,409,009
As at 30.6.2016	262,030,492	38,458,621	36,824,357	17,685,461	386,093,556	1,080,172,125	150,000	1,821,414,612
Additions		907,860	629,800		52,010,710	1,624,681,024		1,678,229,394
As at 30.6.2017	262,030,492	39,366,481	37,454,157	17,685,461	438,104,266	2,704,853,149	150,000	3,499,644,006
Additions		1,827,809	676,000	52,432	7,265,466			9,821,707
As at 30.6.2018	262,030,492	41,194,290	38,130,157	17,737,893	445,369,732	2,704,853,149	150,000	3,509,465,713
<b>Depreciation</b>								
As at 1.7.2016	88,667,306	30,855,535	11,866,594	7,816,325	162,999,679	27,004,303		329,209,742
Charge for the year	53,020,548	6,736,627	4,862,675	1,435,388	42,697,537	27,004,303		135,757,078
As at 30.6.2016	141,687,854	37,592,162	16,729,269	9,251,713	205,697,216	54,008,606		464,966,820
Charge for the year	48,484,298	734,254	4,843,988	1,435,387	49,053,764	67,621,329		172,173,020
As at 30.6.2017	190,172,152	38,326,416	21,573,257	10,687,100	254,750,980	121,629,935		637,139,840
Charge for the Year	47,284,770	1,98,987	4,092,051	692,890	49,353,720	67,621,329		170,143,747
As at 30.6.2018	237,456,922	39,425,403	25,665,308	11,379,990	304,104,700	189,251,264		807,283,586
<b>Net book Value</b>								
As at 30.6.2016	120,342,638	866,459	20,095,088	8,433,748	180,396,340	1,026,163,519	150,000	1,356,447,792
As at 30.6.2017	71,858,340	1,040,065	15,880,900	6,998,361	183,353,286	2,583,223,214	150,000	2,862,504,166
As at 30.6.2018	24,573,570	1,768,887	12,464,849	6,357,903	141,265,032	2,515,601,885	150,000	2,702,182,126

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**NOTE 19**

	<b>2018</b>	<b>2017</b>
<b>Work In Progress</b>	<b>Kshs.</b>	<b>Kshs.</b>
Balance b/f	5,158,385,917	4,957,780,977
World Bank Informal	57,709,095	115,031,232
World Bank – wsp	100,170,342	98,683,400
World Bank – Bulky	109,309,140	125,268,274
World Bank – Drought	369,516,111	244,846,957
World Bank –Capital Works	4,605,832	47,127,047
World Bank wip Baricho	250,371,661	288,979,679
World Bank wip msa lot .2	265,042,162	247,240,320
World Bank Taveta	5,086,036	75,928,274
World Bank Sewarage	70,531,467	97,795,283
World Bank Kibokoni	17,099,630	14,848,010
World Bank Bura	5,004,707	17,416,236
World Bank Wajir Dadaab	184,228,009	0
World Bank Baricho Lot 3	849,540,817	452,121,252
Transfer to Water Infrastructure	0	(1,624,681,024)
<b>Total</b>	<b>7,446,600,926</b>	<b>5,158,385,917</b>

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<b>NOTE 20</b>	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Trade and Other Receivables</b>		
Mombasa Water and Sewerage Company Ltd	1,359,401,344	1,319,455,995
Malindi Water and Sewerage Company Ltd	501,326,555	466,207,577
Kilifi Mariakani Water and Sewerage Ltd	585,294,551	526,107,235
Kwale Water and Sewerage Company Ltd	417,589,376	354,543,112
Taveta Water and Sewerage Company Ltd	479,722,304	411,412,349
Lamu Water and Sewerage Company Ltd	11,057,729	8,356,686
Tana Water and Sewerage Company	864,000	
Salary Advances	537,641	1,844,199
Prepaid Internet Services		
Prepaid Medical Cover	4,398,045	4,999,952
Prepaid Motor Insurance	1,375,575	2,486,557
Staff Imprest	7,457,919	5,386,485
<b>TOTAL</b>	<b>3,369,025,069</b>	<b>3,100,800,147</b>

**NOTE 21**

<b>Trade and Other Payables</b>	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Creditors	1,038,527,390	977,105,719
Audit Fees payable	1,433,761	5,319,720
Paymaster General	52,453,858	54,587,916
Ukulima and Other Deductions	108,335,659	92,741,592
<b>TOTAL</b>	<b>1,200,750,668</b>	<b>1,129,754,947</b>

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**NOTE 22**

	<b>2018</b>	<b>2017</b>
<b>World Bank Loan</b>	<b>Kshs</b>	<b>Kshs</b>
Balance B/F	9,191,715,426	6,753,636,870
Disbursements	1,450,931,171	1,672,644,724
Disbursement Direct	821,610,413	765,433,832
<b>TOTAL</b>	<b>11,464,257,010</b>	<b>9,191,715,426</b>

**Financial Risk Management**

**Financial Risk Management Objectives and Policies**

CWSB considers risk management to be an integral part of good management practices and a significant aspect of corporate governance. Effective management of risk will contribute towards achievement of the Board's objectives.

The Board's approach to risk management is based on risk governance structures, risk management policies, risk identification, measurement, monitoring and reporting. The risk management policies and systems are reviewed regularly to ensure they are in tandem with the micro and macro environment, regulatory guidelines, industry practice, market conditions as well as the services offered.

This risk management framework captures the following among other things:-

- The Board's risk appetite and parameters;
- The Board's risk matrix that highlights the rating of risks;

The structure of managing risks and accountabilities;

- The processes, procedures and reports that manage risks;
- The mitigating factors, prevention, contingency plans and controls.

The Board's core business involves major engagements with financial transactions and processes which pose certain risks. Three types of risks are reported as part of the risk profile namely operational, strategic and business continuity risks.

i) Operational risks are events, hazards, variances or opportunities which could influence the achievement of the Board's compliance and operational objectives.

ii) Strategic risk is a significant unexpected or unpredictable change or outcome beyond what was factored into the organization's strategy and business model which could have an impact on the entity's performance.

iii) Business continuity risks are those events, hazards, variances and opportunities which could

influence the continuity of the entity.

One of the key risks the Board has identified in both the operational and strategic areas is the sustainability of the Administrative fee receivable in the provisions of the Water Act 2016 Financial risk as defined in IPSAS 15 and the management thereof, form part of this risk area.

The Members of the Board have the overall responsibility for the establishment and oversight of the Board's risk management framework. The Board has delegated its risk management to the 'Audit and Risk Committee'. One of the responsibilities of this committee is to review risk management strategies in order to ensure business continuity and survival. The Board's exposure to risks, its objectives, policies and processes for managing the risk and the methods used to measure it have been consistently applied in the years presented, unless otherwise stated. The Board aims therefore to achieve an appropriate balance between the risk and return and minimize potential adverse effects on its financial performance.

The financial management objectives and policies are as outlined below:-

**(a) Liquidity Risk**

Liquidity risk is the risk that the Board will not have sufficient financial resources to meet its obligations when they fall due or will have to do so at excessive costs. This risk can arise from mismatches in the timing of cash flows from revenue and capital/operational outflows, assets and liabilities according to their maturity profiles and can occur where cash flow streams have been discontinued, etc.

The objective of the liquidity and funding management is to ensure that all foreseeable operational, capital and loan commitment expenditure can be met under both normal and stressed conditions and the mismatch is controlled in line with allowable risk levels. The Board has adopted an overall balance sheet approach which consolidates all sources and uses of liquidity, while aiming to maintain a balance between liquidity, cash flows and interest rate considerations.

The Board's liquidity and funding management process includes:-

- Projecting cash flows and considering the cash required and optimizing the short term requirements as well as the long term funding,
- Maintaining balance sheet liquidity ratios,
- Maintaining/soliciting for a diverse range of funding sources with adequate back up facilities,
- Managing the concentration and profile of debt maturities, where applicable,
- Maintaining liquidity and funding contingency plans.

**(b) Market Risk**

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates, prices and interest rates. The objective of market risk management policy is to protect and enhance the Statements of Financial Position and performance by managing and controlling market risk exposures within acceptable parameters, and to optimize the funding of business operations and facilitate capital expansion. The Board is

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exposed to the following market risks:-

**(i) Currency Risk**

The currency risk is minimal as most of cash and cash equivalents held with banks are dominated in Kenya Shillings.

**(ii) Price Risk**

The revenue source for CWSB is the administrative levy which is denominated in Kenya Shillings. The exposure arises where the contract prices are denominated in foreign currencies for the development funded projects. This is mitigated by enforcing direct payments so as to reduce the exposure. Price risk is therefore rated as minimal.

**(iii) Interest Rate Risk**

The Board's financial condition may be adversely affected as a result of changes in interest rate levels. The interest rate risk is minimal as the Board does not have any borrowings.

**(c) Operational Risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Board's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as legal and regulatory requirements and generally acceptable standards of corporate behavior.

The Board seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor and report such risks.

The Board's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Board's reputation with overall cost effectiveness.

**Related Party Balances**

**Nature of related party relationships**

Entities and other parties related to the entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

The entity is related to:

- i) The National Government;
- ii) Ministry of Water and Sanitation;
- iii) Water Services Regulatory Board
- iv) Water Service Providers;
- v) Key management;
- vi) Board of directors;

