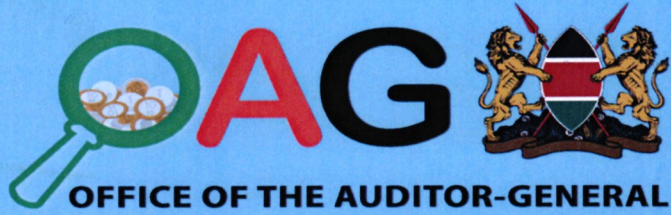


REPUBLIC OF KENYA



Enhancing Accountability



REPORT

THE NATIONAL ASSEMBLY PARLIAMENT BUILDING	
DATE: 05 JUL 2023	DAY: Wednesday
TABLED BY:	Hon. Kitiani Ichung'uah (Leader of the Majority Party)
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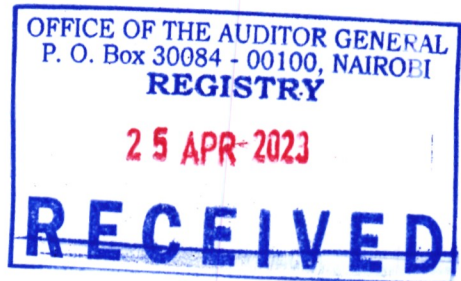
OF

THE AUDITOR-GENERAL

ON

WATER SERVICES REGULATORY BOARD

**FOR THE YEAR ENDED
30 JUNE, 2022**



WASREB
Water Services Regulatory Board

WATER SERVICES REGULATORY BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30TH JUNE 2022

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

Water Services Regulatory Board
Annual Report and Financial Statements
For the year ended June 30, 2022

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1. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

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 On April 21st 2017 the Water Act 2002 was repealed by the Water Act 2016.

(b) Principal Activities

The mandate of the institution is to oversee the implementation of policies and strategies relating to provision of water and sewerage services. WASREB sets rules and enforces standards that guide the sector towards ensuring that consumers are protected and have access to efficient, adequate, affordable and sustainable services.

The principal activities of the Water Services Regulatory Board according to the Water Act 2016 which repealed the Water Act 2002 are to: -

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

KEY ENTITY INFORMATION AND MANAGEMENT(CONTINUED)

Principal Activities (continued)

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

Vision

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

Mission

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

Strategic Objectives

The Boards five objectives are as follows: -

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

(c) Key Management

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

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

KEY ENTITY INFORMATION AND MANAGEMENT (CONTINUED)

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30 June 2022 and who had direct fiduciary responsibility were:

S/no	Designation	Name
1.	Ag. Chief Executive Officer (from 16 December 2022)	Dr. Julius Kirimi Itunga
2.	Ag. Chief Executive Officer (up to 16 December 2022)	Joseph K. Keter 'ndc'(K)
3.	Director Corporate Services	Dr. Julius Kirimi Itunga
4.	Director Licensing, Standards and Advocacy	Eng. Peter Njaggah
5.	Director Monitoring and Enforcement	Richard Cheruiyot
6.	Manager Finance and Accounting	David Leleito Kibai
7.	Manager Supply Chain Management	Joyce Moturi

(e) Fiduciary Oversight Arrangements

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

(i) Corporate Services Committee

This Committee deals with strategic, financial, employment and administrative issues. Its responsibilities include; Performance contract negotiation; Reviewing of Annual Accounts; Reviewing Development and Recurrent Budgets; Recommendation of Board's Strategic Document, monitoring all human resources matters and monitoring the financial management of the corporation and matters of WASREB information, communication and media system and plans.

(ii) Technical Services Committee

There is a Technical Services Committee whose responsibilities include; Overseeing development and enforcement of regulations and laws; Approval of tariffs; Reviewing of water service standards and ensuring compliance; Approval of Service Provision Agreements; Recommending issuance of licenses to water service boards and making recommendations as regard setting and determination of fees, levies, premiums and other charges to be imposed for water services.

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KEY ENTITY INFORMATION AND MANAGEMENT(CONTINUED)

(iii) Audit and Risk Management Committee

As per the requirements of the Public Finance Management Act 2012, there is the audit and risk management committee. Its responsibilities include; examining and assessing the effectiveness of the internal control system; approving the Internal Audit programs; carry out special audits, verifying Boards assets and liabilities and receiving reports from the Internal Auditor and to adopt a pro- active risk-based approach in the internal audit system.

(f) WASREB Headquarters

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

(g) WASREB Contacts

TEL: +254 (0) 0202733561
Email: info@wasreb.go.ke
Website: www.wasreb.go.ke

(h) WASREB Bankers

1. National Bank of Kenya
Hill Branch
P.O. Box 45219-00100
NAIROBI, KENYA
2. Kenya Commercial Bank
Capital Hill-4025
P.O. Box 69695-00400
NAIROBI, KENYA
3. Co-operative Bank of Kenya
Upper hill Branch, Kuscco Centre
P.O. Box 30415-00100
NAIROBI, KENYA





(i) Independent Auditors

The Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GPO 00100
NAIROBI, KENYA.




(j) Principal Legal Advisor

The Attorney General
State Law Office and Department of Justice
Harambee Avenue
P.O. Box 40112
City Square 00200
NAIROBI, KENYA



2. THE BOARD OF DIRECTORS

Ref.	Directors	Details
1.	 <p>Prof. Simon Nyutu Gicharu</p>	<p>He was an independent director appointed on 5th August 2022 Prof. Simon Gicharu is an educationalist and founder of Mount Kenya University.</p>
2.	 <p>Dr. Ezra K. Ronoh</p>	<p>He was an independent director appointed on 8th February 2019. He holds a PHD in Entrepreneurship Management and Master of Business Administration (MBA). He serves as the Program's Co-ordinator at Kabarak University Nakuru Town Campus. He previously served as a Consultant in Assessing SMEs with Best Practices and as a Business Advisor Ministry of Industrialization. He retired from the board on 7th February 2022.</p>
3.	 <p>Mrs. Fakira Kassim</p>	<p>She was an independent director appointed on 8th February 2019. She holds a Higher National Diploma in Clinical Medicine and Surgery. She is also qualified in Quality Assurance and Standards. She has worked for National Hospital Insurance Fund (NHIF) as a Quality Assurance Officer, Mandera District Hospital and KICC, Nairobi. She retired from the board on 7th February 2022.</p>
4.	 <p>Ms Esther W. Njogu</p>	<p>She is was an independent director appointed on 8th February 2019. She holds a Diploma in Leadership. She is an astute businesswoman in real estate and construction. Currently she works as an Administration Manager at Jubilee Party Headquarters where she provides guidance in leadership and governance. Previously, she served at Nyandarua County Council in Alcoholic Drinks Regulation Committee. She retired from the board on 7th February 2022.</p>



THE BOARD OF DIRECTORS (continued)

5.	 <p>Dr. Erick K. Ruto</p>	<p>He was independent director appointed on 8th February 2019. He holds a Masters Degree in Tropical and Infectious Diseases and a Bachelors Degree in Medicine and Surgery. He is currently pursuing a PHD in Medical Microbiology. He is the Medical Director and Chairman of Reale Hospital and Clinics and a lecturer at Moi University School of Medicine. He retired from the board on 7th February 2022.</p>
6.	 <p>Ms. Irene W. Kamau</p>	<p>She was an independent director appointed on 8th February 2019. She is a holder of Masters in Counselling Psychology. She is the Founder and Managing Director of 3M Overseas Education Advisory Committee. She was also the Headmistress at Pan African Girls High School. She retired from the board on 7th February 2022.</p>
7.	 <p>Dr. Edward Kobuthi</p>	<p>Dr.Kobuthi is an independent director appointed on 24th September 2020. He holds a PhD in Business Administration in Strategic Management, specializing in corporate governance from the University of Nairobi. He has a Masters Degree in Strategic Management and a Bachelor's degree in marketing and finance both from United States International University.</p> <p>His vast work experience spans from Project Manager at East African Breweries Limited, Airport Manager at Jomo Kenyatta International Airport, General Manager, Kenya Airways, CEO at AMREF's Meat Processing Plant in Turkana, Part Time Lecturer at KCA University, USIU, to Senior Lecturer at Africa International University. He currently runs EBN Creations Limited as a Safaricom Dealer. He retired from the board on 1st February 2023.</p>


THE BOARD OF DIRECTORS (continued)

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

THE BOARD OF DIRECTORS (continued)

<p>10.</p>	 <p>Dr. Julius K. Itunga</p>	<p>Dr. Julius K. Itunga assumed the office as the Acting Chief Executive Officer at the Water Services Regulatory Board (WASREB) on 16th December, 2022. He is also the Director Corporate Services. He holds a Doctor of Philosophy (PhD) in Business Administration from Jomo Kenyatta University of Agriculture and Technology (JKUAT), Master in Business Administration and Bachelor of Commerce, Finance Option both from the Catholic University of Eastern Africa (CUEA). He is a Certified Public Accountant of Kenya (CPAK), Certified Public Secretary of Kenya (CPSK); a member of the Institute of Certified Public Accountant of Kenya (ICPAK) and Institute of Certified Public Secretaries of Kenya (ICPSK). Dr.Itunga has over 25 years of experience in public sector management having worked previously in senior positions in Kenya Posts and Telecommunications Corporation/Telkom Kenya, Agricultural Development Corporation and National Biosafety Authority. He also worked as an Associate Lecturer at the Kenya Methodist University and has published extensively in referenced journals.</p>
<p>11.</p>	 <p>Joseph K. Keter 'ndc'(K)</p>	<p>Joseph K. Keter 'ndc'(K) assumed the office as the Acting Chief Executive Officer at the Water Services Regulatory Board (WASREB) on 13th January, 2022. Mr. Keter is a holder of Master of Business Administration (Project Management) from Kenyatta University and a Bachelor of Arts in International Relations from United States International University of Africa.</p> <p>Prior to joining WASREB, he served as Secretary Administration in the Ministry of Water, Sanitation and Irrigation between 2017 and 2021. During the period, he coordinated the rolling out of three successive Rapid Results Initiatives (RRI) waves which led to completion of over 120 water, irrigation and sanitation projects. He also participated in the preparations of the successful Kenya Sanitation Conference held in October, 2019 at Kenyatta International Conference Centre. While at the Ministry, Mr. Keter was Alternate</p>

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		<p>Director to Principal Secretary at Athi Water Works Development Agency. His tenure as Ag. CEO ended on the 16th of December 2022.</p>
12.	 <p>Eng. Peter Njaggah</p>	<p>Eng. Peter Njaggah is the Director Licensing, Standards and Advocacy. He holds a Bachelor of Science degree in Civil Engineering from the University of Nairobi and Master of Science degree in Environmental Engineering from the University of New Castle –Upon Tyne in UK.</p> <p>Eng. Njaggah has over 25 years’ experience and knowledge in the water sector, having previously worked as a senior manager in several water utilities as the Managing Director of Western Water Services Company; as Head of Water and Wastewater departments in Central District Council, South East District Council and Ghanzi District Council- all in the Republic of Botswana, and also in the then Water and Sewerage Department- Nairobi City Council- Republic of Kenya. He is a Professional Engineer with the Engineers Board of Kenya, a Corporate Member of the Institution of Engineers of Kenya (I.E.K) and member of Institute of Waste Management of Southern Africa.</p> <p>Ag. CEO from 18th May 2021 to 18th December 2021.</p>

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3. MANAGEMENT TEAM

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


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



DIRECTORATES

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



DEPARTMENTS

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

Reference	Management	Details
1.	 <p>Dr. Julius K. Itunga</p>	<p>Dr. Julius K. Itunga assumed the office as the Acting Chief Executive Officer at the Water Services Regulatory Board (WASREB) on 16th December, 2022. He holds a Doctor of Philosophy (PhD) in Business Administration from Jomo Kenyatta University of Agriculture and Technology (JKUAT), Master in Business Administration and Bachelor of Commerce, Finance Option both from the Catholic University of Eastern Africa (CUEA). He is a Certified Public Accountant of Kenya (CPAK), Certified Public Secretary of Kenya (CPSK); a member of the Institute of Certified Public Accountant of Kenya (ICPAK) and Institute of Certified Public Secretaries of Kenya (ICPSK). Dr. Itunga has over 25 years of experience in public sector management having worked previously in senior positions in Kenya Posts and Telecommunications</p>

		<p>Corporation/Telkom Kenya, Agricultural Development Corporation and National Biosafety Authority. He also worked as an Associate Lecturer at the Kenya Methodist University and has published extensively in referenced journals.</p>
2.	 <p>Joseph K. Keter 'ndc'(K)</p>	<p>Joseph K. Keter 'ndc'(K) assumed the office as the Acting Chief Executive Officer at the Water Services Regulatory Board (WASREB) on 13th January, 2022. Mr. Keter is a holder of Master of Business Administration (Project Management) from Kenyatta University and a Bachelor of Arts in International Relations from United States International University of Africa. Prior to joining WASREB, he served as Secretary Administration in the Ministry of Water, Sanitation and Irrigation between 2017 and 2021. During the period, he coordinated the rolling out of three successive Rapid Results Initiatives (RRI) waves which led to completion of over 120 water, irrigation and sanitation projects. He also participated in the preparations of the successful Kenya Sanitation Conference held in October, 2019 at Kenyatta International Conference Centre. While at the Ministry, Mr. Keter was Alternate Director to Principal Secretary at Athi Water Works Development Agency. His tenure as Ag. CEO ended on the 16th of December 2022.</p>
3.	 <p>Eng. Peter Njaggah</p>	<p>Eng. Peter Njaggah is the Director Licensing, Standards and Advocacy. He holds a Bachelor of Science degree in Civil Engineering from the University of Nairobi and Master of Science degree in Environmental Engineering from the University of New Castle –Upon Tyne in UK. Eng. Njaggah has over 25 years' experience and knowledge in the water sector, having previously worked as a senior manager in several water utilities as the Managing Director of Western Water Services Company; as Head of Water and Wastewater departments in Central District Council, South East District Council and Ghanzi</p>

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		<p>District Council- all in the Republic of Botswana, and also in the then Water and Sewerage Department- Nairobi City Council- Republic of Kenya.</p> <p>He is a Professional Engineer with the Engineers Board of Kenya, a Corporate Member of the Institution of Engineers of Kenya (I.E.K) and member of Institute of Waste Management of Southern Africa.</p>
4.	 <p>Richard K. Cheruiyot</p>	<p>Richard Cheruiyot is the Director Monitoring and Enforcement. He holds a Bachelor of Science degree in Analytical Chemistry from the University of Nairobi. He is also a holder of two Masters degrees in Environmental Chemistry and Business Administration both from the University of Nairobi.</p> <p>Mr. Cheruiyot has over 23 years' experience in management of water services both at policy levels, regulation and operations with a bias in regulation, with a specific focus on the development and monitoring of compliance to the regulatory framework. Prior to joining WASREB, he worked with the National Water Conservation and Pipeline Corporation as the Deputy Regional Manager in charge of Technical Services in the Western Region.</p>
5.	 <p>David Leleito Kibai</p>	<p>David Leleito is the Manager Finance & Accounts. He holds a B.Com (Finance) from Catholic University for Eastern Africa and an MBA (strategic management) from University of Nairobi. He is a Certified Public Accountant of Kenya, CPA (K). He has over 22 years' experience in Finance and Accounting. Mr Leleito is a member of the International Water Association (IWA).</p>

4. CHAIRMAN'S STATEMENT



The year saw WASREB holding close to 40 public consultation meetings for licensing and about 10 Tariff consultations of various Water Service Providers. Stakeholders comprised County Government, Water Works Development Agencies, Consumers, Business Communities and Religious Groups, while ensuring inclusion of minority groups.

Further, the Regulator held regional workshops with utilities and counties, aimed at building capacities of utility managers and Boards of directors, as well as, County executives on tenets of good governance.

Turning to IMPACT 14, water coverage in regulated areas improved from 57% to 60% while sewerage coverage increased by one percentage point from 15% to 16% compared to the previous reporting period. In absolute numbers an additional 1,001,805 and 170,767 gained access to water and sewerage services respectively. Production during the period increased by 1.3% and similarly the turnover increased by 1.6%.

For the period under review, 87 public and 3 private utilities submitted data for analysis. There was growth in four WSPs which graduated to higher size categories while none reduced in size. The top 10 positions were taken by the Very Large (5 No.) and Large (5 No.) utilities. This is particularly encouraging considering that these two size categories serve 88% of the total population and control 92% of the sector turnover.

On the brighter side, Non-Revenue Water (NRW) improved from 47% to 45% when compared to the previous period. All the utility categories except the Large, recorded an improvement with the biggest improvement being recorded in the Small Category. However, in financial terms and at the current average NRW of 45% and the sector turnover of KShs. 23.2 Billion, against an acceptable sector benchmark of 20%, then conservatively, the sector is losing approximately KShs. 10.5 Billion.

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

A handwritten signature in black ink, appearing to read 'Simon Nyutu Gicharu'. The signature is stylized with several loops and a long horizontal stroke at the end.

**PROF. SIMON NYUTU GICHARU
CHAIRMAN OF THE BOARD OF DIRECTORS**

5. REPORT OF THE CHIEF EXECUTIVE OFFICER



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

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

Water coverage for areas served by regulated utilities declined from 59% in 2019/20 to 60% in 2020/21 mainly as a result of population growth surpassing growth in access. In absolute terms, there was an additional 854,514 people served against a population increase in service area of 2,229,267. Similarly, sewer coverage declined from 17% recorded in 2019/20 to 15% in the current period. If we look at the total water coverage; considering the contribution of the Small-Scale Service Providers (SSSPs), the national coverage is 45%. On the bright side, Sanitation Coverage improved by seven percentage points up from 81 to 88 while Hours of Supply moved from 14 to 15. To get to the national target of universal by 2030, the required annual growth is at least four percentage points but this is only to the extent of the areas with WSPs.

As we look to the future, our focus continues to be formalization of service provision through licensing of all WSPs. Over 60 utilities have submitted applications for licensing with 50 having been licensed, laying a foundation for better services with serious commitment and responsibility for customer satisfaction and driving the progressive realization of the right to water.

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


Dr. Julius K. Itunga

AG. CHIEF EXECUTIVE OFFICER

6. STATEMENT OF WASREB'S PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2021/2022

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

During the period under review, the regulatory levy increased from Kshs. 229.9 million to Kshs 402 million. This facilitated the internal financing of development and operational expenditures. The approved budget for the period was strictly followed and this, coupled with cost control measures, ensured a healthy cash flow position during the year.

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

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

Governance

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

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effective, efficient and sustainable water services provision. Wasreb will consequently enhance monitoring of licensees and ensure compliance with the regulatory framework.

Access to Water Services

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

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

Collaboration

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

service delivery. To achieve this objective, Wasreb will seek to strengthen its brand as a valuable leader and resource point in water services provision.

Effective Regulator

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

WASREB develops its annual work plan based on the 4 strategic pillars. assessment of the Board's performance against its annual workplan is done on quarterly basis. The Board achieved its performance targets set for the FY 2021/2022 for its 4 strategic pillars as indicated below: -

(a) Compliance with License Conditions on Established Standards Monitored

The Board carried out inspections on 36 WSPs for Water Quality Surveillance and Tariff Implementation Reviews done in 7 WSPs.

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

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

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

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

During the year, two advisories were issued:

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

(d) County Engagement Strategy Implemented

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

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

(e) Consumer Engagement in Water Services Delivery Facilitated

WASREB facilitated Consumer Engagement in Water Service Delivery by:

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

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

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

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

Data collection and analysis for 90 WSPs and Rural Small Scale Water Service Providers for the year 2021/22 was undertaken. The Board published and disseminated the performance of the water services sector by 30th June 2022.

7. CORPORATE GOVERNANCE STATEMENT

The Water Services Regulatory Board is committed to the values and principles of good corporate governance. Good corporate governance requires that the Board of Directors must govern the corporation with integrity and enterprise in a manner which entrenches and enhances the mandate it has under section 71 of the Water Act 2016. This mandate is not only regulatory but embraces the corporation's interaction with government and other stakeholder such as the water services boards and their providers, consumers of water services, the media, public opinion makers and pressure groups.

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

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

(a) Board of Directors

The directors are given appropriate information so that they can maintain full and effective control over strategic, financial, operational and compliance issues. Except for direction and guidance on general policy, the board has delegated authority for conduct of day-to-day business to the Chief Executive Officer. The board nonetheless retains oversight responsibility for establishing and maintaining the control of financial, operational and compliance issues. The directors met six (6) times during the 2021/2022 financial year.

(b) Committees of the Board

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

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i. Corporate Services Committee

This Committee deals with strategic, financial, employment and administrative issues. Its responsibilities include; Performance contract negotiation; Reviewing of Annual Accounts; Reviewing Development and Recurrent Budgets; Recommendation of Board's Strategic Document, monitoring all human resources matters and monitoring the financial management of the corporation and matters of WASREB information, communication and media system and plans. The Corporate Services Committee met six (6) times during the financial year 2021/2022.

ii. Technical Services Committee

There is a Technical Services Committee whose responsibilities include; Overseeing development and enforcement of regulations and laws; Approval of tariffs; Reviewing of water service standards and ensuring compliance; Approval of Service Provision Agreements; Recommending issuance of licenses to water service boards and making recommendations as regard setting and determination of fees, levies, premiums and other charges to be imposed for water services. The Technical Services Committee met six (6) times during the financial year 2021/2022.

iii. Audit and Risk Management Committee

As per the requirements of the Public Finance Management Act 2012, there is the audit and risk management committee. Its responsibilities include; examining and assessing the effectiveness of the internal control system; approving the Internal Audit programs; carry out special audits, verifying Boards assets and liabilities and receiving reports from the Internal Auditor and to adopt a pro- active risk-based approach in the internal audit system. The Audit and Risk Management Committee met four (4) times during the financial year 2021/2022.

8. MANAGEMENT DISCUSSION AND ANALYSIS

WASREB operational and financial performance is as follows; -

(i) Internal Controls

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

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

(ii) Risk Assessment and Control Activities

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

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

(iii) Challenges

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

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

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

COVID-19 has exposed the gaps and inequalities in water services provision especially as these relate to residents in informal settlements. According to WASREB, 40% of the urban population in Kenya lives in low-income informal settlements. Of this population, only 53% are served by WSPs.

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

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

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

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

The Kenya Towns Sustainable Water Supply and Sanitation Program (KTSWSSP) is another key project being implemented with support from the African Development Bank. The project's main

objective is to improve access, quality and availability of water supply in 19 towns and wastewater management services in 17 towns.

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

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

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

(vi) Build Resilience

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

(vii) Increase Investment

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

coordinated approach. The Ministry of Water, Sanitation and Irrigation, is in the process of developing a national investment plan which will guide all investments in the sector.

(viii) Sanitation is Wanting

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

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

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

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

(ix) Reduce Water Losses

On the brighter side, Non-Revenue Water (NRW) improved from 47% to 45% when compared to 2020/21. All the utility categories except the Large, recorded an improvement with the biggest improvement being recorded in the Small Category. However, in financial terms and at the current average NRW of 45% and the sector turnover of KShs. 23.2 Billion, against an acceptable sector benchmark of 20%, then conservatively, the sector is losing approximately KShs. 10.5 Billion. These include:

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

(x) Enhance Inclusivity

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

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

(xi) Improve Governance

Inadequate governance continues to be an impediment to effective delivery of services by utilities. Preservation and enforcement of proper governance standards, is crucial to the stability of the sector. Realizing this however, takes time and utilities have to be continually engaged to drive this agenda. The regulator has continued to engage with key actors in this area including the top county management, the Boards of the utilities and the top management. A governance handbook is being prepared to

assist counties in enforcing governance standards. Further, the regulator will continue to monitor utilities to ensure they adhere to prescribed service standards by means of a collaborative framework that facilitates transparency through proper reporting and makes the activities of each player predictable for a more robust sector.

9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

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

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

i) Shows and Exhibitions

WASREB joined the rest of Kenyans in marking this year's World Water Day celebrations held at Maliku Primary School, Kitui County on 22nd March 2022. During the event tree seedlings were planted and a roof catchment commissioned.

ii) Workshops

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

WASREB conducted a two-day validation workshop on the new Guideline on Sanitation Trade and Effluent in Naivasha from 23rd-24th March, 2022. MDs from Kisumu, Eldoret, Mavoko, Thika, Malindi, Nyeri were present. Partners WSUP, WRA, NEMA and CECMs from Kisumu and Kericho were in attendance.

iii) Charitable Events

WASREB carried out a tree planting exercise at Muruguma Primary School in Meru County, as part of CSR activities and in line with the Presidential Directive on tree planting in March 2022. WASREB donated 2,500 indigenous seedlings towards the venture.

iv) County Engagement Activities

WASREB Board of Directors and Management held workshops besides having face to face engagements with Governors and County Executive Committee Members in 26 Counties between November, December 2021 and April 2022.

10. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2022 which show the state of Water Services Regulatory Board (WASREB) affairs.

i. Principal activities

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

ii. Results

The results of the entity for the year ended June 30, 2022 are set out on page 1-6

iii. Directors

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


iv. Surplus remission

In accordance with Regulation 219 (2) of the Public Financial Management (National Government) Regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. WASREB declared a surplus of **Kshs. 55,273,430** during the FY 2021/2022 and hence will remit **Kshs. 23,956,086.60** to The National Treasury after adjustment for capital expenditure incurred on purchase of property, plant and equipment (PPE) worth **Kshs. 28,655,556.00**.

v. Auditors

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

By Order of the Board


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JOHN HOSEA MURUKA
CORPORATE SECRETARY/SECRETARY TO THE BOARD

**Water Services Regulatory Board
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11. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and (*section 14 of the State Corporations Act, water Act 2016*), require the Directors to prepare financial statements in respect of WASREB, which give a true and fair view of the state of affairs of WASREB at the end of the financial year/period and the operating results of WASREB for the year ended 30 June 2022. The Directors are also required to ensure that WASREB keeps proper accounting records which disclose with reasonable accuracy the financial position of WASREB. The Directors are also responsible for safeguarding the assets of the WASREB.

The Directors are responsible for the preparation and presentation of WASREB 's financial statements, which give a true and fair view of the state of affairs of WASREB for and as at the end of the financial year (period) ended on June 30, 2022. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of WASREB; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

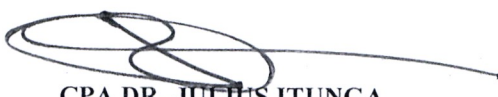
The Directors accept responsibility for WASREB's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act), *Water Act 2016*. The Directors are of the opinion that WASREB's financial statements give a true and fair view of the state of WASREB's transactions during the financial year ended June 30, 2022, and of WASREB's financial position as at that date.

The Directors further confirm the completeness of the accounting records maintained for WASREB, which have been relied upon in the preparation of WASREB's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Board's financial statements were approved by the Board on 22nd September 2022 and signed on its behalf by:



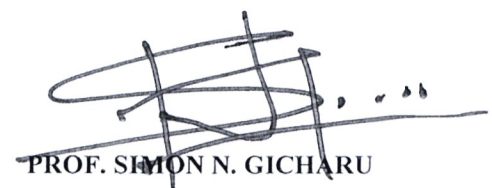
CPA DR. JULIUS ITUNGA
AG. CHIEF EXECUTIVE OFFICER
ICPAK NO 8541

DATE: 20-3-2023



CPA DAVID KIBAI LELEITO
MANAGER FINANCE & ACCOUNTS,
ICPAK NO 7983

DATE: 20-3-2023

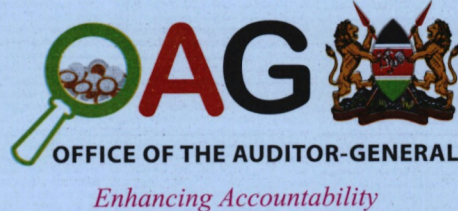


PROF. SIMON N. GICHARU
CHAIRMAN

DATE: 20-3-2023

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON WATER SERVICES REGULATORY BOARD FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Water Services Regulatory Board set out on pages 2 to 34, which comprise of the statement of financial position as at 30 June, 2022, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual

Report of the Auditor-General on Water Services Regulatory Board for the year ended 30 June, 2022

amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Water Services Regulatory Board as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Water Act, 2016 and State Corporation Act, Cap 446 of the laws of Kenya and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Inconsistencies in Revenue Recognition

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.32,841,794 as disclosed in Note 18 to the financial statements. The Board writes off previously recognized debtors at a rate of 50% on the outstanding balances aged more than a year to clear off the debtors from the books. However, the Board prepares financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) while receivables due from Water Service Providers (WSPs) are recognized under cash basis of accounting as and when they are received. This treatment negates the matching principal of revenue recognition to be matched with expenditure for that particular year.

As a result, the budgeted revenue as per the statement of comparison of budget and actual amounts is Kshs.370,000,000 against actual on comparable basis of Kshs.423,574,571 resulting to over-collection of Kshs.53,574,571 or 114%. Further, licenses, fees and permits, the main businesses of the Board are treated as revenue from non-exchange transactions contrary to the template recommended by the Public Sector Accounting Standard Board which recommends that the core business of an organization be recognized as revenue from exchange transactions.

In the circumstances, the accuracy, validity and completeness of the receivables from non-exchange transactions of Kshs.32,841,794 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Water Services Regulatory Board Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Issues

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Over-Expenditure on Board Expenses

The statement of financial performance reflects board expenses of Kshs.21,029,935 as disclosed in Note 12 to the financial statements. However, this amount was above the 6% of the operations and maintenance budget of Kshs.370,000,000, which amounts to Kshs.18,500,000. The percentage of the board expenditure amount as a proportion of the expenses was therefore above the allowable expenditure, contrary to Office of the President circular number OP/CAB.9/1A of 11 March, 2020-part D (1) on Board Budgets which states that a board expenditure for the financial year shall be capped at 30 Million or 5% of the operations and maintenance budget whichever is less.

In the circumstances, Management was in breach of the law.

2. Employee Costs

2.1 Violation of Third Rule of Basic Salary

The statement of financial performance reflects employee costs of Kshs.133,324,711 as disclosed in Note 11 to the financial statements. Analysis of the payroll revealed that several employees received net pay which was below 1/3 of their basic pay, contrary to the Employment Act, 2007.

In the circumstances, Management was in breach of the law.

2.2 Non-Remittance of Statutory Deductions

Review of payroll records provided for audit revealed that the Board partially deducted and remitted social security funds to the NSSF for thirty-two (32) employees amounting to Kshs.153,600 contrary to section 27(1) of the NSFF Act,2013 and Section 19(3) of the Employment Act, 2007, Section C.1(3) of the Public Service Human Resource Policies and Procedures Manual 2016, on deduction and remittance of statutory deductions.

In the circumstance, Management was in breach of the law.

3. Failure to Maintain a Separate Financial Statement for Mortgage Scheme and Car Loan

Review of mortgage and car loan schemes' records revealed that the board does not prepare separate financial statement for mortgage and car loan schemes. This is contrary to SRC circular Ref:SRC/ADM/CIR/1/13 Vol.III (128) dated 17 December 2014, which prescribes that each government agency/organ will administer and manage car loan and mortgage schemes internally and the same shall be subjected to the annual audit of Government.

In the circumstance, Management was in breach of the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1. Non-Execution of Governance Audit

Review of board records revealed that the board did not subject the organization to an annual governance audit as required by the Mwongozo Code of Governance. This is contrary to Governance Practice 1.13(1) of the Mwongozo: Code of Governance which stipulates that the board in consultation with the Oversight Office, should ensure that it subjects the organization to an annual governance audit by a member regulated by the Institute of Certified Public Secretaries of Kenya (ICPSK) and accredited for that purpose.

2. Non-Compliance with Professional Qualification Requirement

Review of board minutes revealed that Audit and Risk Committee did not have a member with qualification and experience in Audit, Financial management or Accounting and a member of professional body in good standing hence did not possess Finance qualifications. This is contrary to Mwongozo- Parameter 3.4 (b) which states that Board should ensure that at least one member of the Audit and Risk committee has relevant qualification and expertise in Audit, Financial management or Accounting with experience and knowledge in risk management and is a member of a professional body in good standing.

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

Responsibilities of Management and the Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Board's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Board or to cease operations,

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Board to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

12 June, 2023

13. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE
2022

	Notes	2021-2022 Kshs	2020-2021 Kshs
Revenue from non-exchange transactions			
Transfers from other government Agencies	6	5,380,870	1,060,000
Licenses, Fees & Permits	7	403,503,779	229,921,599
		408,884,649	230,981,599
Revenue exchange transactions			
Sale of goods	8	20,000	53,200
Finance income	9	138,477	19,286
		158,477	72,486
Total revenue		409,043,126	231,054,085
Expenses			
Employee costs	11	133,324,711	142,842,492
Board expenses	12	21,029,935	17,752,058
Use of goods and services	13	154,492,558	55,545,524
Depreciation	14	1,394,513	1,146,239
Repairs and maintenance	15	2,351,321	-
Total expenses		312,593,038	217,286,313
Other Gains/(Losses)	10	8,823,342	12,283,392
Surplus/(Deficit) for the period		105,273,430	22,988,966
Transfer to Mortgage facility	16	50,000,000	-
Remission to National Treasury	31	26,981,571.60	17,717,739.30
Net Surplus for the year		<u>28,291,858.40</u>	<u>5,271,226.70</u>

The notes set out on pages 7 to 33 form an integral part of these Financial Statements. The Financial Statements set out on pages 1 to 6 were signed on behalf of the Board of Directors by:



CPA DR. JULIUS ITUNGA

AG. CHIEF EXECUTIVE OFFICER

ICPAK NO 8541

DATE:

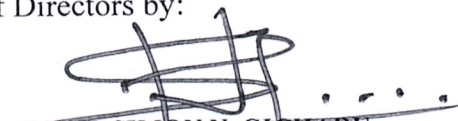


CPA DAVID KIBAI LELEITO

MANAGER FINANCE & ACCOUNTS,

ICPAK NO 7983

DATE:



PROF. SIMON N. GICHARU

CHAIRMAN

DATE:

Water Services Regulatory Board
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14. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

	Notes	2021-2022 Ksh	2020-2021 Ksh.
Assets			
Current assets			
Cash and cash equivalents	17	475,042,650	342,347,338
Receivables from Non- Exchange Transactions	18	32,841,794	42,155,677
Other current assets	19	13,790,602	10,406,066
Total Current Assets		521,675,046	394,909,081
Non-current assets			
Property, Plant and Equipment	20	36,842,212	10,751,169
Long-term Mortgage Facility	21	37,244,297	39,869,171
Total Non- Current Assets		74,086,509	50,620,340
Total Assets		595,761,555	445,529,421
Liabilities			
Trade and Other Payables	22	85,406,019	5,283,074
Refundable Deposits from Customers	24	204,865,085	180,012,152
Deferred Income	25	25,157,905	7,020,800
Total Liabilities		315,429,009	192,316,026
Net Assets			
Capital Fund	26	36,487,577	36,487,577
Revaluation Reserve	27	2,460,000	3,630,000
Accumulated Surplus	28	241,384,969	213,095,818
Total Net assets		<u>280,332,546</u>	<u>253,213,395</u>
Total Net Assets and Liabilities		<u>595,761,555</u>	<u>445,529,421</u>

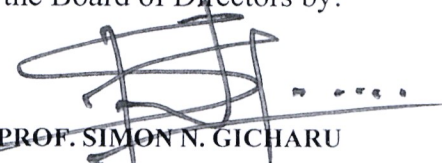
The Financial Statements set out on pages 1 to 6 were signed on behalf of the Board of Directors by:



CPA DR. JULIUS ITUNGA
AG. CHIEF EXECUTIVE OFFICER
ICPAK NO 8541



CPA DAVID KIBAI LELEITO
MANAGER FINANCE & ACCOUNTS,
ICPAK NO 7983



PROF. SIMON N. GICHARU
CHAIRMAN

Water Services Regulatory Board
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DATE:

DATE:

DATE:

15. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2022

	Capital Fund	Accumulated Surplus	Revaluation Reserve	Total
	Kshs	Kshs	Kshs	Kshs
Balance as at 1 st July 2020	<u>36,487,577</u>	<u>190,106,852</u>	<u>4,200,000</u>	<u>230,794,429</u>
Revaluation Reserve			600,000	<u>600,000</u>
Amortisation of revalued assets	-	-	(1,170,000)	<u>(1,170,000)</u>
Surplus/ (Deficit) for the year	-	22,988,966	-	22,988,966
Balance as at 30 th June 2021	<u>36,487,577</u>	<u>213,095,818</u>	<u>3,630,000</u>	<u>253,213,395</u>
Balance as at 1 st July 2021	<u>36,487,577</u>	<u>213,095,818</u>	<u>3,630,000</u>	<u>253,213,395</u>
Prior year adjustment		(2,707)	-	(2,707)
Amortisation of revalued assets	-	-	(1,170,000)	<u>(1,170,000)</u>
Surplus/ (Deficit) for the year	-	28,291,858	-	28,291,858
Balance as at 30 th June 2022	<u>36,487,577</u>	<u>241,384,969</u>	<u>2,460,000</u>	<u>280,332,546</u>

**Water Services Regulatory Board
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16. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2021-2022 Kshs	2020-2021 Kshs
Cash flows from operating activities			
Receipts			
Transfers from other governments Agencies	6	5,380,870	1,060,000
Licenses, fees and permits	7	403,503,779	229,921,599
Sale of goods	8	20,000	53,200
Finance income	9	138,477	19,286
Other gains/(loses)	10	8,823,342	12,283,392
Total receipts		417,866,468	243,337,477
Payments			
Use of goods and services	13	154,492,558	57,781,922
Employee costs	11	133,324,711	143,668,292
Board Expenses	12	21,029,935	17,752,058
Repairs and maintenance	15	2,351,321	-
Transfers to Mortgage facility	16	50,000,000	-
Grants and subsidies	31	26,981,572	-
Total payments		388,180,097	219,202,272
Working capital changes			
(Increase)/Decrease in Receivables & other Current Assets	18 & 19	5,929,347	12,982,675
Increase/ (Decrease) in Payables	22 & 24	104,975,878	179,068,017
Increase/ (Decrease) in Deferred Income	25	18,137,105	7,020,800
Cash flow from changes in working capital		129,042,330	199,071,492
Net cash flows from/(used in) operating activities	30	158,728,701	223,206,697
Cash flows from investing activities			
Purchase of PPE and Intangible assets		(28,655,556)	(3,302,589)
Net cash flows from/(used in) investing activities		130,073,145	219,904,108
Cash flows from financing activities			
Increase in long term mortgage facility		2,624,874	(12,704,271)
Decrease in revenue reserve		(2,707)	-
Net cash flows from financing Activities		2,622,167	(12,704,271)
Net increase/(decrease) in cash & Cash equivalents		132,695,312	207,199,837
Cash and cash equivalents at 1 July	17	342,347,338	135,147,501
Cash and cash equivalents at 30 June	17	475,042,650	342,347,338

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


CPA DR. JULIUS ITUNGA

AG. CHIEF EXECUTIVE OFFICER

ICPAK NO 8541

DATE: 20-3-2023


CPA DAVID KIBAI LELEITO

MANAGER FINANCE & ACCOUNTS,

ICPAK NO 7983

DATE: 20-3-2023


PROF. SIMON N. GICHARU

CHAIRMAN

DATE: 20-3-2023

17. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2022

	Original Budget (Kshs)	Adjustments (Kshs)	Final Budget (Kshs)	Actual on comparable basis (Kshs)	Performance difference (Kshs)	% of utilization	
	A	B	C=(A+B)	D	E=(C-D)	F=D/C	
Revenue	2021/2022		2021/2022	2021/2022	2021/2022		
Regulatory levies	370,000,000	-	370,000,000	403,503,779	(33,503,779)	109%	<ul style="list-style-type: none"> On the regulatory fees/levies we surpassed the target by 9% due to improvement of revenue collection strategies employed during monitoring and evaluation of Water Services Providers.
Deferred Income	-	-	-	5,380,870	(5,380,870)		<ul style="list-style-type: none"> The Deferred Income relates to donations received during the financial year, where a portion of it (Kshs. 5,380,870) was spent as conditions were met. The difference (Kshs. 25,157,905) was carried forward to next financial year due to unmet conditions in the current financial year.
Miscellaneous Income	-	-	-	158,477	(158,477)		
Other gains/(losses)	-	-	-	8,823,342	(8,823,342)		
Total income	370,000,000	-	370,000,000	417,866,468	(47,866,468)	112%	
Expenses							
Employee costs	136,276,995	-	136,276,995	133,324,711	2,952,284	98%	<ul style="list-style-type: none"> On the compensations of employees, the underutilization by 2% is within the remit of 10% acceptable levels.
Use of goods and services	204,371,684	-	204,371,684	204,492,558	(120,874)	100%	<ul style="list-style-type: none"> Use of goods and services was utilised within the budgetary estimates
Board Expenses	25,000,000	-	25,000,000	21,029,935	3,982,065	84%	<ul style="list-style-type: none"> The board expenses was underutilised by 16% due to term of the board ending in February before the year.
Other payments - Depreciation	2,000,000	-	2,000,000	1,394,513	605,487	70%	<ul style="list-style-type: none"> The overutilization of provision for depreciation costs by 30% was caused by introduction of re-valuation cost of motor vehicles in the Property Plant and Equipment.
Repair & maintenance	2,351,321	-	2,351,321	2,351,321	-	100%	
Total expenditure	370,000,000	-	370,000,000	362,593,038	7,406,962	98.0%	
Surplus for the period				55,273,430			

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Notes on the statement of Comparison of Budget and Actual Amounts as at 30th June 2022

Performance difference

- The Deferred Income relates to donations received during the financial year, where a portion of it (Kshs. 5,380,870) was spent as conditions were met. The difference (Kshs. 25,157,905) was carried forward to next financial year due to unmet conditions in the current financial year.
- On the compensation of employees, the underutilization by 2% is within the limit of 10% acceptable levels.
- Use of goods and services was underutilised by negligible .01% which is within 10% acceptable levels.
- The board expenses were underutilised by 16% due to term of the board ending in February 2022 before the year end.
- On the regulatory fees/levies we surpassed the target by 9% due to improvement of revenue collection strategies employed during monitoring and evaluation of Water Services Providers.
- The overutilization of provision for depreciation costs by 30% was caused by introduction of re-valuation cost of motor vehicles in the Property Plant and Equipment.

1. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

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

2. Statement of Compliance and Basis of Preparation

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

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

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

Notes to the Financial Statements (Continued)

3. Adoption of New and Revised Standards

- i. *New and amended standards and interpretations in issue effective in the year ended 30 June 2022.*
IPSASB deferred the application date of standards from 1st January 2022 owing to Covid 19. This was done to provide entities with time to effectively apply the standards. The deferral was set for 1st January 2023.
- ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.*

Standard	Effective date and impact:
<p>IPSAS 41: Financial Instruments</p>	<p>Applicable: 1st January 2023: The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2023 The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The</p>

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Standard	Effective date and impact:
	<p>information provided should help users of the financial statements and general-purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the Entity.</p> <p>(b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows.</p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p>Applicable: 1st January 2023:</p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p>
<p>Other improvements to IPSAS</p>	<p><i>Applicable 1st January 2023</i></p> <ul style="list-style-type: none"> • <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i> <p>Amendments to refer to the latest System of National Accounts (SNA 2008).</p> <ul style="list-style-type: none"> • <i>IPSAS 39: Employee Benefits</i> <p>Now deletes the term composite social security benefits as it is no longer defined in IPSAS.</p> <ul style="list-style-type: none"> • IPSAS 29: Financial instruments: Recognition and Measurement <p>Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.</p>
<p>IPSAS 43</p>	<p><i>Applicable 1st January 2025</i></p>

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Standard	Effective date and impact:
	<p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p>
<p>IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations</p>	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires,</p> <p>Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p>

iii. *Early adoption of standards*

The entity did not early – adopt any new or amended standards in year 2021/2022.

4. Summary of Significant Accounting Policies

(a) Revenue recognition

i) Revenue from non-exchange transactions

Levies, fines and penalties

The entity recognizes revenues from levies, penalties, and fees when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

Transfers from other government entities

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

ii) Revenue from exchange transactions

Miscellaneous income

These include penalties charged, sale of tender and interest income which is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

(b) Budget information

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

(c) Taxes

Current income tax

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

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

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

(d) Property, plant and equipment

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

(e) Intangible assets

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

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

(f) Research and development costs

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

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

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

Research and development costs (continued)

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

(g) Provisions

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

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

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

(h) Contingent liabilities

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

(i) Contingent assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets 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.

Notes to the Financial Statements (Continued)

(j) Nature and purpose of reserves

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

(k) Changes in accounting policies and estimates

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

(l) Employee benefits

Retirement benefit plans

WASREB provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an entity pays 20% fixed contributions based on the employees' basic salaries and the employee contributes 10% of their basic salaries into a separate fund, and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

(m) Related parties

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

(n) Cash and cash equivalents

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

(o) Comparative figures

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

(p) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30th June 2022.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

5. Significant judgments and sources of estimation uncertainty

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

a) Provisions for bad debts

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

b) Currency

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

c) Useful lives and residual value

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- i. The condition of the asset based on the assessment of experts employed by the Entity.
- ii. The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- iii. The nature of the processes in which the asset is deployed.
- iv. Availability of funding to replace the asset.
- v. Changes in the market in relation to the asset

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Transfers from Other Government Entities

Description	2021/2022 Kshs	2020/2021 Kshs
ESAWAS Grants	-	1,060,000
UNICEF Grants-Deferred Income	5,380,870	-
	<u>5,380,870</u>	<u>1,060,000</u>

7. Levies, Fines and Penalties

Description	2021/2022 Kshs	2020/2021 Kshs
Regulatory Levy	401,023,882	227,821,779
License Application fees	1,500,000	2,099,820
License Fees	979,897	-
Total	<u>403,503,779</u>	<u>229,921,599</u>

8. Sale of goods

Description	2021/2022 Kshs	2020/2021 Kshs
Sale of goods	20,000	53,200
Total	<u>20,000</u>	<u>53,200</u>

9. Finance income

Description	2021/2022 Kshs	2020/2021 Kshs
Insurance Compensation	75,016	-
Interest Income	63,461	19,286
Total	<u>138,477</u>	<u>19,286</u>

10. Other Gains/Losses

Description	2021/2022 Kshs	2020/2021 Kshs
Reduction in provision of debtors	8,823,342	12,283,392
Total Other Gains/ (Losses)	<u>8,823,342</u>	<u>12,283,392</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. Employee costs

Description	2021/2022 Kshs	2020/2021 Kshs
Salaries and wages	72,571,749	67,585,284
Housing benefits and allowances	18,986,000	16,863,433
Performance and other bonuses	2,608,479	2,493,297
Other employee related costs	8,825,000	11,824,430
Travel, motor car allowances	8,472,000	24,861,539
	111,463,228	
Contributions to pensions	10,210,245	9,360,014
Gratuity	5,779,336	4,218,337
Leave Allowance	5,871,902	5,636,158
Employee costs	<u>133,324,711</u>	<u>142,842,492</u>
No of employees	45	45

12. Board expenses

Description	2021/2022 Kshs	2020/2021 Kshs
Chairpersons Honoraria	613,214	1,020,000
Sitting & Accommodation Allowances	20,416,721	16,318,964
Insurance Expenses	-	413,094
Total Board remuneration	<u>21,029,935</u>	<u>17,752,058</u>

13. Use of Goods and services

Description	2021/2022 Kshs	2020/2021 Kshs
Advertising & Publicity	15,621,397	3,698,464
Audit fees	464,000	464,000
Conferences expenses	12,350,889	6,264,865
Consulting fees	16,450,340	1,432,551
Computer Expense	4,529,238	1,781,781
Insurance expenses	14,229,565	10,688,132
Internet expenses	2,183,160	1,420,353
Printing expenses	1,348,500	1,242,450
Rental expenses	16,676,527	16,325,952
Bank Charges & Other Operating Expenses	211,727	2,090,963
Telecommunication expenses	74,342	162,418

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Description	2021/2022 Kshs	2020/2021 Kshs
Capacity building expenses	10,594,787	6,121,462
Domestic travel and subsistence allowances	36,658,287	-
Foreign travel and subsistence allowances	14,856,650	-
Fuel and oil expenses	2,531,553	-
Subscription expenses	315,220	-
Office running Expenses	4,157,337	3,026,333
Covid 19 Intervention expenses	524,039	-
Staff Welfare	715,000	825,800
Total Use of Goods and services	<u>154,492,558</u>	<u>55,545,524</u>

14. Depreciation

Description	2021/2022 Kshs	2020/2021 Kshs
Furniture and Fittings	410,246	306,815
Computer and Equipment	984,267	839,424
Total	<u>1,394,513</u>	<u>1,146,239</u>

15. Repairs and Maintenance

Description	2021/2022 Kshs	2020/2021 Kshs
Motor vehicle maintenance	2,351,321	3,062,198

16. Transfer to Mortgage Facility

Description	2021/2022 Kshs	2020/2021 Kshs
Transfer to Mortgage Facility	50,000,000	-

17. Cash and cash equivalents

Description	2021/2022 Kshs	2020/2021 Kshs
National Bank of Kenya Account No 01001032110300)	331,108,881	217,408,686
National Bank of Kenya (Account No 01001032110301)	755,978	755,978
National Bank of Kenya (Account No 01071032110300)	21,725,945	19,744,750
National Bank of Kenya (Account No 01288032110300)	57,268,898	56,231,950
Kenya Commercial Bank (Account No 1117496953)	37,183,476	31,190,299
Cooperative Bank of Kenya (Account No 01136160928601)	23,493,436	9,913,533
Cooperative Bank of Kenya (Account No 01136160928600)	3,506,036	7,102,142
Total cash and cash equivalents	<u>475,042,650</u>	<u>342,347,338</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. Receivables from non-exchange transactions

Description	2021/2022 Kshs	2020/2021 Kshs
Current receivables		
Trade debtors	65,683,589	83,330,273
Less: impairment allowance	<u>(32,841,795)</u>	<u>(41,665,136)</u>
Total current receivables	32,841,794	41,665,137

Reconciliation of impairment of receivables		
As at 1 st July 2021	41,665,136	53,948,528
Reduction in provision for impairment	(8,823,341)	(12,283,392)
Impairment Allowance	<u>32,841,795</u>	<u>41,665,136</u>

19. Other Current Assets

Description	2021/2022 Kshs	2020/2021 Kshs
Mortgage Facility	6,079,299	5,136,311
Car loan Facility	275,004	571,428
Prepaid Insurance	6,997,020	4,698,327
Staff debtors	439,279	490,540
Total	<u>13,790,602</u>	<u>10,896,606</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. Property, Plant and Equipment

Description	Motor Vehicles	Furniture & Fittings	Computer & Equipment	Work-In-Progress	Total
Cost	Kshs	Kshs	Kshs	Kshs	Kshs
As at 30 June 2020	18,234,000	9,523,590	32,420,541	Nil	60,178,131
Additions	600,000	1,074,200	902,219	1,326,170	3,902,589
As at 30 th June 2021	18,834,000	10,597,790	33,322,760	1,326,170	64,080,720
Additions	24,589,671	334,999	5,057,056	(1,326,170)	28,655,556
As at 30 th June 2022	43,423,671	10,932,789	38,379,816	-	92,736,276
Depreciation and impairment					
As at 30 th June 2020	(11,929,865)	(8,733,431)	(30,350,016)	Nil	(51,013,312)
Charge for the year	Nil	(306,815)	(839,424)	Nil	(1,146,239)
Amortization	(1,170,000)	Nil	Nil	Nil	(1,170,000)
As at 30 th June 2021	(13,099,865)	(9,040,246)	(31,189,440)	Nil	(53,329,551)
Charge for the year	Nil	(410,246)	(984,267)	Nil	(1,394,513)
Amortization	(1,170,000)	Nil	Nil	Nil	(1,170,000)
As at 30 th June 2022	(14,269,865)	(9,450,492)	(32,173,707)	Nil	(55,894,064)
Net book Values					
As at 30 th June 2022	29,153,806	1,482,297	6,206,109	-	36,842,212
As at 30 th June 2021	5,734,135	1,557,544	2,133,320	1,326,170	10,751,169
As at 30 th June 2020	6,304,135	790,159	2,070,525	Nil	9,164,819

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

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

NOTE: The board has three other motor vehicles KBZ 947V a Toyota Prado land cruiser donated by USAID. KDA 590P, an isuzu Mux registered in the name of Athi Water Board. The board is in the process of acquiring the ownership documents in the institution's name.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. Long Term Mortgage Finance

Description	2021/2022 Kshs	2020/2021 Kshs
Mortgage	36,651,143	38,631,079
Car loan	593,154	1,238,092
Total	37,244,297	39,869,171

22. Trade and Other Payables

Description	2021/2022 Kshs	2020/2021 Kshs
Trade payables (remission to TNT)	26,981,572	-
Audit fees	928,464	1,856,464
Mortgage facility provision	50,000,000	-
Gratuity	7,494,746	3,426,610
Staff welfare	1,237	-
Total trade and other payables	<u>85,406,019</u>	<u>5,283,074</u>

23. Current provisions

Description	Audit fees	Gratuity	Bad & Doubtful Debts
	Shs	Shs	Shs
Balance B/D (01/07/2021)	<u>1,856,464</u>	<u>3,426,610</u>	<u>41,665,136</u>
Additional provisions	464,000	5,779,336	-
Provisions utilized	(1,392,000)	(1,711,200)	(9,973,341)
Total provisions as at 30-06-2022	<u>928,464</u>	<u>7,494,746</u>	<u>32,691,795</u>

24. Refundable Deposits and Prepayments from Customers

Description	2021/2022 Kshs	2020/2021 Kshs
Performance Guarantee	204,865,085	180,012,152
Total trade and other payables	<u>204,865,085</u>	<u>180,012,152</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. Deferred Income

Description	2021/2022 Kshs	2020/2021 Kshs
UNICEF	3,431,960	7,020,800
Water Sanitation Development Project (WSDP)	21,725,945	-
Carried Forward	<u>25,157,905</u>	<u>7,020,800</u>

The Deferred income Movement is as follows:

Description	Public Contributions and Donations
Balance brought Forward	7,020,800
Additions	25,157,905
(a) Sub-Total-Receipts	32,178,705
Transfers to Capital Fund	-
Transfers to Income Statement-UNICEF	5,380,870
(b) Sub-Total-Transfers	5,380,870
(c) Other Transfers	1,639,930
(d) Balance Carried Forward (a-b-c)	<u>25,157,905</u>

26. Capital Fund

Description	2021/2022 Kshs	2020/2021 Kshs
Brought Forward	36,487,577	36,487,577
Carried Forward	<u>36,487,577</u>	<u>36,487,577</u>

27. Revaluation Reserve

Description	2021/2022 Kshs	2020/2021 Kshs
Opening Balance	3,630,000	4,200,000
Amortization in the year	(1,170,000)	(1,170,000)
Revaluation in the year	-	600,000
Balance Carried Forward	<u>2,460,000</u>	<u>3,630,000</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. Accumulated Surplus

Description	2021/2022 Kshs	2020/2021 Kshs
Accumulated Surplus B/F	213,095,818.00	190,106,852.00
Deficit /Surplus for the year	55,273,430.00	22,988,966.00
Prior year adjustment	(2,707)	
Total	268,366,541.00	213,095,818.00
Remission to The National Treasury (Note 31) 2021/22	(26,981,571.60)	
Accumulated Surplus C/F	<u>241,384,969.40</u>	

29. Related Party Transactions

Description	2021/2022 Kshs	2020/2021 Kshs
WASREB's CEO & Senior Management	21,118,440	24,222,746
Board of Directors	21,029,935	17,752,058
ESAWAS-Belinda Gates	-	1,060,000
Ministry of Water and Sanitation	21,725,852	-
UNICEF	3,431,960	7,020,800
Total	67,306,187	50,055,604

30. Cash Generated from Operations

Description	2021/2022 Kshs	2020/2021 Kshs
Surplus for the year before tax	28,291,858	22,988,966
Adjusted for:		
Depreciation	1,394,513	1,146,239
Working Capital adjustments		
Increase in receivables	5,929,347	12,982,675
Increase in payables	104,975,878	179,068,017
Increase in Deferred Income	25,157,905	7,020,800
Net cash flow from operating activities	165,749,501	223,206,697

31. Surplus Remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum (90%) of its surplus funds reported in the audited financial statements after the end of each financial year. In line with this legal requirement WASREB will remit **Kshs. 17,717,739.30** for the FY 2020/21 and **Kshs. 26,981,571.60** for the FY 2021/2022

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Surplus Remission has been computed as follows:

	2021/2022	2020/2021
	Kshs	Kshs
Surplus for the period	55,273,430.00	22,988,966.00
Less: Allowable deductions by NT	(28,655,446.00)	(3,302,589.00)
Net eligible for remission	26,617,984.00	19,686,377.00
90% Computation (Included in Statement of Financial Performance) NB: we had remitted Kshs. 26,981,571.60 for the 2021/22 (based on the draft FS)	23,956,185.60	17,717,739.30

Surplus Remission Payable

	2021/2022	2020/2021
	Kshs	Kshs
Payable at the beginning of the year (20/21)	17,717,739.30	xxx
Charge for the year (21/22) based on 1 st draft of the FS 2021/22	26,981,571.60	
Paid during the year	nil	(xxx)
Payable at end of the year	44,699,310.90	xxx

32. Financial Risk Management

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

a) Liquidity risk management

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Description	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
As at 30 June 2022				
Provisions	-	464,000	464,464	928,464
Employee benefit obligation	-	-	5,779,336	5,779,336
Total	-	464,000	6,243,800	6,707,800
As at 30 June 2021				
Provisions	-	464,000	1,392,464	1,856,464
Employee benefit obligation	-	-	3,426,610	3,426,610
Total	-	464,000	4,819,074	5,283,074

b) Capital Risk Management

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

Description	2021/2022 Kshs	2020/2021 Kshs
Revaluation reserve	2,460,000	3,630,000
Retained earnings	241,384,969	213,095,818
Capital reserve	36,487,577	36,487,577
Total funds	280,332,546	253,213,395
Total borrowings	290,271,104	185,295,226
Less: cash and bank balances	475,042,650	292,347,338
Net debt/(excess cash and cash equivalents)	(184,771,546)	(107,052,112)
Gearing	66.1%	42.3%

APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No of the external audit report	Issue/observation from the auditor	Management comments	Status (resolved /not resolved)	Timeframe
1	<p>Incomplete Property, Plant and Equipment</p> <p>The statement of financial position reflects property, plant and equipment balance of Kshs.10,751, 169 as disclosed in Note 20. A review of the Board's assets established that, the Board had operationalized five (SAP, EDMS, SMART HRS, WASREB leave system & Maji Data) software in various aspects of its operations. The fair values of these software had not been recognized as Intangible Assets in line with paragraph 43 and 74 of International Public Sector Accounting Standards Board (IPSAS) 31. Further, tangible assets at a cost of Kshs.4,272,260 are included under computers and equipment asset class and not as an intangible asset in line with the provisions of IPSAS 31. Under these circumstances, it was not possible to ascertain the accuracy and completeness of the Board's assets amounting to Kshs.10,751, 169</p>	<p>The listed software is third party owned and we pay their annual maintenance/license costs.</p> <p>The board will endeavour to record and disclose any new and owned software as intangible asset accordingly in the financial statement.</p>	Resolved	
2	<p>Inconsistencies on Basis of Recognition of Receivables from Non-Exchange Transactions</p> <p>The Board adopted revenue recognition criteria where revenue from levies, penalties and fees are recognized when they are received as disclosed in Note 4(a) of summary of significant accounting policies. However, the adoption of this revenue recognition criteria, contradicts clause 11(2) of the licensing guidelines for Water Service Providers (WSPs) which postulates that the license fees to be paid under this license is a one-off license fee of 0.1% of last audited turnover to be paid with issuance of license and a license operation fee of 4% to be paid by the 15th day of each month, which makes revenue recognizable at this point based on the asset recognition criteria issued under IPSAS 23. This inconsistency in adoption of</p>	<p>The board changed its receivables policy in the FY 2019/2020 during which some of the receivables had been recognized under income from non-exchange transactions and reflected in the Statement of Changes in Net assets. Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or</p>	Resolved	

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Reference No of the external audit report	Issue/observation from the auditor	Management comments	Status (resolved /not resolved)	Timeframe
	<p>IPSAS 23 has led to the non-recognition of significant debt obligations owed to the Board by various (WSPs). Consequently, the accuracy and completeness of Kshs.42, 155,677 reported as trade debtors in the financial statements.</p>	<p>gives value to another entity without directly receiving approximately equal value in exchange. An entity will recognize an asset arising from a non-exchange transaction when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset shall be recognized as an asset when, and only when: (a) It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and (b) The fair value of the asset can be measured reliably. Therefore, the board only gain control of the asset when we receive it from wsp. The Board is still in a transition period absorbing the already recognized receivables until they are fully utilized.</p>		
3	<p>Unsupported Board Expenses</p> <p>The statement of financial performance reflects board expenses of Kshs.17,752,058 and as disclosed in Note 13. However, supporting evidence in the form of evidence of travel, mileage claims, attendance registers and/ or journal adjusting vouchers for expenditure amounting to Kshs.12,104,936 was not provided for audit.</p>	<p>The Board expenses have been fully supported and the personal log books, attendance registers and basis of payment of mileage claims is available for your audit verification.</p> <p>The journal entries relating to board expenses adjustments are</p>	Resolved	

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Reference No of the external audit report	Issue/observation from the auditor	Management comments	Status (resolved /not resolved)	Timeframe
	<p>The Management also failed to avail the circulated notice and attendance register for a virtual full board meeting held on the 10 July, 2020 and for which allowances amounting to Kshs.236,574 were paid out under payment voucher number 008 contrary to Regulation 104 of the Public Finance Management (National Government) Regulations, 2015</p> <p>Consequently, the accuracy and completeness of the expenditure of Kshs.12,104,936 could not be confirmed. During the year under review. However, the funds were not included in the board's final approved budget. Further, there was no evidence that the cabinet secretary, the national treasury was informed of this budgetary change, arising from the additional revenue, contrary to provisions of section 47(1) of the public finance management (National government) regulations, 2015 which require such disclosure.</p> <p>The management was in breach of the regulations.</p>	<p>available for audit verification and review. The invitation for the 98th online Board meeting was done via zoom and the links were circulated to each member for purposes of attendance.</p> <p>We also attach minutes of the 98th Board meeting for regarding payment voucher no. 008 for your reference.</p>		
4	<p>Unsupported Motor Vehicles Maintenance, Fuel and Oil Expenses</p> <p>The statement of financial performance reflects use of goods and services expenditure of Kshs.57,781,922. Included and as disclosed in Note 14. Included in this expenditure is repairs and maintenance of motor vehicles expenditure of Kshs.3,062, 198, out of which, the Management failed to adequately support an expenditure of Kshs.995,913 with respective invoices, inspection reports and receipts. To that, the Board operates without an approved Transport Policy and motor vehicle logbooks (GP.55) contrary to its Human Resource Policies and Procedures Manual 2020.</p> <p>Consequently, the accuracy and completeness of the expenditure on repairs and maintenance of motor vehicles</p>	<p>The motor vehicle repairs were inspected and GP55 log books were duly filled and are hereby available for your reference.</p>	Resolved	

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Reference No of the external audit report	Issue/observation from the auditor	Management comments	Status (resolved /not resolved)	Timeframe
	amounting to Kshs.995,913 could not be confirmed.			
5	<p>Unsupported journal entries</p> <p>A review of the books of accounts presented for audit revealed that journal entries made in the system with a net effect of Kshs.16,678,823 and credit memos amounting to Kshs.4,246, 163 were passed in the books of accounts in the year under review in various accounts. However, journal adjusting vouchers supporting these transactions were not availed for audit. This is contrary to provisions of Regulation 103 of the Public Finance Management (National Government) Regulations of 2015(1) Journal entries prepared for all adjustments shall be authorized by the accounting officer or an officer designated by him or her before posting them in a financial record.</p> <p>Consequently, the accuracy and completeness of the journal entries could not be confirmed.</p>	<p>The journal entries (appearing in the system as credit memos) entries correcting payment voucher entries wrongly posted in SAP system and operate under the double-entry system.</p> <p>All these adjustments were taken through authorization as required.</p>	Resolved	
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES				
1.	<p>Exclusion of Notes to the Financial Statements</p> <p>The Management failed to make key disclosures on credit risk, capital commitments and surplus remission by way of Notes to financial statements as required by the Annual Financial Reporting Template of 30th June 2021.</p>	The management made applicable key disclosures in the financial statements relating to credit risk (note 30) and surplus remission disclosure on (pages xxx and 13).	Resolved	
2.	<p>Budget Over-Expenditure</p> <p>The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.230,436,678. and Kshs.243,337,477 respectively resulting to an over-funding - funding of Kshs.12,900,799 of the budget.</p> <p>Similarly, the Board spent a total of Kshs.221,563,726 against an approved</p>	The board will endeavour to operate within the approved budget. The Expenditure were all incurred for the purposes for which they were intended. The variances were caused by market price changes due to inflations for some goods and services from what	Resolved	

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Reference No of the external audit report	Issue/observation from the auditor	Management comments	Status (resolved /not resolved)	Timeframe
	budget of Kshs.210,000,000 resulting to an over -expenditure of Kshs.10,348,511 or 5. % of the budget. This is contrary to the provisions of Regulation 43(b) of the Public Finance Management (National Government) Regulations of 2015 which states that the Accounting Officers shall ensure that public funds entrusted to their care are properly safeguarded and are applied for purposes for only which they were intended and appropriated by the National Assembly.	had been planned and therefore incurred in line with Regulation 43(b).		
3.	Enforcement of Collection of Regulatory Levy Review of the regulatory revenue revealed that only two of forty-seven (47) of the Water Service Providers are compliant with the requirement of remitting a License operation fee of 4% by the 15th day of each month to the regulator. This precludes that the Board lost revenue realizable from regulatory levy due to non-compliance of Water Service Providers to the licensing conditions and prevailing service level agreements. In the absence of enforcement of these licensing conditions, the Board is held in breach of its statutory obligation as provided under Section 72(1) (d) of Water Act (2016).	The board will strive to collect regulatory levies from the water service providers to ensure that the board has enough resources to execute its mandate. Monitoring and Enforcement mechanisms has been applied for non-compliant water companies and to ensure compliance of levy payments.	Resolved	
4.	Outstanding Imprest A review of the system generated data revealed that a balance of Kshs.25,427,998.80 remained outstanding under the Imprest\ Advance Control Account (3242000) contrary to provisions of Paragraph 3.2 of National Treasury Circular No. AG.3/88No1.7(16) of 07th May 2021 and for which the Board risks being held in breach. 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	The board will endeavour to comply with the regulation 93(5) of the PFM Act 2015 by ensuring that imprests are accounted for within 7 days after return to duty station. posting relating to imprest/ advance control account has since been posted and completed and regularized in the system accordingly.	Resolved	

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Reference No of the external audit report	Issue/observation from the auditor	Management comments	Status (resolved /not resolved)	Timeframe
	govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.			
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE				
1.	<p>Non-preparation of Receipt Vouchers for entity receipts</p> <p>The Management made postings of entity receipts into the general ledger without preparation of pre-numbered receipt vouchers in the year under review and no such voucher(s) in whatever form were presented for audit review.</p> <p>By not conforming to requirements of preparation of receipt vouchers, the board risks being held in contravention of Regulation 104 of the Public Finance Management (National Government) Regulations of 2015 104. (1) which states that All receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation. Consequently, the mitigating risks associated with collection and banking of all receipts could not be confirmed.</p>	<p>All incomes are received and posted directly into the SAP system which automatically generates receipt vouchers and the SAP system has pre numbered receipts vouchers for the levies collected in the year.</p> <p>Print out from the system are available for your audit verifications.</p>	Resolved	
2.	<p>Incomplete Register of Non-Current Assets</p> <p>The Board did not maintain a Register of Non-Current Assets in the form prescribed under Appendix 6 of the Guidelines on Asset and Liability Management in the Public Sector of July 2020 as it did not maintain a separate folios for each class of assets and also failed to capture the details of the Financier/ source of funds, Serial number, Tag numbers, Make & Model of motor vehicles , Date of Delivery I installation, Payment Voucher number, Original Location, Current Location, Replacement Date (if applicable), Date of disposal, Disposal value, Responsible officer, Asset condition, and any other relevant Notes.</p>	<p>The board has maintained the asset register as per the guidelines on asset and liability management in the public service of July 2020.</p> <p>The updated register is available for audit verification.</p>	Resolved	

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

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

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APPENDIX III: INTER-ENTITY TRANSFERS

ENTITY NAME:		WATER SERVICES REGULATORY BOARD		
BREAK DOWN OF TRANSFERS FROM THE MINISTRY OF WATER & SANITATION				
		Bank Statement Date	2021/2022	2020/2021
			Kshs	Kshs
Ministry of Water and Sanitation			21,725,852	
		Total		
Water Sanitation Development Project				-
UNICEF		19-04-2022	3,431,960	7,020,800
		Total		8,080,800