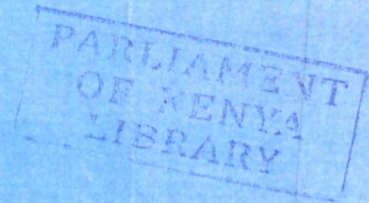



REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 30 JUN 2020	DAY: TUESDAY
REPORT BY: <i>Mr. Amos Kimani</i>	<i>LOM.</i>
CLERK-AT THE-TABLE:	<i>Noah Tod.</i>

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
NATIONAL WATER CONSERVATION AND
PIPELINE CORPORATION (NWCPC)

FOR THE YEAR ENDED
30 JUNE 2017





NATIONAL WATER CONSERVATION AND PIPELINE CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30th June 2017.

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

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KEY INFORMATION AND MANAGEMENT

Background information

National Water Conservation & Pipeline Corporation is a State Corporation established under the State Corporations Act vide Legal Notice No. 270 of 24th June 1988 Cap 446 of the Laws of Kenya. Following the implementation of the Water Act 2002, the Corporation, which was previously retailing water in several water supplies across the country, is today the Implementation Arm of the Ministry of Water & Irrigation.

Principal Activities

The core mandate of the corporation is to;

- Develop state schemes and spearhead dam construction for water supplies, flood control and other multi-purpose uses, land drainage and construction of dykes.
- Carry out ground water recharge using flood water.
- Develop, retain existing and expand bulk water supply to water service boards and other water services providers.
- Drill and equip boreholes

Key Management

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

- ❖ Managing Director;
- ❖ General Manager Construction & Electromechanical;
- ❖ General Manager Finance;
- ❖ General Manager Planning & Design;
- ❖ General Manager Legal Services;
- ❖ General Manager Human Resource & Administration;
- ❖ Chief Procurement Officer; and
- ❖ Chief Internal Auditor

Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2016 and who had direct fiduciary responsibility were:

- | | |
|---|---------------------------------|
| ❖ Ag. Managing Director; | - Dr. (Eng.) Ibrahim Ali Hassan |
| ❖ General Manager Construction & Electromechanical; | - Eng. David Gitau |
| ❖ Ag. General Manager Finance; | - Job Kiprotich |
| ❖ General Manager Planning & Design; | - Eng. Joseph Muchiri |
| ❖ General Manager Corporate & Legal Services; | - Joyce Ronoh |
| ❖ Ag. General Manager Human Resource & Administration | - Joseph Ojiambo |
| ❖ Ag. Chief Procurement Officer; | - Lawrence Mutembei |
| ❖ Chief Internal Auditor | - CPA Adano S. Kadubo |

Fiduciary Oversight Arrangements

Committees of the Board

Human Resource & General Purposes Committee

The Committee comprises of four non-executive directors (one of them as Chairman) and the Managing Director as the Secretary.

The Board of Directors of the National Water Conservation and Pipeline Corporation has established the Human Resources and General Purposes Committee to review, and as appropriate, act on behalf of the Board, or make recommendations to the Board concerning staff, corporate communication, corporate social responsibility and legal issues.

The Committee has the following duties and responsibilities as directed by the Board:

- a) Human Resource Planning by ensuring there is a staff establishment; the right number and quality of staff with relevant skills; and succession planning
- b) Development of the Corporation's Organizational Structure
- c) Recruitment and selection and retention of staff with the relevant skills
- d) Training and development of employees to improve organizational productivity
- e) Ensure that the employees are rewarded through an Employee Merit Reward System and that the employees' salaries are constantly reviewed and they are provided with better incentives and benefits

- f) Ensure that there are disciplinary and grievance-handling procedures in place outlining how they are administered
- g) General Staff Welfare – Ensure that the employees have conducive work environment, health and safety
- h) Review and approve terms and conditions of service for Corporation employees;
- i) Handle policy issues on Human Resource and Administration; and performance management
- j) Oversee the implementation of change process plans in the organization;
- k) Ensure compliance with the State Corporations Act Cap. 446, Water Act of 2002, provisions of the Legal Notice No 270 of 1998 and any written law
- l) Interpret regulations that may be issued from time to time by the Ministry of Water and Irrigation and the Government;
- m) Handle policy issues on Corporate communications and corporate social responsibility
- n) Review all litigation matters.
- o) Promote effective communication within and with all stakeholders.

The Committee meets on quarterly or need basis.

Finance Committee

The Committee comprises of four non-executive directors (one of them as Chairman) and the Managing Director as the Secretary.

The Committee has the following duties and responsibilities as directed by the Board:

- a) Develop, review and monitor implementation of the resource mobilization strategy of the Corporation
- b) Review and make recommendations to the Board of Directors regarding the Corporation's annual financial plans;
- c) Review the financial condition of the Corporation and its requirements for funds.
- d) Review and make recommendations to the Board of Directors regarding any proposed capital project which is required to be approved by the Board of Directors;
- e) Review and make recommendations to the Board where appropriate regarding Corporation's financial and risk management policies and practices, including cash investment policies; debt limitations; annual and longer-term operating plans; long-

term capital expenditure projects; financing plans; and other financial transactions or issues that management desires to have reviewed by the Committee;

Governance, Risk & Audit Committee

This Committee comprises of four non-executive directors (one of them as Chairman) excluding the Managing Director and the secretary is the Chief Internal Auditor

The Board of Directors of the National Water Conservation and Pipeline Corporation has established the Risk & Audit Committee to discharge duties related to safeguarding the Corporation's assets; operation of adequate systems; control processes and preparation of accurate financial reporting and statements in compliance with legal requirements and accounting standards

The Committee shall have the following duties and responsibilities, as well as such other duties and responsibilities as it deems appropriate to carry out its purposes or as directed by the Board:

- a) Deal with appointment and termination of the Chief Internal Auditor. The Committee shall recommend this to the Board of Directors for approval.
- b) Discuss problems and reservation arising from the final audits, and any matter the external auditor may wish to discuss (in the absence of management where necessary)
- c) Review the external auditor's report(s) to the Management and Management's response.
- d) Consider the major findings in internal investigations and Management's response.
- e) Have explicit authority to investigate any matter within its terms of reference, the resources that it needs to do so and full access to information,
- f) Obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary;
- g) Consider other topics as defined by the Board including regular review of the capacity of the internal audit function; and
- h) The Committee must ensure that all legal provisions are followed. In addition to the various statutes that apply to the corporation's operations, these should include:
 - Code of conduct
 - Water Act 2002

- The Government's Rules and Regulations
 - State Corporations Act
 - Policies, Rules and Regulations established by the Board
- i) Establish an internal audit function and the Risk & Audit Committee's function in relation to Internal Audit functions, to include:
- Review of the adequacy, scope, functions and resources of the Internal Audit function and ensure that it has the necessary authority to carry out its work.
 - Review the Internal Audit Program and results of the Internal Audit process and, where necessary ensure that appropriate actions are taken on the recommendations of the Internal Audit function.
 - Review any appraisal or assessment of the performance of members of the Internal Audit function.
 - Approve any appointment or termination of senior staff members of the Internal Audit function.
 - Ensure that the Internal Audit function is independent of the activities of the Corporation and is performed with impartiality, proficiency and due professional care.

Strategy, Technical & Business Committee

The Committee comprises of five non-executive directors (one of them as Chairman) and the Managing Director as the Secretary.

The Board of Directors of the National Water Conservation and Pipeline Corporation has established the Strategy, Technical and Business Development Committee to review, and as appropriate, act on behalf of the Board, or make recommendations to the Board concerning planning, strategy, technical, ICT and business development issues.

The Committee has the following duties and responsibilities, as directed by the Board:

- a) Review strategies, plans and service charters for attaining the Corporation's Service Delivery Objectives.
- b) Give policy direction in the development of the Corporation's Strategic Plan/ Business Plan and monitoring its implementation
- c) Review ISO certification procedures manuals

- d) Give policy direction in development of pro-poor approaches and community involvement in projects
- e) Approval of project work plans and Performance Contract targets
- f) Approve the Quarterly Performance Contract Progress Reports.
- g) Review proposals and plans for infrastructure development and improvement.
- h) Consider, evaluate and review progress of implementation for infrastructure development programs.
- i) Consider, evaluate and review performance of outsourced works
- j) Consider and evaluate the use of new and appropriate technologies in provision of water storage facilities
- k) Ensure compliance by the Corporation with statutory regulations relating to the Environment and Water Resources Management
- l) Review and give policy direction on proposals for gazettelement and implementation of state schemes
- m) To receive, examine and approve implementation of new/proposed projects as well as reports on the applications of new technologies.
- n) Where necessary on sample basis visit projects under implementation to access progress and recommend the way forward or any action plans.
- o) To receive deliberate on and give guidance on policy matters with respect to progress reports on the on-going projects;
- p) To discuss any other relevant matters that pertains to the technical operations of the company.
- q) To discuss any other business arising from the Strategy, Technical and Business Development committee.

Headquarters

P.O. Box 30173
GPO 00100
Dunga road, Industrial Area
Nairobi, Kenya.

Contacts

Telephone: (254) 020 65310, (020) 556600/1
Hotline: (254) 020 6531047
Fax: +254 020 531049
E-mail: info@nwpcp.go.ke
Website: www.nwpcp.go.ke

Bankers

Kenya Commercial Bank Ltd
KCB Moi Avenue
Account Numbers (1114280593, 1114280488, 1114279978, 1114279889, 1124316329)
P. O. Box 30081
GPO 00100
Nairobi, Kenya

Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GPO 00100
Nairobi, Kenya

Principal Legal Adviser

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

THE BOARD OF DIRECTORS



Chairman
Hon. Julius Kones
Re-appointed on 9th
March 2016

Personal Information:

Born 1972

Academic Qualifications:

PhD in Mathematics
Master and Bachelor of Science degrees in Mathematics and Statistics

Work Experience:

The former statistics lecturer at the University of Nairobi is the immediate former MP for Konoin Constituency in Bomet County.



Director
Walubengo Waningilo
Appointed on 26th April
2015

Personal Information:

Born: 1965

Academic Qualifications:

MA
BA (Hons)
LLB (Hons)
Post Graduate Diploma (KSL)

Work Experience:

Worked at National Hospital Insurance Funds for 15 years in Operations and prosecutions.

He is also a practicing advocate.



Director
Ms. Halima Kiniti
Appointed on 26th
April 2015

Personal Information:

Born 1965

Academic Qualifications:

Customer Service Training
Institutional Management Certificate

Work Experience:

Ms. Halima is a leading business woman and entrepreneur. For the last seven years she has run an infrastructure construction company that has successfully built and rehabilitated road infrastructure across Kenya.

Prior to this, she had worked for sixteen years in the hospitality industry with global brands like Diners club and Hilton Hotels as well as leading blue chips companies like Kenya Airways offering extensive skills in hospitality and natural affinity for superior customer care.

Ms. Halima is also the founder of a children's home providing food, shelter and education to disadvantaged children. Together with her family, she has also endowed a scholarship fund that pays tuition for orphaned primary and high school children who have demonstrated academic excellence, inspiring moments of optimism and an opportunity for academic and personal growth.



Director
Moses J.K. Ndwiga
Appointed on 26th April
2015

Personal Information:

Born: 1952

Academic Qualifications:

Bachelor of Education Science (University of Nairobi)

Work Experience:

Mr. Ndwiga has vast experience in the Education Sector having previously worked through the ranks to Senior Principal Teacher in various institutions including Siakago High School, Kegonge High School, Kiangugi High School and Kithegi Secondary School.



Director
John Kangogo
Appointed on 26th
April 2015

Personal Information:

Born : 1960

Academic Qualifications:

Bachelors of Arts in Leadership and Management
Diploma in Real Estate and Estates Management
Diploma in Criminology
Ministry of Finance Customs Training certificate

Work Experience:

Mr. Kangogo worked with the Elgeyo/Marakwet county council before moving to the National Irrigation Board. Later he moved to Ministry of Finance at the Customs Department.

He founded Cornerstone Security Services Ltd, Flagon Ltd and North Rift Wood & Timber Company Ltd where he serves the positions of Executive Chairman and Executive Director respectively.

Personal Information:



Director
**Eng. Vincent Sidai
Esyepet**
Appointed on 26th
April 2015

Born: 1974

Academic Qualifications:

M.A Project Planning & Management UoN
BSc (Hons) degree in Civil Engineering - JKUAT
Post Graduate in Program for Management Development –
Strathmore/GIBS
Diploma in Advanced Concrete Technology – Institute of Concrete
Tech. UK
Certificate in Concrete Technology – Cement & Concrete Institute
Certificate in Corporate Governance – Centre for Corporate
Governance

He is a Registered Engineer, Engineers Registration Board,
Corporate Member, Institution of Engineers of Kenya and Member
Institute of Concrete Technology - UK

Work Experience:

Eng Sidai has over sixteen years of progressive experience in the construction industry, business management, and logistical management and people skills gained through working with various organizations. He has held increasingly responsible positions both in the private sector and corporate world both locally and internationally working in Countries such as Kenya, Uganda, Tanzania, Madagascar, South Africa, Egypt, Malawi, Zambia, France, South Sudan.



Director
Mrs. Alome Achayo
Appointed on 26th
April 2015

Personal Information:

Born: 1968

Academic Qualifications:

PhD – Strategic Management (Pursuing)
Masters in Business Administration – Finance/Management
Bachelor of Science - Microbiology

Work Experience:

Ms. Achayo has over 15 years combined senior and middle level management experience acquired through working in various capacities in various institutions. She has previously headed Mombasa Water supply and Sanitation co. Ltd, as the managing director. Worked as a general manager in E & A industries Ltd among others. She also worked as General Manager Business Development at Agricultural Finance Corporation (AFC). Prior to that she worked as product manager in various international pharmaceutical firms.

Personal Information:

Born: 1972

Academic Qualifications:

Bachelor of Commerce Degree (Finance Option)
Certified Public Accountant (Kenya)
Member of the Institute of Certified Public Accountants of Kenya (ICPAK)

Work Experience:

CPA Malombe has vast experience in Finance matters and works at the National Treasury.



Director
**CPA. Geoffrey
Malombe**
*Alternate to Principal
Secretary National
Treasury*



Director
Eng. Lawrence Simitu
Director of Water Services

Personal Information:

Born: 1965

Academic Qualifications:

BSc in Civil Engineering (UoN)
MSc in Civil Engineering (UoN)

Work Experience:

He is currently the Director of Water Services in the Ministry of Water & Irrigation.

He has over 20 years' experience in the Water Sector.



Director
Ms Margaret Ratemo
Representing the Inspector of State Corporation

Personal Information:

Born: 1972

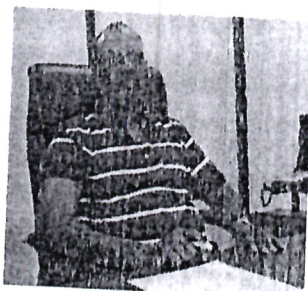
Academic Qualifications:

Bachelor of Education(UON)
Master of Arts(UON)

Work Experience:

She is currently the Director Human Resource Management and Development in the public service. She has served as a GOK Director in many reputable government institutions for over 14years.

MANAGEMENT TEAM



Ag. Managing Director
Dr (Eng.) Ali Hassan

Personal Information:

Born: 1965

Academic Qualifications:

PHD in Project management
MSc in Project Management
Master's in Business Administration
BSc Civil Engineering
Diploma in Irrigation Engineering
Certificate in Strategic Leadership Development
Certificate in Corporate Governance
Member of the institute of engineers of Kenya(MIEK)

Work Experience:

He has 28years work experience in various ministries such as Roads, Public works and agriculture.



Ag. General Manager,
Human Resource &
Administration.
Joseph Ojiambo

Personal Information:

Born: 1972

Academic Qualifications:

MBA in Human Resources Management-(UON)
BA(Hons) in sociology & economics-(UON)
Post Graduate Diploma in Human Resources management-(KIM)
CPS(K)
Human Resource and Development Course,-ESAMI

Work Experience:

He has More than 15 years' experience in the public and private sector in the areas of corporate governance, Human Resource management and Administration.



Ag. General Manager,
Construction &
Electro-Mechanical.

Eng. David Gitau

Personal Information:

Born: 1972

Academic Qualifications:

BSC Civil Engineering

Work Experience:

He has over 18 years working experience in design of water infrastructure, buildings, road works and contract management.



Ag. General Manager,
Finance and Corporate
Planning
Job Kiprotich

Personal Information:

Born: 1969

Academic Qualifications:

MBA Esami/Maastricht
BA Economics-(UON)

Work Experience:

He has 20years experience in project planning management, project feasibility studies, budget forecasting, Financial reporting, Environmental impact assessment, and Socio-economic analysis.



General Manager,
Planning & Design.
Eng. Joseph Muchiri

Personal Information:

Born: 1964

Academic Qualifications:

MBA-JKUAT
BSc (Civil Engineering)-UON
Diploma in business management
Strategic leadership development programme

Work Experience:

He has 22 years of experience in design of water projects (Ministry of water), Operation and Maintenance(DWE) and Project management(WUAS)



Ag. Chief Procurement
Officer.
Lawrence Mutembei

Personal Information:

Born: 1968

Academic Qualifications:

BA (ECON)
Diploma in procurement
Diploma in Business Administration

Work Experience:

He has worked as a procurement officer at the ministry of transport, Meteorological Department, District procurement officer and the Judiciary as the head of procurement.

Personal Information:



Chief Internal Auditor.
**CPA. Adano S
Kadubo**

Born: 1972

Academic Qualifications:

MBA- Finance

BCom – Accounting

CPAK

PhD Business Admin- Finance and CIA

Work Experience:

CPA Adano has over 20 years expansive working experience in both private and public sector including general banking, Credit Management, Finance and Auditing & Risk management. CPA Adano is also a member of the Institute of Certified Public Accountant of Kenya and Institute of Internal Auditors. CPA Adano joined National Water Conservation and Pipeline Corporation in the year 2016.

CHAIRMAN'S STATEMENT

The Constitution of Kenya guarantees every citizen the right to clean and safe water in adequate quantities. This right comes at the back drop of a nation which is water scarce.

National Water Conservation and Pipeline Corporation which was formed in 1988 has over the years tried to stand in the gap by developing water infrastructure such as dams, pans and boreholes while at the same time mitigating the effects of floods by building dykes amongst other things.

To achieve its mandate, the Corporation has fully embraced performance contracting which involves freely negotiated arrangements between the Board of Directors which I chair and the Government of the Republic of Kenya on Service delivery. The same performance Contract is cascaded to management whereby the Managing Director signed a contract with the Board and in turn signed similar contracts with the Heads of Departments. The Heads of Department on their part signed similar contracts with Divisional Heads.

The Performance Contracts have been useful tools to set targets and monitor performance of the Corporation's activities. In the last financial year, the Corporation performed well and met targets on most of the performance indicators.

The Corporation is fully committed to its vision of becoming a world class institution in water infrastructure development and management. By engaging with County Governments, the Corporation will endeavour to increase the storage capacity of water especially in the arid and semi-arid areas of the county with a view of enhancing water security nationally and mitigate against the effects of floods and drought in vulnerable areas.

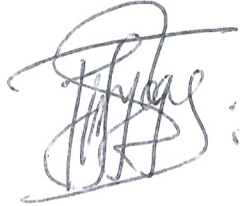
My Board will continue to engage with Government, the public and other stakeholders to rebrand the Corporation and make it relevant under the Water Act 2016 and the new constitution dispensation of devolution.

As a Corporation we will continue to aspire to excel as envisioned in our vision statement of world class institution in water infrastructure development and management. Prudent performance management and quality service delivery will be echeloned at all levels in the

Corporation. Further to this and as a public organization, the Board's decisions are guided by the core principles prescribed in the Public Officers Ethics Act and internal code of conduct.

In conclusion, I wish to state that the organization is ready to face the future and that the activities captured in this Annual Report and Financial statements represent the true status of the Corporation.

Hon. Dr. Julius Kones
Chairman of the Board



Date: 2/8/2018

REPORT OF THE CHIEF EXECUTIVE OFFICER

I am pleased to present the Financial Statements of the Corporation for the period 2016-2017. During the year the institution depicted good financial health despite operating in a very challenging environment.

The Corporation faced budget constraints as it did not secure full funding from the Government as expected. Nonetheless, we managed to surmount the challenges to meet the annual targets.

In line with Vision 2030, the Corporation finalized the construction of continued to oversee construction of multi-billion large reservoirs namely, Kiserian Dam, Chemususu Dam, Kalundu Dam, Muruny (Siyoi) Dam Water Supply Project, Umaa Dam and Badasa Dam. The first three are complete and will soon be handed over to respective Water Services Boards. A number of dams were planned for the year namely; Rare, Londiani, Isiolo, Rumuruti, Upper Narok and Koru. The Corporation continued with the construction works on the Siyoi-Muruny dam whose completion rate was measured at 38%. The dams form bulk of the operating expenses of the Corporation in line with its mandate.

Besides these dams, the Corporation undertook flood control works across the country including along River Kuja, River Nzoia, River Nyando, River Tende, River Sabwani, and River Kawalase.

The Corporation has finalized the upgrade of the Enterprise Resource Planning (ERP) accounting system to enhance integration of the Corporation's operations. This will ultimately aid in the integration with the E-Procurement portal. With this system the Corporation will be able to increase its efficiency and accountability.

The Corporation continued to operate within the strategic plan 2015-2020 to guide the roadmap for the next five (5) years. This will be used to prepare for the transformation as we await the new proposed water bill which is expected to give us new responsibility as National Water Harvesting and Storage Authority (NWHSA).

Human Resources remain the greatest asset of the Corporation. In order to fully harness this important resource, the Institution organized and managed to send a number of Directors and

h) Ensure that all significant systems and procedures are in place for the organization to run effectively, efficiently, and meet all legal, administrative, professional and contractual requirements

Committees of the Board

- Human Resource & General Purposes Committee
- Finance Committee
- Governance, Risk & Audit Committee
- Strategy, Technical & Business Committee

In summary the Board activities are as summarized below:

NO	NAME	NO OF MEETINGS	MEMBERSHIP	AVERAGE ATTENDANCE%
1	FULL BOARD	10	5	95
2	FINANCE COMMITTEE MEETING	9	5	98
3	HUMAN RESOURCE & GENERAL PURPOSE COMMITTEE MEETING	8	5	97
4	GOVERNANCE, RISK & AUDIT MEETING	9	5	98
5	STRATEGY, TECHNICAL BUSINESS COMMITTEE MEETING	5	5	98
6	ADHOC MEETINGS & TRAVELS	29	4	100
		70		

Risk Management and Internal Controls

The Corporation has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for all transactions and for ensuring compliance with the laws and regulations that have significant financial implications. In reviewing the effectiveness of the internal control system, the Board takes into account the results of work carried out to audit and review the activities of the Corporation.

The Board also considers the management accounts for year, reports from each Board Committee, annual budgetary proposals, major issues and strategic opportunities for the Commission. As an integral strategy in achieving its corporate goals, the Board ensures the future sustainability of the commission.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2017 which show the state of the Corporation's affairs.

Principal activities

The principal activities of the Corporation are to:

- Develop state schemes and spearhead dam construction for water supplies, flood control and other multi-purpose uses, land drainage and construction of dykes.
- Carry out ground water recharge using flood water.
- Develop, retain existing and expand bulk water supply to water service boards and other water services providers.
- Drill and equip boreholes

Results

The results of the Corporation for the year ended June 30, 2017 are set out on page 20-35

Directors

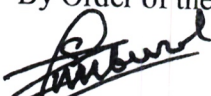
The members of the Board of Directors who served during the year are shown on page iv – vii. The directors are appointed by the Cabinet Secretary in charge of Ministry of Environment Water & Natural Resources on three year terms while the Chairman is appointed by The President of the Republic of Kenya through a gazette notice.

Auditors

The Auditor General is responsible for the statutory audit of the Corporation in accordance with the Section 81 of the Public Finance Management (PFM) Act, 2012.

The Auditor General carried out the audit of the Corporation for the year ended June 30, 2017.

By Order of the Board



Eng. Sammy M. Mburu
Ag. Managing Director

Date: 2nd Aug. 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

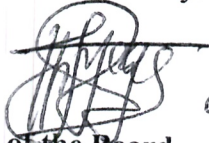
The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year (period) ended on June 30, 2017. This responsibility includes: (i) maintaining 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 Corporation; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with The Accrual Basis of Accounting method under the International Public Accounting Sector Standards (IPSAS) and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended June 30, 2017, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation'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 the Corporation 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 Corporation's financial statements were approved by the Board on 28th September, 2017 and signed on its behalf by:



Chairman of the Board

Date..... 2/8/2018

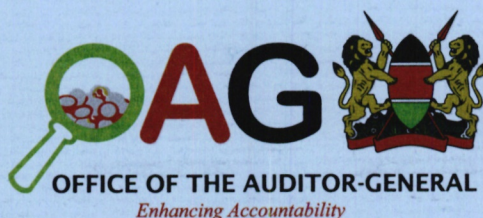


Ag. Managing Director

Date..... 2nd Aug. 2018.

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON NATIONAL WATER CONSERVATION AND PIPELINE CORPORATION (NWPC) FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Water Conservation and Pipeline Corporation set out on pages 1 to 32, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, 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. 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, because of the significance of the matters described in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of National Water Conservation and Pipeline Corporation as at 30 June 2017, 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 do not comply with the Water Act, 2002 (revised 2012) and the State Corporations Act, Cap 446 of the laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, based on the Basis for Adverse Opinion and Other Matter described in this report, public money may not have been applied lawfully and effectively.

Basis for Adverse Opinion

1. Financial Statements - Presentation and Disclosure

The financial statements have not been prepared to comply with the guidelines and reporting template provided by the Public Sector Accounting Standards Board. The management discussion and analysis report was not included; Corporate Social Responsibility statement was not included; the types of bank accounts have not been disclosed; the financial statements have not been owned by the head of finance (General Manager – Finance and Administration); there is no disclosure on the adoption or otherwise of new and revised standards; no note on taxation; related party disclosure is incomplete as the ministry has not been disclosed as a related party.

Further, the statement of financial performance reflects a deficit for the period of Kshs.(152,871,107) while the statement of comparison of budget and actual reflect a deficit of Kshs.154,084,490 resulting to unreconciled difference of Kshs.1,213,383.

Report of the Auditor-General on the Financial Statements of National Water Conservation and Pipeline Corporation (NWPC) for the year ended 30 June 2017

In view of the foregoing, it has not been possible to confirm the accuracy and completeness of the financial statement for the year ended 30 June 2017.

2. Property, Plant and Equipment

2.1 Transfers to Water Service Boards

As was previously reported, the property, plant and equipment balance of Kshs.744,807,630 as at 30 June 2017, excludes various assets valued at Kshs.16,781,832 earmarked for transfer to various Water Service Boards but not yet formalized. Although the Corporation confirmed that indeed the assets been transferred to the Boards, no formal documentation has been produced to support the transfer. Thus the property, plant and equipment are understated by the value of the excluded and transferred assets.

2.2 Fixed Assets Register

The Corporation's fixed assets register does not have details of assets including description of the asset; date of acquisition and cost; tag number, where applicable; class and category of asset; general and specific location; condition of the asset and documents of ownership where applicable. As a result, it was not possible to confirm the existence, location, cost and valuation of the assets reflected in the financial statements as at 30 June 2017.

Further, a report by M/s Elrons Ltd, the consultant who developed the fixed assets register, noted the following shortcomings and recommended action to be taken by the Corporation to update records but there is no evidence of action having been taken:

- a) Some assets were physically verified but not included in the fixed assets register
- b) A number of assets recorded were not found in particular places they were recorded to be.
- c) Some assets were verified but could not be traced to particular users/department
- d) Some assets were not tagged

In consequence, it has not been possible to confirm the accuracy and completeness of the property, plant and equipment balance of Kshs.744,807,630 as at 30 June 2017.

3. Capital Work in Progress

The Corporation awarded a contract for construction of its headquarters to a firm at a contract sum of Kshs.485,400,820. However, the firm abandoned the project after being paid a total of Kshs.80,660,480. The Corporation thereafter procured another firm for the same project and by the end of the financial year 2016/2017, a total of Kshs.835,771,287 had been incurred on the building, more than the original contract sum by Kshs.350,370,467 (approximately 72% more) and the building had not been completed. The Corporation has explained that the cost escalation was mainly as a result of change in prices between 2008 and 2011. This explanation has not been supported appropriately

with quantities and figures. Consequently, the true value of the building and whether public money has been utilized well could not be ascertained.

In the circumstances, it has not been possible to confirm the accuracy and completeness of work in progress balance of Kshs.17,155,197,005 as at 30 June 2017.

4. Inventories

Included in the inventory balance of Kshs.33,174,049 as at 30 June 2017, is obsolete stock valued at Kshs.6,714,110, occasioning an unnecessary loss of public funds. The financial statements also do not reflect the treatment of these stocks as obsolete thereby overstating the inventories figure as summarized below:

Stock	Unit	Value(Kshs)	Status
Cement	260 bags	187,200	obsolete
Pentonite	30	792,000	obsolete
Duten Blue paint	1257 litres	3,142,500	expired
Brilliant White paint	884 liters	2,404,480	expired
Red oxide paint	133 litres	160,930	expired
Auto paint 0.8 Ltrs	27 litres	27,000	expired
Grand Total		6,714,110	

Further, the method of valuation of the stock value reflected in the financial statements is not clear given the inclusion of the obsolete stock in the valuation.

Consequently, it has not been possible to confirm the accuracy and completeness of inventory balance of Kshs.33,174,049 as at 30 June 2017.

5. Un-vouched Expenditure

During the year under review, the Corporation spent Kshs.47,158,114 on rendering of service. However, payment vouchers amounting to Kshs.14,597,385 were not availed for audit review.

As a result, it was not possible to confirm the correctness and accuracy of rendering of service balance of Kshs.47,158,114 as at 30 June 2017.

6. Trade and Other Payables from Exchange Transaction

6.1 Long Period Outstanding Creditors

Trade and other payable from exchange transaction (note 21) analyzed in the schedule provided includes creditors who are a mixture of debit and credit balances resulting in the net amount of Kshs.484,070,555. This distorts the correct position of trade payables to the Corporation. Further, a net amount of Kshs.23,165,066.71 is reflected as outstanding for a period of over 60 days without explanation as to why they are still outstanding. Among these creditors are debit balance of Kshs.509,952,112.46 while those with credit balances amount to Ksh.486,787,045.64. The net effect is distorting the correct value of long period outstanding creditors.

6.2 Third Party Payments

Third party creditors amounting to Kshs.18,728,313.62 as per note 21, includes creditors outstanding from February 2018 to 30 June 2018 and which are amounts due to various institutions including Saccos. No reason has been provided for failure to remit these amounts.

In view of the foregoing, it has not been possible to confirm the accuracy and completeness of trade and other payables from exchange transaction balance of Kshs.844,798,061 as at 30 June 2017.

7 Trade and Other Payables from Non-Exchange Transaction

During the year under review, the trade and other payables from non-exchange transaction balance of staff Kshs.2,499,422 as at 30 June 2017, includes creditors outstanding for over 90 days which are a mixture of creditors with debit and credit balances. The amount is explained as monies payable to employees for services rendered including allowances for safaris. Among these are creditors with debit balances who are over 90 days old amounting to Kshs.1,423,375.60, while those with credit balances within the same period amounted to Kshs.1,656,002.50. The net effect is Kshs.232,627.

Consequently, it has not been possible to confirm the accuracy and completeness of trade and other payable balance of Kshs.2,499,422 as at 30 June 2017.

8 Deferred Income

The financial statements show that the deferred income for project funds is as follows;

No.	Details	Amount (Kshs.)
1	Balance brought forward	14,941,755,500
2	Grants received from GOK during the year	2,429,684,048
3	Small Dams expensed	(58,197,659)
	TOTAL	17,313,241,889

This total amount of Kshs.17,313,241,889 is the amount that was carried forward to be spent on projects during the following financial year. However, it was explained that this amount has already been spent on the projects and since the projects are not owned by the Corporation, the amount is populated as work in progress until a project is finalized and handed over to the user entity. The financial statements do not disclose this fact.

In the circumstances, it has not been possible to confirm the accuracy and completeness of deferred income balance of Kshs.17,313,241,889 as at 30 June 2017.

9 Cash and Cash Equivalents

Included in cash and cash equivalents balance of Kshs.187,472,477 as at 30 June 2017, is unposted items of Kshs.5,056,009 and Kshs.24,671,142 to Recurrent Account and Development Account respectively, which has not been explained.

Further, included in cash and cash equivalents balance of Kshs.187,472,477 is reconciling items of Kshs.1,958,998, Kshs.20,787,451 and Kshs.2,133,281 relating to Recurrent Account, Development Account and Special Account respectively dated 30 June 2006. Again, it has not been explained what the reconciling items represent.

Consequently, it has not been possible to confirm the accuracy and completeness of cash and cash equivalents balance of Kshs.187,472,477 as at 30 June 2017.

10 Employees Seconded from the Ministry of Water and Irrigation

As reported previously, the Corporation received 423 employees of various cadre seconded from the Ministry of Water and Irrigation in various core operations they include drilling, electro mechanical, land survey and water technicians. Although the management explained that the officers were seconded when the Ministry ceased to implement technical projects attached to the Water Service Board, it is not clear as to why the management has not absorbed them as they continue to draw their salaries from the Ministry.

Under the circumstances, it has not been possible to confirm the accuracy and completeness of employees cost of Kshs.299,907,819 as at 30 June 2017.

11 Receivables from Exchange Transactions

11.1 Water Service Board Debts

As similarly reported in previous years, the receivables from exchange transactions balance of Kshs.813,477,535 as at 30 June 2017 exclude water supply debts of Kshs.1,377,265,028 and payments totalling to Kshs.754,400 transferred to Water Service Boards under various agreements signed between the Corporation and the Water Service Boards in the year 2005/2006. These agreements have not been formalized and therefore the legal status of the debts is uncertain.

As a result, the receivables of the Corporation are understated by the exclusion of the water supply debts.

11.2 Long Outstanding Receivables

The statement of financial position reflects receivables from exchange transactions of Kshs.813,477,535 as at 30 June 2017. This includes long outstanding business debtors (over 90 days) of Kshs.60,080,772.50 which the management has not been able to collect in the period they have been outstanding. Though management has made a provision of Kshs.4,335,884, the provision appears inadequate, and as reported in 2015/2016, the provision is on Government institutions and a former MP. Further, the Finance Manual is also not clear as to what rate is used when providing for the bad debts. The management appears not to have made any effort to collect the outstanding debts. This therefore raises doubt as to whether these debts will eventually be paid.

In the circumstances, it has not been possible to confirm the correctness and recoverability of the receivables balance of Kshs.813,477,535 as at 30 June 2017.

12 Receivables from Non-Exchange Transactions - Long Outstanding Balance

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.154,143,484 as at 30 June 2017 (Kshs.67,028,109 for 2015/2016), an increase of 130%. This includes a long outstanding debt (over 90 days) of Kshs.120,173,233.48 and Kshs.906,629.00 relating to temporary imprest and salary advance respectively, which the Management has not been able to collect in the period it has been outstanding.

The analyses provided for staff advances and receivables from temporary imprest do not indicate when the amounts were taken and when they were due for full recovery or surrender. As such it is not possible to ascertain whether the outstanding amounts are within the rules and regulations or not. The management has made a provision for bad debts of Kshs.20,965,420 on outstanding imprest, meaning that as per the Finance Manual, such imprest must have been outstanding for more than 12 months. Details of the efforts made to recover the amounts from the imprest-holders have not been disclosed.

Further, the Finance Manual is also not clear as to what rate is used when providing for the bad debts. The management appears not to have made any effort to collect the outstanding debts. This therefore raises doubt as to whether these debts will eventually be paid.

In the circumstances, it has not been possible to confirm the correctness and recoverability of the receivables from non-exchange transactions balance of Kshs.154,143,484 as at 30 June 2017.

13 Long Outstanding Loan

As previously reported, the Corporation has not included in its financial statements loan balance for various loans amounting to Kshs.2,460,874,897. however, although the loan repayments are due but the Corporation has not made any repayment nor has it recognized in the books the interest due together with the arrears. Though management explained that the loans were supposed to have been passed over to the Water Service Boards who took over the facilities constructed using the loans, and which were supposed to generate the revenue to repay the loans, no formal documentation was availed to support this position. In fact, the lenders have been demanding for payment from the Corporation. The Corporation has indicated that it has no capacity to pay without financial support from the National Treasury. The loans continue to attract interest and penalties which may become costly. The lenders may also invoke the terms of the lending to the disadvantage of the Corporation, Water Service Boards or the National Treasury.

14 General Expenses

14.1 Professional Consultancy Expenses

14.1.1 Baseline Survey on Drug Abuse

During the year under review, the Corporation spent Kshs.4,492,400 on professional consultancies (note12). However, Kshs.1,500,000 was paid to Ripe Consultancy being

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professional consultancies on baseline survey on drug abuse vide invoice number . 0253 of 24 June 2016 and payment Voucher number PV-16-17;0424 paid on 21 November 2016. The purchase requisition dated 18 August 2015 is not signed and does not indicate details of the work to be done. The LPO was given on 22 June 2016 and the invoice was dated 24 June 2016 meaning that the Survey was done in 2 days. The report was done by the department of human resources of National Water Conservation and Pipeline Corporation and not the quoted company. The report is indicated to be for June 2016. The nature and format of how the information was gathered to compile the report is not indicated.

14.1.2 Baseline Survey on HIV Aids

Further, the Corporation paid Kshs.1,496,400 to LOKO Consultancy Agency being professional consultancies on baseline survey on HIV Aids vide invoice number. LCA 023 of 30 June 2016 and payment Voucher number PV-16-17; 0251 paid on 14 October 2016. The purchase requisition dated 19 May 2016 is not signed and does not indicate details of the work to be done. The LPO was given on 29 June 2016 and the invoice was dated 30 June 2016 meaning that the survey was done in one day. The report is indicated to be for June 2016. The nature and format of how the information was gathered to compile the report is not indicated. The report is not signed and there are no minutes to indicate that the report was adopted by the NWCPC. The report's implementation is also not indicated therefore raising concern as to whether the report was necessary.

In view of the foregoing, it has not been possible to confirm the accuracy of professional consultancies balance of Kshs.4,492,400 as at 30 June 2017.

15 Work in Progress

15.1 Umaa Dam Construction

The Management paid Draft & Develop Engineers Ltd an amount of Kshs.536,464,311 being final exit payment in respect of construction of Umaa dam situated at Kitui County. According to documents available the payment was made after a lengthy process of Court dispute which was then referred for arbitration by a tribunal. According to documents available the dispute started when the Contractor asked for extension of time and was awarded 10 weeks. He objected saying that the extended period was too short to complete the project. He abandoned the project and went to court to complain so that the contract should not be terminated for breach of contract. The Corporation and the Contractor then negotiated and arrived at an 'Amicable Settlement Agreement' for a sum of Kshs.536,464,310.56, which was tabled before the Tribunal. The Tribunal declined to adopt the consent agreement because by then a third party had lodged a Constitutional Petition No. 14 of 2014 in the High Court challenging the settlement.

The Corporation then sought and obtained advice from the Office of the Attorney-General on 02 June 2017 (referenced AG/CONF/16/6 VOL. V) that the two parties were at liberty to terminate the arbitral proceedings and execute the consent reached. The Corporation then, apparently acting on directives from the Principal Secretary – State Department for Water Services as evidenced in the minutes, summoned an ad-hoc Board meeting on 12 June 2017 whose only agenda was to adopt the AG's advice. The Board adopted the advice and on 13 June 2017, the consent sum was paid to the Contractor.

Considering that the contractor had earlier been paid Ksh.575,666,042.36, the total amount paid of Kshs.1,112,130,352.94 exceeded the contract sum of Kshs.824,457,120.49 by Kshs.287,673,232.45. Further, in the report on the amicable agreement, the Corporation observes that it will require another estimated Kshs.1,200,000,000 to complete the outstanding works on the dam. If the estimated amount was to be paid, it would have costed the tax payer a total of Kshs.2,312,130,352.94 to construct the dam, an increase of Kshs.1,487,673,232.45 (approximately 180%) from the initial contract sum. There is no evidence of valid contract variations to warrant the amounts paid and that estimated to be incurred to complete the project.

From the foregoing, the Corporation did not manage this contract prudently and the contractor did not merit to be paid the amount paid to him considering that he is the one who breached the contract by not completing within the contract period and abandoning the project.

15.2 Badasa Dam Construction

The Management paid MIDROC Water Drilling Company Ltd. an amount of Kshs.194,219,651 under certificate number 24B being final exit payment in respect of construction of Badasa dam situated at Marsabit County. According to documents available the initial contract price was Kshs.1,742,361,764. Later as the project underwent variations from 1st up to the 6th variation, the estimated revised cost was put as Kshs.2,769,676,807.50. The documentation necessitating the variations together with the procedure and validation of these variations have not been provided for audit review.

This payment was made after a lengthy process which went up to the Court of law. The Court referred the dispute for amicable agreement between the contractor and National Water Conservation and Pipeline Corporation. The two parties were told to file a joint agreement in Court.

According to documents available the dispute started when the contractor asked for extension of time when there was some variation of work and contract cost. He was awarded an extension of 6 weeks to complete by 9 June 2012.

The contractor then requested for more time and was given another extension of 6 months to complete the project by 9 December 2012. He objected saying that the extended period was too short. He abandoned the project and went to court to complain so that the contract should not be terminated for breach of contract and that he should not be asked to pay liquidated damages.

The two parties came together and agreed that the NWPC pay the contractor a final exit payment amounting to Kshs.194,219,651 and the contractor to hand over the site and materials to NWPC. The total amount incurred on the dam including previous payments is Kshs.2,050,877,486.24. There is no evidence that the Corporation has realized value on this expenditure on the project.

As at the time of the final exit payment, only an estimated 57% of the works had been reported complete at the amount paid. The report estimated a further Kshs.1,500,000,000 to complete the outstanding works, which would bring the total cost of the dam to Kshs.3,550,877,486.24 from the initial contract sum Kshs.1,742,361,764 resulting into a

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cost overrun of Kshs.1,808,515,722.24 or approximately 104%. It would appear that the project has metamorphosed itself into two projects awarded under the same contract contrary to the provisions of the Public Procurement and Assets Disposal Act, 2005.

15.3 Nzoia Dam

As previously reported, the Corporation engaged East African Consulting Engineers to review the designs of Nzoia dam site 34B, supervise the construction and draft a dam development plan for the Nzoia River Basin at a cost of Kshs.153,631,760 over a period of 54 months. However, initial designs had earlier been developed by M/s Runji Consulting Engineers at a cost of Kshs.40,000,000 but the project could not kick off as the community rejected it. Likewise, M/s East African Consulting Engineers could not carry out the review of the design and supervision of the construction as the conflict with the community had not been resolved. Thus the firm could only undertake the third task in the contract – draft dam development plan for the Nzoia River Basin at a cost of Kshs.40,246,400.

The management of the Corporation has not explained how this dam development plan will be implemented without resolving the conflict with the community. As a result, value for money may not be achieved from the total amount of Kshs.80,246,400 spent of feasibility studies, dam designs and dam development plan.

15.4 Siyoi – Muruny Dam

It was observed that the National Water Conservation and Pipeline Corporation spent Kshs.1,706,546,387.52 in respect of Siyoi-Muruny Dam project in the financial year 2016/2017. The Dam is situated in West Pokot County. The Project is divided into two categories (Lots); - Dam Construction (Lot 1) and Water Supply (Lot 2). Lot 1 contract between the Corporation and M/s China Jiangxi International Kenya Limited (Contract No. NWC/RFP/07/2014-15) was for thirty-six (36) months from 30 March 2015 to 30 March 2018. The date of completion was revised to 20 July 2018 and later to 19 August 2018. However, as per the latest progress report presented for audit, the project was at 45% completion stage by 31 May 2018, two months after the lapse of the original contract period. The delay in progress is attributed to some components of the project being re-designed, failure to acquire land on time and delay in honoring interim payment certificates. The report indicates that the Contractor fully suspended works between 19 September 2016 and 31 October 2016 and has only resumed partially to-date due to non-payment. As a consequence, the delivery of the project on time is in doubt and the cost is likely to escalate significantly beyond the contract cost of Kshs.5,056,182,763.02 as the Contractor charges for idle time and interest on unpaid certificates.

As for Lot 2 the contract (No. NWC/TR/003/2014-15) was also for 36 months from 30 March 2015 to 29 March 2018 at a contract value of Kshs.4,149,828,304.73. The contract period also extended by five (5) months to 29 August 2018 on contractual claim by the Contractor M/s Toddy Civil Engineering Co. Ltd with associated contract extension costs of Kshs.233,583,344.25. Again by the time of the contract period extension the latest progress report of June 2018 indicated that the works were only 52% complete 3 months after the lapse of the original project period. Going by this, delivery of the project in time is also in doubt and the final project cost may significantly overrun the contract price.

In addition, site visit minutes, engineers' works measurements, new project delivery projections/plans and the steps taken to ensure the project is completed promptly and value for money spent obtained have not been explained or appropriate documentation provided.

In the circumstances, it has not been possible to confirm the accuracy, value and completeness of work in progress balance of Kshs.17,155,197,005 as at 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Water Conservation and Pipeline Corporation in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context. I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the financial statements section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

No.	Key Audit Matter	How the Audit Addressed the Key Audit Matter
1	Capital Work in Progress	
	Capital Work in Progress arises out expenditure on capital projects undertaken by the Corporation, mainly construction of dams, dykes and pipelines, which are then handed over to the beneficiary Government entity. Before the hand over the cost of the construction is carried in the books of the Corporation as Work in Progress. During the year, Kshs.2,608,622,833 was spent on capital projects in addition to the value for the previous periods.	<p>The following audit procedures were performed:</p> <ul style="list-style-type: none"> • Checked the amount in the statements to the ledger, supporting schedules and expenditure documents for the period • Reviewed documentation regarding the major dam projects constituting the most of the value; including contract documents, progress reports, certificates, site meeting minutes and feasibility reports. • Reviewed the budget to establish the provision for the various projects

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	<p>The amount of capital work in progress is material compared to the total assets of the Corporation and there is need for adequate disclosure of the nature and treatment of the amount.</p>	<ul style="list-style-type: none"> • Confirmed amounts received to ministry disbursements • Considered adequacy of disclosure in the financial statements • Discussion with management on the progress of the projects <p>Two major dams have been bedeviled by contract disputes emanating from contract variations. The disputes resulted in settlements between the Corporation and contractors who then left the sites before completing the projects. This is likely to escalate the project costs and increase the work in progress.</p>
2	Deferred Income	
	<p>This relates to funds earmarked and used for implementation of capital projects but which have not been completed (capital work in progress). The funds are accumulated here until a project is complete. When the project is handed over, the cost is transferred to this account from the capital work in progress.</p>	<p>An evaluation was done to establish the value in this account represented amount available or used to fund capital projects:</p> <ul style="list-style-type: none"> • Balance was compared to amount brought forward and disbursements from the Ministry • Confirmed the balance to the ledger and schedules <p>No reconciliation was done between the deferred income and the amount of work in progress. However, value of work in progress together with the value of cash and cash equivalents more than covered the deferred income.</p>

Other Matter

16 Internal Control and Operating Environment

16.1 Irregular Deployment on Acting Capacity

Since 2015 the Corporation has not filled the position of managing director but has continued to appoint serving officers in acting capacity to date contrary to regulations and compromising the decision-making capacity of the acting officers. The failure to fill this key position for long periods of time compromises the internal control environment in the Corporation.

16.2 Implementation of the Enterprise Resource Programme (ERP)

The Corporation is yet to fully implement the ERP system procured in 2015. No reason has been given for the failure to implement this system, which as per the policy of the Corporations, is supposed to have been amortized within three (3) years of acquisition.

According to the contract for the delivery of the system, M/s Dynasoft Business Solutions Ltd was to deliver the system within 4 weeks from the date of the contract on 04 September 2015. Thereafter the system was to be fully implemented within 190 days after which a final acceptance certificate would be issued by the Corporation. There is no evidence of the completion of the implementation.

The system was intended to be installed as the platform on which all the activities of the Corporation would be carried out. As such the failure to implement the system has affected the operation of the Corporation, including the assurance that the reports, financial and other, produced from the system are accurate and free from significant misstatement.

Further, given the dynamism in technology, the system may become obsolete before the Corporation derives value from the amount incurred on it.

Management's Responsibility for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

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

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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.

As part of an audit 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. 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 Corporation to cease to continue as a going concern.
- 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 Corporation 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.

From the matters communicated with management, I determine those matters that were of most significance in the audit of the financial statements and internal control of current period and are therefore the key audit matters. These matters are described in my

Report of the Auditor-General on the Financial Statements of National Water Conservation and Pipeline Corporation (NWCPC) for the year ended 30 June 2017

auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



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

Nairobi


27 March 2019

STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30th June 2017

		2016-2017 Kshs	2015-2016 Kshs
Revenue from non-exchange transactions			
Transfers from other governments	2	186,555,890	158,308,333
		186,555,890	158,308,333
Revenue from exchange transactions			
Rendering of services	3	124,420,093	74,352,982
Rental revenue from facilities and equipment	4	12,488,966	432,000
Finance income - external investments	5	9,699,556	50,022,489
Other income	6	25,000	15,000
		146,633,614	124,822,471
Total revenue		333,189,504	283,130,804
Expenses			
Employee costs	7	299,907,819	292,671,962
Board Members Remuneration & Related Costs	8	25,717,211	34,426,641
Depreciation and amortization expense	9	85,879,731	86,054,882
Repairs and maintenance	10	241,550	0
Rendering of services	11	47,158,114	39,591,586
General expenses	12	28,611,120	20,585,869
Increase in Provision for Bad Debts	13	0	7,281,399
		487,515,544	480,612,339
Total expenses		487,515,544	480,612,339
Surplus before tax			
Taxation		(154,326,040)	(197,481,535)
Surplus for the period		1,454,933	0
		(152,871,107)	(197,481,535)

STATEMENT OF FINANCIAL POSITION
As at 30th June 2017

		2016-2017 Kshs	2015-2016 Kshs
Assets			
Current assets			
Cash and cash equivalents	14	187,472,477	185,127,141
Receivables from exchange transactions	15	813,477,535	894,196,872
Receivables from non-exchange transactions	16	154,143,484	67,028,109
Inventories	17	33,174,049	69,002,747
		1,188,267,545	1,215,354,869
Non-current assets			
Property, plant and equipment	18	744,807,630	829,382,281
Intangible assets	19	1,464,081	2,196,122
Capital Work in Progress	20	17,155,197,005	14,456,761,263
		17,901,468,717	15,288,339,666
		19,089,736,261	16,503,694,535
Total assets			
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	21	844,798,061	473,464,809
Trade and other payables from non-exchange transactions	22	2,499,422	6,406,230
		847,297,483	479,871,039
Non-current liabilities			
Deferred income - Project Funds	23	17,313,241,889	14,941,755,500
		17,313,241,889	14,941,755,500
		18,160,539,372	15,421,626,539
Total liabilities			
Net assets			
Capital Reserves		848,612,700	848,612,700
Accumulated surplus		(277,495,843)	(124,624,736)
Revaluation Reserve		358,080,032	358,080,032
Total net assets and liabilities		19,089,736,261	16,503,694,535


Chairman of the Board

Date.....

7/8/2018


Ag. Managing Director

Date..... 2nd Aug. 2018.

**STATEMENT OF CHANGES IN
NET ASSETS**
For the year ended 30 June 2017

	Capital Reserves	Accumulated Surplus	Revaluation Reserve	Total
	Shs	Shs	Shs	Shs
Balance as at 30 JUNE 2015	848,612,700	72,856,797	0	921,469,497
Surplus for the period	0	(197,481,533)	0	(197,481,533)
Transfers from PPE	0	0	358,080,032	358,080,032
Balance as at 30 JUNE 2016	848,612,700	(124,624,736)	358,080,032	1,082,067,996
Surplus for the period	0	(152,871,107)	0	(152,871,107)
Balance as at 30 JUNE 2017	848,612,700	(277,495,843)	358,080,032	929,196,889

STATEMENT OF CASH FLOWS
For the year ended 30 June 2017

		2016-2017 Kshs	2015-2016 Kshs
Cash flows from operating activities			
Receipts			
Government grants and subsidies		186,555,890	158,308,333
Rendering of services - Private Works		156,276,208	34,976,457
Rental revenue from facilities and equipment		11,620,152	324,000
Finance income - external investments		9,699,556	50,022,489
Other income		25,000	15,000
		364,176,805	243,646,279
Payments			
Employee costs		299,907,819	292,671,962
Board Members Remuneration & Related Costs		25,717,211	34,426,641
Rendering of services - Cost of private works		(6,357,797)	39,591,586
Other payments		(284,958,155)	(28,382,266)
		34,309,078	338,307,923
		329,867,727	(94,661,644)
Net cash flows from operating activities	24		
Cash flows from investing activities			
Buildings		0	0
Purchase of Motor Vehicles		0	-
Purchase of Furniture and Office Equipment		0	(8,906,450)
Purchase of Field Equipment		(573,040)	0
Computers & Accessories		0	-
ERP Navision System		(2,698,435,742)	(1,662,096,635)
Increase in Capital Works in Progress		(2,699,008,782)	(1,671,003,085)
Net cash flows used in investing activities			
Cash flows from financing activities			
Government Grants		2,371,486,389	40,587,025
Net cash flows used in financing activities		2,371,486,389	40,587,025
Net increase/(decrease) in cash and cash equivalents		2,345,336	(1,725,077,704)
Cash and cash equivalents at 1 JULY	14	185,127,141	1,916,390,639
Cash and cash equivalents at 30 JUNE	14	187,472,477	185,127,141

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

For the year ended 30 June 2017

	Original budget 2016-2017 Kshs	Adjustments 2016-2017 Kshs	Final budget 2016-2017 Kshs	Recurrent Actual on comparable basis 2016-2017	Development Actual on comparable basis 2016-2017 Kshs	Performance difference 2016-2017 Kshs
Revenue						
Government grants and subsidies - recurrent	178,864,224	0	178,864,224	186,555,890	0	7,691,666
Government grants and subsidies - Development	224,000,000	2,067,684,048	2,291,684,048	0	2,429,684,048	138,000,000
Other income A.I.A	100,000,000	0	100,000,000	146,633,614	0	46,633,614
Total income	502,864,224	2,067,684,048	2,570,548,272	333,189,504	2,429,684,048	192,325,280
Expenses						
Employee costs	236,852,566	0	236,852,566	299,907,819	0	(63,055,253)
Board Members Remuneration & Related Costs	26,864,224	0	26,864,224	25,717,211	0	1,147,013
General expenses	15,147,434	0	15,147,434	28,611,120	0	(13,463,686)
Finance costs						
110020500- Dams & Pans	44,000,000	2,099,712,048	2,143,712,048	0	0	0
110020400- Drilling	0	0	0	0	2,600,185,766	(456,473,718)
110020300- Flood control	160,000,000	(32,000,000)	128,000,000	0	0	0
Construction of Buildings	20,000,000	0	20,000,000	0	94,833,626	33,166,374
Depreciation & Amortization Expenses	85,879,731	0	85,879,731	0	3,416,350	16,583,650
Provision of Bad Debts	0	0	0	85,879,731	0	0
Rendering of Services	100,000,000	0	100,000,000	0	0	0
Total expenditure	688,743,955	2,067,712,048	2,756,456,003	487,273,994	2,698,435,742	(429,253,734)
Surplus for the period	(185,879,731)	(28,000)	(185,907,731)	(154,084,490)	(268,751,694)	(236,928,454)

See Note R

NOTES TO THE FINANCIAL STATEMENTS

Statement of compliance and basis of preparation

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

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

Summary of significant accounting policies

1. Revenue Recognition

a) Revenue from non-exchange transactions

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. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds

b) Revenue from exchange transactions

(i) Rendering of services

The Corporation recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

(ii) Interest income

Interest income 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.

(iii) Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

c) 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 Corporation. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Corporation 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.

d) Property, plant and equipment

All property, plant and equipment are stated at cost/revaluation 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 Corporation 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. When a revaluation is done on a class of assets, the assets is recognized as revaluation amount less depreciation.

The depreciation is recognized on a straight line basis with the applicable rates of:

<i>Class Name</i>	<i>Estimated Useful life</i>	<i>Depreciation rate</i>
Land	Infinite	Equally
Building	40 years	2.5%
Motor Vehicles & Cycles	4 years	25.0%
Computers & Peripherals	3 years	33.3%
Furniture, Fixture & Fitting	4 years	25.0%
Office Equipment	4 years	25.0%
Plant & Field Equipment	20 years	5.0%

Depreciation methods, useful lives and residual values, if not significant, are re-assessed annually at each reporting date.

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 intangible assets are amortized on a reducing balance basis at a rate of 33.3% per annum.

f) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories have been recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Corporation. In the statements, the net realizable value has been used to value the closing stocks.

g) Provisions

Provisions are recognized when the Corporation 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 Corporation 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 Corporation 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.

In the year under audit, the Corporation has assessed its contingent liability at Kes.145,818,772.23 which may crystalize in the subsequent financial year.

Judgements due for settlement	59,111,565.84
Arbitral Awards	37,790,992.00
Legal Fees	48,916,214.39
	145,818,772.23

i) Changes in accounting policies and estimates

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

j) Employee benefits

Retirement benefit plans

The Corporation provides retirement benefits for its employees and councilors. Defined contribution plans are post-employment benefit plans under which an Corporation pays fixed contributions into a separate Corporation (a 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.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

k) 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 cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

l) Comparative figures

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

m) Significant judgments and sources of estimation uncertainty

The preparation of the Corporation'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.

n) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Corporation based its assumptions and estimates on

parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

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

- ✓ The condition of the asset based on the assessment of experts employed by the Corporation
- ✓ The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- ✓ The nature of the processes in which the asset is deployed
- ✓ Availability of funding to replace the asset
- ✓ Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

o) 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 June 30, 2017.

p) Related party transactions

The remuneration of key management who received remuneration directly from the authority during the year is as follows:

	2016-2017	2015-2016
	Shs	Shs
Director's emoluments	25,717,211	22,047,640
Key management compensation		
CEO's salary and benefits	503,190	4,317,253
Senior management salary and benefits	23,708,400	22,849,526
	49,928,801	49,214,419

q) Financial Risk Management

Exposure to currency, commodity, interest rate, liquidity and credit risk arises in the normal course of the authority's operations. This note presents information about the authority's exposure to each of the above risks, policies and processes for measuring and managing risk, and the authority's management of capital. Further quantitative disclosures are included throughout these financial statements.

i) Fair values

Set out below, is a comparison by class of the carrying amounts and fair value of the authority's financial instruments.

	Carrying amount Shs	Fair value Shs
Financial Assets		
As at 30th June 2017		
Cash and cash equivalents	187,807,534	187,807,534
Receivables from exchange transactions	813,477,535	813,477,535
Receivables from non-exchange transactions	154,143,484	154,143,484
	1,155,428,553	1,155,428,553

	Carrying amount Shs	Fair value Shs
Financial Assets		
As at 30th June 2016		
Cash and cash equivalents	185,127,141	185,127,141
Receivables from exchange transactions	894,196,872	894,196,872
Receivables from non-exchange transactions	67,028,109	67,028,109
	1,146,352,122	1,146,352,122

	Carrying amount Shs	Fair value Shs
Financial Liabilities		
As at 30th June 2017		
Trade and other payables from exchange transactions	844,798,061	843,851,367
Trade and other payables from non-exchange transactions	2,499,422	2,499,422
	847,297,483	846,350,789

	Carrying amount Shs	Fair value Shs
Financial Liabilities		

As at 30th June 2016

Trade and other payables from exchange transactions	473,464,809	473,464,809
Trade and other payables from non-exchange transactions	6,406,230	6,406,230
	479,871,039	479,871,039

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

ii) Credit risk

Credit risk is the risk of financial loss to the authority if customers or counterparties to financial instruments fail to meet their contractual obligations. The authority's credit risk is primarily attributable to its receivables and cash and cash equivalents. The company's management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors before extending credit. The carrying amount of financial assets represents the maximum credit exposure. The credit risk on liquid funds with financial institutions is low, because the counter parties is a bank (KCB) with high credit-ratings. The maximum exposure to credit risk as at 30 Jun 2016 was:

As at 30th June 2017	Fully performing	Past due	Impaired	Total
	Shs	Shs	Shs	Shs
Cash and cash equivalents	187,807,534	0	0	187,807,534
Receivables from exchange transactions	813,477,535	0	0	813,477,535
Receivables from non-exchange transactions	154,143,484	67,028,109	0	154,143,484
Maximum exposure to credit risk	1,096,414,480	67,028,109	0	1,096,414,480

The average credit period on services rendered is 90 days from date of invoice. Debts above 90 days old are classified as past due. The Corporation provides fully for all receivables outstanding over 365 days where there is no evidence of expected recovery. The customers under the fully performing category are paying their debts as they continue dealing with the authority. The default rate is low. The debt that is overdue is not impaired and continues to be paid.

iii) Credit quality

Credit quality is assessed risk of default attached to counterparties to which the authority extends credit and also those parties with whom the authority invests. As such, the credit quality assessed extends to the customers and banks of the authority. For financial statement purposes, the investments and balances with banks are limited to the receivable and cash and cash equivalents line items in the statement of financial position. The authority determines credit quality of the banks from past dealings with them and from information readily available from the regulatory authority, the Central Bank of Kenya.

The client base of the authority is diverse and consists mainly of companies, individuals and government entities. For the purpose of determining the credit quality of clients, the authority applies its past experience with them in determining the risk of default they pose.

iv) Receivables

Receivable amounts are owed by clients and the government of Kenya and are presented net of any impairment losses. There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The authority's exposure to credit risk is monitored on an ongoing basis. The authority's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial performance.

v) Cash and cash equivalents

The authority limits its exposure to credit risk by investing cash and cash equivalents with only reputable financial institutions that have a sound credit rating. Consequently, the authority does not consider there to be any significant exposure to credit risk.

vi) Liquidity risk

Liquidity risk is the risk of the authority not being able to meet its obligations as they fall due. The authority's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the authority's reputation. Prudent liquidity risk management includes maintaining sufficient cash to meet the authority's obligations.

The table below analyses the authority's financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

	Less than 1 month Shs	Between 1-3 months Shs	Over 3 months Shs	Total Shs
As at 30th June 2017				
Receivables from exchange transactions	0		813,477,535	813,477,535
Receivables from non-exchange transactions	0	0	154,143,484	154,143,484
	0	0	889,860,988	957,273,638

	Less than 1 month Shs	Between 1-3 months Shs	Over 3 months Shs	Total Shs
--	-----------------------------	------------------------------	-------------------------	--------------

As at 30th June 2016

Receivables from exchange transactions	576,000	889,284,988	889,860,988
Receivables from non-exchange transactions		67,412,650	67,412,650
	576,000	0	956,697,638
		957,273,638	

vii) Market risk

Market risk is the risk of changes in market prices, such as foreign-exchange rates and interest rates, affecting the authority's income or the value of its financial instrument holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on the risk.

(i) *Price risk*

The authority does not hold investments that would be subject to price risk; hence this risk is not relevant.

(ii) *Interest rate risk*

The authority does not hold any interest bearing liabilities or assets; hence this risk is not relevant.

(iii) *Foreign currency risk*

The authority is exposed to foreign-currency risk through foreign currency denominated bank balances. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

viii) Capital risk management policies

The primary objective of managing the authority's capital is to ensure that there is sufficient cash available to support the authority's funding requirements, including capital expenditure, to ensure that the authority remains financially sound. The authority monitors capital using a gearing ratio, which is net debt, divided by total capital, plus net debt. As at the end of the year, the authority had no debt.

The capital structure of the authority consists only of a capital fund and accumulated general fund. The capital fund caters for replacement of assets and the general fund accommodates the surplus/deficit generated by the organization. The gearing ratio of the authority is therefore 0%.

r) Budget Analysis

The Corporation was allocated a Recurrent Budget of Kshs.278,864,224 and a Development Budget of Kshs.224,000,000. However, the Development budget was revised to Kshs.2,271,712,048 where the Board of Directors allocated Kshs.2,123,712,048 to Dams, Kshs.128,000,000 to Flood Control, Kshs.20,000,000.00 to Construction of Building.

Variances Explanation

(a) Government Grant & Subsidies - Recurrent

The budgeted amount was Kshs. 178,864,224 while the actual receipt was Kshs. 186,555,890. The variance of kshs. 7,691,666 was the balance of grants for FY ended 2016 but received in July, 2016.

(b) Government Grants & Subsidies – Development

The budget amount was Kshs. 2,271,712,048 while the actual receipt was Kshs. 2,429,684,048. The variance of Kshs. 139,000,000.00 was the balance of grants for FY ended 2016 but received in July, 2016.

(c) Other Income A.I.A.

The budget amount was Kshs. 100 million against an actual receipt of Kshs. 146,633,614.00. The variance of Kshs. 46,633,614 was as a result of increased sales during the year ended 2017.

(d) Employee Costs, Board Members Remuneration & General Expenses

The budget expenditure of Kshs.236,852,566 has a variance of Kshs.69,499,293. This is due to underfunding of the Recurrent Budget by Parliament. The Corporation had requested for a revised budget to cover the expenses in full, however, the same was not forthcoming (see Annex 2). The budget has since been revised in FY 2018-2019 to Kshs. 563 million for recurrent operations.

(e) Dams and Pans

The budgeted expenditure of Kshs.2,143,712,048 against an actual expenditure of Kshs.2,598,578,301 has a variance of Kshs.454,866,253. This was as a result of underfunding of the Muruny (Siyoi) Dam project. The project is a multi-year contract where payments are made based on certified works. As such, there were more increased works compared to the allocation.

Furthermore, the Corporation notes Development funds under the Deferred Grant Income-Government Grant liability account where the amount is drawn down as such as Capital W.I.P projects are completed and disposed.

s) Nature and Purpose of Reserves

The Board creates and maintains reserves in terms of specific requirements.

Accumulated Reserves

This is the portion of net income that is maintained by the Corporation. If a deficit is incurred, then it reduces the Corporation's accumulated reserves balance.

Capital Reserves

The Board makes a provision for renewing depreciating assets by creating a capital reserve equal to the accumulated depreciation and amortization at the end of the financial year.

Revaluation Reserve

The Board adopts the revaluation model for recognition of the Property Plant and Equipment. Where the first time an asset is revalued and such revaluation value is higher than the historical cost then such is carried as a revaluation reserve. Subsequent drops in value draw down the revaluation reserve.

2. Transfers from GoK

	2016-2017 Shs	2015-2016 Shs
<u>Unconditional grants</u>	186,555,890	158,308,333
Recurrent grant	186,555,890	158,308,333
Total Transfers from GoK		

3. Rendering of services

	2016-2017 Shs	2015-2016 Shs
Drilling of Private Boreholes	124,420,093	74,352,982
Total revenue from the rendering of services	124,420,093	74,352,982

4. Rental revenue from facilities and equipment

	2016-2017 Shs	2015-2016 Shs
Renting of Premises	12,488,966	432,000
Total rentals	12,488,966	432,000

5. Finance income - external investments

	2016-2017 Shs	2015-2016 Shs
Cash On-call & Fixed Deposits	9,699,556	50,022,489
Total finance income – external investments	9,699,556	50,022,489

6. Other income

	2016-2017 Shs	2015-2016 Shs
Sale of Tenders	25,000	15,000
Total other income	25,000	15,000

7. Employee costs
No. of Employees

	228 2016-2017 Shs	228 2015-2016 Shs
Salaries and Wages		
Contribution to Pension	152,770,722	147,170,059
Contribution to NSSF	20,972,438	18,254,676
Medical Insurance & Allowances	555,000	540,800
Commuter Allowances	27,815,412	33,002,630
House Allowance	19,666,524	18,875,355
Leave Allowance	65,898,548	61,833,500
Acting Allowance	2,796,443	3,331,691
Non-Practicing Allowance	1,188,435	897,438
Responsibility Allowance	465,000	510,000
Special Duty Allowance	2,633,793	1,977,333
Extraneous Allowance	586,604	325,600
Assistant Allowance	770,500	-
Overtime Allowance	180,000	270,000
Gratuity to Employee on Contracts		118,070
Total Staff Costs	3,608,400	5,564,810
	299,907,819	292,671,962

8. Board Members Remuneration & Related Costs

	2016-2017 Shs	2015-2016 Shs
Allowances		
Catering	24,232,211	29,876,086
Honoraria	960,000	1,073,750
Others	525,000	806,060
Total Board Members Remuneration & Related Costs	-	2,670,745
	25,717,211	34,426,641

9. Depreciation and amortization expense

	2016-2017 Shs	2015-2016 Shs
Property, plant and equipment (<i>Ref Note 17</i>)		
Intangible assets (<i>Ref Note 18</i>)	85,147,690	84,956,821
Total depreciation and amortization	732,041	1,098,061
	85,879,731	86,054,882

10. Repairs, running and maintenance

	2016-2017 Shs	2015-2016 Shs
Office Equipment		
Total repairs and maintenance	241,550	-
	241,550	-

11. Rendering of services

	2016-2017 Shs	2015-2016 Shs
Cost of Private works	47,158,114	39,591,586
	47,158,114	39,591,586

12. General expenses

The following are included in general expenses:

	2016-2017 Shs	2015-2016 Shs
Communication	571,734	2,174,457
Travel	2,176,946	717,633
Publicity and Advertising	115,000	-
Staff Training	271,103	72,310
Professional Consultancies	4,492,400	-
Cleaning and Sanitation	23,100	957,406
Security	797,250	752,150
Membership Fees and Subscriptions	569,460	99,360
Legal	4,473,492	2,083,936
Audit	1,500,000	1,751,283
Corporate Insurance	1,563,964	-
Group Life	1,146,151	2,704,043
Licenses	-	4,400
Office Tea, Beverages and Consumables	506,716	1,766,633
Printing and Stationery	-	345,078
Bank Charges	693,533	971,381
Resource center	1,574,941	-
Utilities	1,691,290	-
Staff Welfare	6,444,040	6,185,799
Total general expenses	28,611,120	20,585,869

13. Changes in Specific Provision for Bad Debts

	2016-2017	2015-2016
Specific Provision for Bad Debts at Beginning of Year	20,965,420	13,684,021
Specific Provision for Bad Debts at End of Year	20,965,420	20,965,420
Increase in Specific Provision for Bad Debts	0	7,281,399

14. Cash and cash equivalents

	2016-2017	2015-2016
	Shs	Shs
KCB Bank Account No. 1114280488	7,132,177	22,362,668
KCB Bank Account No. 1114280593	102,252,014	29,527,180
KCB Bank Account No. 1114279978	4,139,087	731,998
KCB Bank Account No. 1114279889	73,944,126	114,204,854
KCB Bank Account No. 1124316329	5,073	18,213,411
Cash in Hand and in transit	0	87,030
Total cash and cash equivalents	187,472,477	185,127,141

15. Receivables from exchange transactions

	2016-2017	2015-2016
	Shs	Shs
Current receivables		
Rent Receivable	1,444,814	576,000
Prepaid Insurance & others	10,148,867	3,950,002
Business Unit Debtors	73,132,282	104,988,396
<i>Specific Provision for Bad Debts</i>	(4,335,884)	(4,335,884)
Net Business Unit Debtors	68,796,398	100,652,512
Recoverable Advances	733,087,457	789,018,357
Total receivables	813,477,535	894,196,872

16. Receivables from non-exchange transactions

	2016-2017	2015-2016
	Shs	Shs
Current receivables		
Temporary Imprests to staff	159,789,093	72,768,684
<i>Specific Provision for Bad Debts</i>	(20,965,420)	(20,965,420)
Net Temporary Imprests to staff	138,823,673	51,803,264
Salary Advances to Staff	1,287,864	1,192,898
Furniture Advances to staff	14,472	14,472
Deposit with the Courts	14,017,475	14,017,475
Total current receivables	154,143,484	67,028,109

17. Inventories

	2016-2017	2015-2016
	Shs	Shs
Stocks	33,174,049	69,002,747
Total inventories at net realizable value	33,174,049	69,002,747

20 Capital Work in Progress

	2016-2017	Adjustments	2015-2016
	Shs	Shs	Shs
Large Dams	15,103,016,687	2,600,185,766	12,502,830,921
Dykes & Canals	1,048,751,409	77,067,740	971,683,669
Water Pipelines	158,794,497	17,765,886	141,028,611
Construction of HQ Office Block	835,771,287	3,416,350	832,354,937
Intangible Assets - ERP Microsoft Accounting System	8,863,125	0	8,863,125
Total	17,155,197,005	2,698,435,742	14,456,761,263

18. PROPERTY, PLANT AND EQUIPMENT

	FINANCIAL YEAR ENDED 30TH JUNE 2017							Total Kshs
	Leasehold Land Kshs	Buildings Kshs	Plant & Field Equipment Kshs	Motor Vehicles & Cycles Kshs	Furniture & Fittings Kshs	Office Equipment Kshs	Computer & Accessories Kshs	
FINANCIAL YEAR 2015/2016								
COST 1st July 2015	84,000,000	68,496,824	462,150,375	272,571,090	52,233,239	-	4,623,803	944,075,331
Elimination on Revaluation	(84,000,000)	(68,496,824)	(462,150,375)	(272,571,090)	(52,233,239)	-	(4,623,803)	(944,075,331)
Additions	-	-	8,906,450	-	-	-	-	8,906,450
Disposals	-	-	-	-	-	-	-	0
Revaluation Amount	340,000,000	68,597,700	221,136,000	258,855,000	5,973,201	7,162,700	3,708,050	905,432,651
As at 30th June 2016	340,000,000	68,597,700	230,042,450	258,855,000	5,973,201	7,162,700	3,708,050	914,339,101
DEPRECIATION:								
1st July 2015	9,032,258	14,200,586	109,586,630	232,155,195	30,206,775	-	1,541,268	396,722,712
Elimination on Revaluation	(9,032,258)	(14,200,586)	(109,586,630)	(232,155,195)	(30,206,775)	-	(1,541,268)	(396,722,712)
Charge for the Year	4,148,000	1,714,943	11,502,123	64,713,750	746,650	895,338	1,236,017	84,956,821
Disposal	-	-	-	-	-	-	-	0
As at 30th June 2016	4,148,000	1,714,943	11,502,123	64,713,750	746,650	895,338	1,236,017	84,956,821
N.B.V 30th June 2016	335,852,000	66,882,757	218,540,327	194,141,250	5,226,551	6,267,362	2,472,033	829,382,280
FINANCIAL YEAR 2016/2017								
COST 1st July 2016	340,000,000	68,597,700	230,042,450	258,855,000	5,973,201	7,162,700	3,708,050	914,339,101
Additions	-	-	-	-	-	-	573,040	573,040
Disposals	-	-	-	-	-	-	-	0
As at 30th June 2017	340,000,000	68,597,700	230,042,450	258,855,000	5,973,201	7,162,700	4,281,090	914,912,141
DEPRECIATION:								
1st July 2016	4,148,000	1,714,943	11,502,123	64,713,750	746,650	895,338	1,236,017	84,956,821
Charge for the Year	4,148,000	1,714,943	11,502,123	64,713,750	746,650	895,338	1,426,887	85,147,690
Disposal	-	-	-	-	-	-	-	0
As at 30th June 2017	8,296,000	3,429,886	23,004,246	129,427,500	1,493,300	1,790,676	2,662,904	170,104,511
N.B.V 30th June 2017	331,704,000	65,167,815	207,038,205	129,427,500	4,479,901	5,372,025	1,618,186	744,807,630
Dep Policy Rate	1.22%	2.50%	5.00%	25.00%	12.50%	12.50%	33.33%	

19. INTANGIBLE ASSET MOVEMENT SCHEDULE

FINANCIAL YEAR ENDED 30TH JUNE 2017

FINANCIAL YEAR 2015/2016

	Microsoft Nav 2016 (Kshs.)	Total (Kshs.)
COST 1st July 2015		
30 th June 2016	27,101,555	27,101,555
	27,101,555	27,101,555

DEPRECIATION:

1st July 2015		
Charge	23,807,372	23,807,372
30 th June 2016	1,098,061	1,098,061
N.B.V 30th June 2016	24,905,433	24,905,433
	2,196,122	2,196,122

FINANCIAL YEAR 2016/2017

COST 1st July 2016		
30 th June 2017	27,101,555	27,101,555
	27,101,555	27,101,555

DEPRECIATION:

1st July 2015		
Charge	24,905,433	24,905,433
30 th June 2017	732,041	732,041
N.B.V 30th June 2017	25,637,474	25,637,474
	1,464,081	1,464,081

Dep Policy Rate

33%

20 Capital Work in Progress

	2016-2017 Shs	Adjustments Shs	2015-2016 Shs
Large Dams	15,103,016,687	2,600,185,766	12,502,830,921
Dykes & Canals	1,048,751,409	77,067,740	971,683,669
Water Pipelines	158,794,497	17,765,886	141,028,611
Construction of HQ Office Block	835,771,287	3,416,350	832,354,937
Intangible Assets - ERP Microsoft Accounting System	8,863,125	0	8,863,125
Total	17,155,197,005	2,698,435,742	14,456,761,263

21. Trade and other payables from exchange transactions

	2016-2017 Shs	2015-2016 Shs
Trade payables	484,070,555	255,247,857
Payments received in advance	63,386,894	9,870,983
Third-party payments	18,239,206	12,589,120
Retentions held on behalf of suppliers	251,381,854	180,241,439
Disposal Collections	0	79,000
Accruals	27,719,552	15,436,410
Total trade and other payables	844,798,061	473,464,809

22. Trade and other payables from non-exchange transactions

	2016-2017 Shs	2015-2016 Shs
Staff Claimables	2,499,422	6,406,230
Total trade and other payables from non-exchange transactions	2,499,422	6,406,230

23. Deferred income - Project Funds

	2016-2017 Shs	2015-2016 Shs
Bal B/f from previous year	14,941,755,500	14,901,168,475
Grants received from GoK during year	2,429,684,048	498,000,000
Transfer to Water Service Board		(5,957,520)
Small Dams Expensed & handed over to Water Service Board	(58,197,659)	(385,591,923)
Boreholes Expensed & handed over to Water Service Board		(65,863,532)
Total deferred income - project funds	17,313,241,889	14,941,755,500

Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

24. Cash generated from operations

	2016-2017	2015-2016
	Shs	Shs
Surplus for the year before tax		
Adjusted for:	(152,871,107)	(197,481,533)
Depreciation and Impairment	85,879,731	86,054,880
Gain on Disposal	0	0
Increase in Provision for Bad Debts	0	7,281,399
Working capital adjustments:		
Change in Inventories	35,828,698	6,552,597
Change in Receivables from exchange transactions	80,719,336	(38,007,142)
Change in Receivables from non-exchange transactions	(87,115,375)	(30,202,099)
Change in Trade and other payables from exchange transactions	371,333,252	62,163,439
Changes in Trade and other payables from non-exchange transactions	(3,906,808)	2,791,014
Net cash flows from operating activities	329,867,727	(100,847,445)

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Ref. No. on External Audit Report	Issue/Observation from Auditor	Management Comments	Focal Point	Status	Time Frame
1.	<u>Property, Plant & Equipment</u> Carrying value of Kshs. 547,352,619 could not be confirmed as it excluded various assets valued at Kshs.16,781,832,000 transferred to WSBs yet the transfer agreements are unsigned	The Corporation has sought the intervention of the Cabinet Secretary, Ministry of Water and Irrigation (CS, MWI). The CS, MWI directed vide letter Ref. No. MWI/IDD/1/10/VOL.VII/(2) dated 11 th November, 2016 the various WSBs to have the transfer agreements signed.	Managing Director	Not resolved	1 st December, 2018
2.	<u>Capital W.I.P-HQ Building</u> The first contractor abandoned works yet the Corporation has not had their claim under performance bond honoured. The project was delayed and there was a significant increase in cost.	The Court case related to unhonoured claim is still pending in Court. The project has been completed and the final account is being analysed. The same will be presented to the auditors for verification.	Managing Director	Not Resolved	30 th September, 2018
3 3.1	<u>Receivables from Exchequer Transactions</u> <u>Water Service Boards Debtors</u>	The Corporation has sought the	Managing	Not Resolved	1 st December,

	Carrying value of Kshs.856,189,729 excludes water supply debt of Kshs. 1,377,265,028 yet the transfer agreements, transferring the same to WSBs are unsigned.	intervention of the Cabinet Secretary, Ministry of Water and Irrigation (CS, MWI). The CS, MWI directed vide letter Ref. No. MWI/IDD/1/10/VOL.VII/(2) dated 11 th November, 2016 the various WSBs to have the transfer agreements signed.	Director		2018
3.2	Long Outstanding Debts Trade debtors totaling to Kshs.58,449,462.00 are aged over 90 days. The provision of Kshs.4,335,884 seemed inadequate. No efforts were shown to recover.	The provision on outstanding debts is made on debts over 150 days. The debt, save for those provided for were considered recoverable.	Managing Director	Not resolved	30 th November, 2018
3.3.	Recoverable Advances No explanation was provided as to why the Corporation made advance payments to Kshs. 789,018,357 to contractors contrary to PPDA, 2005	The advance was in compliance with signed contracts between Toddy Civil Eng. Co. Ltd. And China Jiangxi Int. K Ltd. Who are the Siyoi (Muruny) Dam water contractors in West Pokot County. Currently, Kshs. 55,930,900.08 has been recovered in line with interim certificates issued. Advance payments for mobilization of the contractors are allowed by the PPADA 2015 where an advance guarantee is provided, which in this case was provided.	Managing Director	Not resolved	30 th March, 2019

4	<u>Receivable from Non-Exchange Transactions</u>				
4.1	<u>Temporary Imprest</u> Imprest aged over 90 days of Kshs.30,630,577 has only been provided at Kshs.13,684,021 which appears in adequate.	The imprest has been reduced through officers surrendering. However, the provision has been increased to Kshs. 21,337,214. This is specific to staff who left the Corporation or are deceased. The Management has engaged the BOD on the writing off for the deceased persons and recovery for those who left the Corporation	Managing Director	Not resolved	1 st November, 2018.
4.2	<u>Furniture Advance</u> Long outstanding furniture advance of Kshs. 14,472	The furniture advance has been fully recovered. Evidence of cash Receipts are available for audit	Managing Director	Resolved	
5	<u>Construction of Dams</u>				
5.1 (i)	<u>Umaa Dam</u> Inflated motor cycle cost. Reversal of costs was to be done on final certificate	The Umaa Dam dispute has been resolved amicable and a final exit figure of Kshs.536,464,310.58 determined. After allocation by Parliament, the amount was paid vide PV-16-17:1675 effectively resolving the dispute. The project is poised to be allocated funds in FY 2017-2018.	Managing Director	Resolved	
(ii)	The project stalled and no value for money had been obtained from the expenditure incurred of Kshs.824,457,120				
5.2	<u>Badasa Dam</u> The project stalled an no value for money had been obtained from the	The Badasa Dam dispute had been resolved amicably and a final exist	Managing Director	Resolved	

	expenditure incurred of Kshs. 1,853,757,235.00	figure of Kshs.194,219,651.24 determined. After allocation by Parliament in the Estimates of 2016/2017, the amount was paid and the contractor vacated site. The project is poised to be allocated funds in FY 2017-18.			
5.3	Construction of Narok Dam No final feasibility report provided for audit scrutiny after spending Kes.96,935,328	The Corporation did not pay KShs.96.935,328 to Z & P Antonopoulos Associate. Z & P Antonopoulos Associate were awarded a consultancy contract to carry out studies for Upper Narok Dam at a contract price of KShs.112,356,720 and for a contract period of 20 months. They have completed feasibility studies and preliminary designs. We have attached feasibility study and preliminary design documents as requested. The project is at final design. Payments made to date amount to KShs.26,865,029. The studies have not been completed due to lack of funds.	Managing Director	Resolved	
5.4	Construction of Nzoia Dam No final feasibility report provided for audit scrutiny after spending Kes.153,631,760.00	The Corporation engaged the services of East African Consulting Engineers in association with TATA consulting Engineers to review the design for the 30m high dam (dam site 34B), supervise the construction, and prepare a dam development plan along River	Managing Director	Resolved	

		<p>Nzoia and feasibility studies for three dams. The contract period was 54 months at a contract sum of Kshs. 153,631,760.00. Only Kes. KShs. 38,914,105 has been paid.</p> <p>The assignment was divided into 3 categories:</p> <ul style="list-style-type: none"> • Review of designs, Environmental and Socio Impacts Assessment (ESIA) & assistance to procurement of Contractor – KShs. 16,124,000 - (Category 1a services) <i>Status - Not executed and not paid</i> • Supervision of Construction Works for Nzoia Dam site 34B – KShs. 97,261,360 - (Category 1b services) <i>Status - Not executed and not paid</i> <p>Development of Dam Development Plan and Feasibility studies of three dam sites - KShs. 38,914,105 (Category II services). <i>Status - Executed and partly paid</i></p>			
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		M/s East African Consulting Engineers in association with TATA consulting Engineers was discharged from all their responsibilities in the contract No. NWC/RFP/036/2012-2013 vide our ref letter: NWCPC/P&D/FIL/153 Vol II(35) dated 5th May,2016.			
6.	<u>Cash & Cash Equivalent</u> Reconciliations with reconciling items	The Finance Committee of the Board resolved to write-off the same and it awaits full Board Resolutions	Managing Director	Not resolved	30 th November, 2018.
7.	<u>Irregular Payment of Acting Allowance</u> Allowances of Kshs. 1,312,652 were paid to officers assigned higher posts than those they were appointed to act.	The matter has been referred to the BoD for Direction as they had granted approval to pay the above allowances	Managing Director	Not resolved	1 st November, 2018
8.	<u>Nugatory Court Employee Compensation</u> Decision to terminate officers costed the Corporation Kshs. 42,638,986. Other similar cases were still pending before the Court and the Corporation may suffer huge losses	The Corporation budgeted for legal expenses during the year of audit. These funds are normally requested on an adhoc basis as Court decisions are difficult to predict. However, the Corporation will continue to appoint competent lawyers to ensure they get favourable outcomes in Court	Managing Director	Not resolved	1 st December, 2019

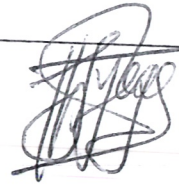
11.	Contingent Liabilities No note on Contingent Liabilities has been provided in the financial statements	A note on the contingent liabilities has been included in the Financial Statements	Managing Director	Resolved	
12.1	Trade Payables Reconciliation of the payables and failure to settle long outstanding payables	The trade payables are being reconciled and a pending bills committee has been put in place to interrogate the accuracy of the bills. Budget constraints have been identified as the challenge to settling these bills .	Managing Director	Not resolved	1 st October, 2019
12.2	Retention Money Retentions of over Kes.104,177,857.00 has been long outstanding	The long outstanding retentions have been paid out	Managing Director	Resolved	
12.3	Debit Balances Reconciliation of the payables and failure to settle long outstanding payables	The trade payables are being reconciled	Managing Director	Not resolved	1 st October, 2019
12.4	Unremitted Statutory Deductions Unremitted deductions of Kes.12,589,120.00	All statutory deductions have been remitted	Managing Director	Resolved	
13.0	Employees Secoded From Ministry of Water Reasons why the staff have not been absorbed for a long period	Staff have been released to the Ministry	Managing Director	Resolved	
9.	Inventories Stock taking reports were not provided	The stock taking reports are available for verification	Managing Director	Resolved	

		<p>in their jurisdictions. The deadline for such execution of transfer agreements was 30th June 2006. The transfer was to be in the form of signed transfer agreements. Though drafted, the transfer agreements were not signed. However, the Water Service Boards assumed the assets and the ensuing liabilities.</p> <p>Severally, the National Treasury has continued to claim from the Corporation, and the Corporation has written to the Ministry of Water seeking on its intervention for both the signing of the transfer agreements and assistance on repayment of the loan due before handing over. Through a letter dated 19th October, 2016 (See Annex 10), the Principal Secretary in the State Department of Water directed the Corporation to hand over the loan portfolio taken by the Corporation to the relevant Water Service Board as per the Transfer Plan.</p>			
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Ag. Managing Director

Date... 2nd Aug. 2018.



Chairman of the Board

Date... 2/8/2018

	and the accuracy and completeness of the inventory balance of Kshs. 75,555,344 could not be confirmed.	for verification	Director		
10.	<p><u>Long Outstanding Loan</u></p> <p>An on-lent loan of Kshs. 2,460,874,897 and the interest accrued for late payment has not been reflected in the financial statements</p>	<p>The Corporation had obtained three loans through various subsidiary agreements with the Government of Kenya for various projects. The loans were disbursed through the National Treasury who in turn disbursed to the Ministry of Water and Irrigation and thereafter the same was disbursed to the Corporation. The loans were to be serviced as per indicated repayment plans at the indicated interest rates. The proceeds obtained from water sales were to be partly used in defraying the same. However, the water tariffs were to be adjusted to accommodate the repayment but this was never done.</p> <p>On 12th August 2005, the then Minister for Water and Irrigation gazetted (Legal Notice No. 101 in the Kenya Gazette Supplement No. 61) the water (plan of transfer of water services) rules, 2005 to guide on the enactment of the Water Act 2002. The Notice required that the Corporation finalizes the transfer of certain roles relating to sale of water to Water Service Boards</p>	Managing Director	Not resolved	1 st June, 2018

APPENDIX II: PROJECTS IMPLEMENTED BY THE NWCPC CORPORATION

Status of Projects completion

	Project	Total project Cost	Total expended to date	Completion % to-date	Budget	Actual	Sources of funds
1	SIYOI DAM	9.9 billion	5,197,721,609.10	52%	1,317,712,048.00	1,317,712,048.00	G.O.K
2	UMAA DAM	824 million	1,732,682,788.58	61%	536,000,000.00	536,464,310.58	G.O.K
3	BADASA DAM	1.7 billion	2,056,301,910.05	57%	194,000,000.00	193,500,000.00	G.O.K
4	FLOOD CONTROL		128,000,000.00	100%	128,000,000.00	94,833,626.00	G.O.K

	<u>Bank Statement Date</u> <u>Month/day/year</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	10/11/2016	56,000,000.00	FY 2016/2017
	10/11/2016	56,000,000.00	FY 2016/2017
	11/4/2016	193,712,048.00	FY 2016/2017
	11/4/2016	102,000,000.00	FY 2016/2017
	11/28/2016	10,000,000.00	FY 2016/2017
	3/27/2017	244,000,000.00	FY 2016/2017
	3/31/2017	499,972,000.00	FY 2016/2017
	5/11/2017	194,000,000.00	FY 2016/2017
	5/11/2017	536,000,000.00	FY 2016/2017
	5/11/2017	400,000,000.00	FY 2016/2017
	07/01/2016	138,000,000.00	FY 2015/2016
	Total	2,429,684,048.00	
The above amounts have been communicated to and reconciled with the parent Ministry			
Finance Manager			
NWCPC			
Sign	_____		

APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA	Date received as per bank statement	Nature	Total Amount - KES	Where Recorded/recognized		Total Transfers during the Year
				Statement of Financial Performance	Deferred Income	
Ministry of Water & Sanitation	7/13/2016	Recurrent	7,691,667.00	7,691,667.00		7,691,667.00
Ministry of Water & Sanitation	9/22/2016	Recurrent	44,716,055.00	44,716,055.00		44,716,055.00
Ministry of Water & Sanitation	11/9/2016	Recurrent	14,905,352.00	14,905,352.00		14,905,352.00
Ministry of Water & Sanitation	12/19/2016	Recurrent	14,905,352.00	14,905,352.00		14,905,352.00
Ministry of Water & Sanitation	1/4/2017	Recurrent	14,905,352.00	14,905,352.00		14,905,352.00
Ministry of Water & Sanitation	2/2/2017	Recurrent	14,905,352.00	14,905,352.00		14,905,352.00
Ministry of Water & Sanitation	3/6/2017	Recurrent	14,905,352.00	14,905,352.00		14,905,352.00
Ministry of Water & Sanitation	4/7/2017	Recurrent	14,905,352.00	14,905,352.00		14,905,352.00
Ministry of Water & Sanitation	5/8/2017	Recurrent	14,905,352.00	14,905,352.00		14,905,352.00
Ministry of Water & Sanitation	6/9/2017	Recurrent	14,905,352.00	14,905,352.00		14,905,352.00
Ministry of Water & Sanitation	6/30/2017	Recurrent	14,905,352.00	14,905,352.00		14,905,352.00
Ministry of Water & Sanitation	10/11/2016	Development	56,000,000.00		56,000,000.00	56,000,000.00
Ministry of Water & Sanitation	10/11/2016	Development	56,000,000.00		56,000,000.00	56,000,000.00
Ministry of Water & Sanitation	11/4/2016	Development	193,712,048.00		193,712,048.00	193,712,048.00
Ministry of Water & Sanitation	11/4/2016	Development	102,000,000.00		102,000,000.00	102,000,000.00
Ministry of Water & Sanitation	11/28/2016	Development	10,000,000.00		10,000,000.00	10,000,000.00
Ministry of Water & Sanitation	3/27/2017	Development	244,000,000.00		244,000,000.00	244,000,000.00
Ministry of Water & Sanitation	3/31/2017	Development	499,972,000.00		499,972,000.00	499,972,000.00
Ministry of Water & Sanitation	5/11/2017	Development	194,000,000.00		194,000,000.00	194,000,000.00

Ministry of Water & Sanitation	5/11/2017	Development	536,000,000.00		536,000,000.00	536,000,000.00
Ministry of Water & Sanitation	5/11/2017	Development	400,000,000.00		400,000,000.00	400,000,000.00