
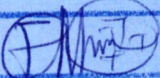
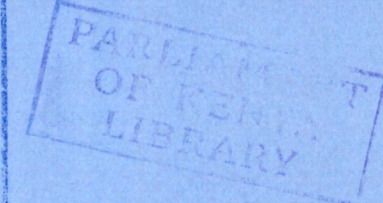


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 06 MAR 2019 06-03-19	DAY: WEDNESDAY
BY: MAJORITY LEADER	OF
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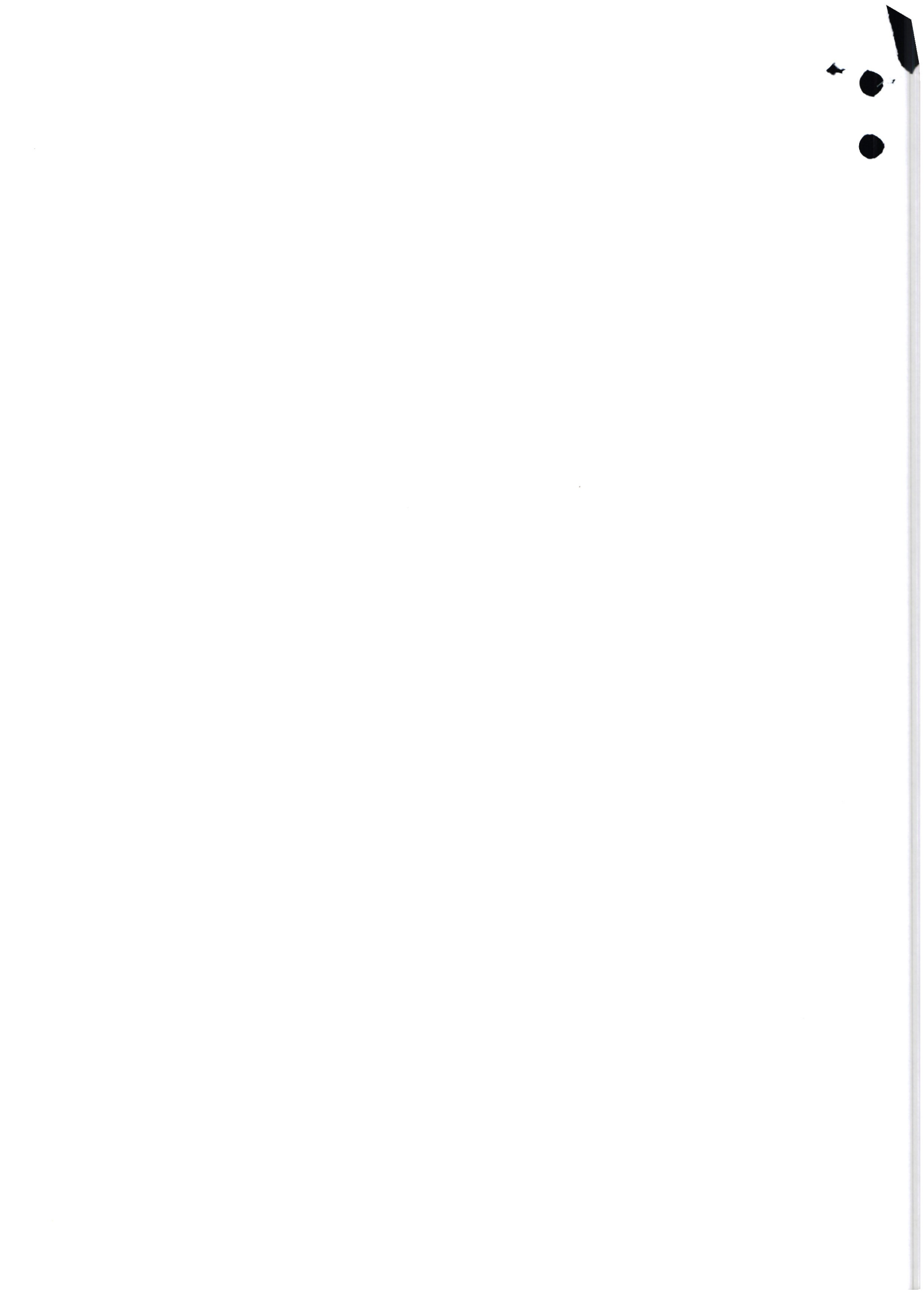


THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
LAKE VICTORIA NORTH
WATER SERVICES BOARD**

**FOR THE YEAR ENDED
30 JUNE 2017**





LAKE VICTORIA NORTH WATER SERVICES BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**

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

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I. KEY BOARD INFORMATION AND MANAGEMENT

(a) Background information

Lake Victoria North Water Services Board (LVNWSB) is one of the eight Water Services Boards established under the Water Act 2002, as part of the reforms in the water sector. The Board was established vide gazette notice No. 1717 dated 12th March 2004. The mandate of the Board is to contract, monitor and enforce agreements between the Board and Water Service Providers in accordance with regulations set by the Water Services Regulatory Board; ensure effective and economical provision of water services; monitor and acquire assets; plan, manage and develop water and sewerage services; and take custody of water services provision assets. The Board became fully operational in January 2005.

Lake Victoria North Water Services Board covers the entire Bungoma county, Busia County, Vihiga County, Kakamega county, Trans Nzoia County, Uasin Gishu County, part of Elgeyo Marakwet county and Nandi county. The total Boards' coverage area is approximately 24,420 sq. kms, with population of 6,629,888 (2009 National Population Census).

(b) Principal Activities

The core businesses as set out in its strategic plan are:

- (a) Plan, develop and manage water supply and sanitation assets.
- (b) Entering into service provision agreements with WSPs and monitoring their performance;
- (c) Supporting communities in the Board's area of responsibility, in the provision of water and sanitation.

Vision

To be the leading WSB in Kenya in the provision of accessible, adequate and quality water and sanitation services

Mission

To ensure sustainable provision of adequate, quality and affordable water and sanitation services.

Core Values

- (a) Good quality services; the board will endeavour to provide services that meet the expectations of its customers.
- (b) Good governance: the board will conduct its affairs in a transparent and accountable manner; and seek stakeholder participation in decision making process.

- (c) Transparency in staff employment: the board will at all times endeavour to appoint, reward and engage staff on merit basis.
- (d) Affirmative Gender Policy: the board will be an equal opportunity employer and will be sensitive to gender parity.
- (e) Teamwork and disciplined staff: the board will seek to have an organisation built on team work and high level of discipline.
- (f) Continuous learning: The board will be committed to continuous learning
- (g) Environmental Protection: The Board will remain a committed advocate of sustainable environment in all its dealings.

(c) Key Management

The LVNWSB'S day-to-day management is under the following key organs:

- Board of Directors
- Finance and Administration committee
- Audit Committee
- Technical and Environment committee
- The management

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Ag CEO	Anthony Kisaka
2.	Chief Manager Technical Services	Peter Ouma
3.	Corporation Secretary	Elizabeth Ngala
4.	Ag.Chief Manager Finance Strategy	Fredrick Toloyi

(e) Fiduciary Oversight Arrangements

Board of Directors; - Overall oversight and direction of all the board activities, the following are committees of the Board;

Finance and Administration Committee, whose main duties are: - to review financial statements and annual budgets; periodic review of staff remuneration and terms of service; appointments and disciplinary actions for senior staff; and general welfare of the Board's employees.

Audit Committee, whose main duty is to ensure that the systems of internal control are effective and complied with.

Technical Committee, whose focus is on issues arising from LVNWSB stewardship of essential water infrastructure and has a duty of reviewing the conditions and performance

of technical assets including projects. The committee is also tasked with ensuring safeguarding the environment.

Development partner oversight activities

For projects funded by external development partners, quarterly reports are submitted. The funds are audited by external auditors appointed by the donors on an annual basis.

(f) Board Headquarters

Kenfinco Complex
Kakamega-Kisumu Road
P.O Box 673 - 50100

KAKAMEGA

Tel: 254- 56-30795

Fax: 254-056-31506

E-mail: info@lvnwsb.go.ke

Website: www.lvnwsb.go.ke

(g) Bankers

Kenya Commercial Bank
Kakamega Branch
P.O Box 152 - 50100

KAKAMEGA

Cooperative Bank
Kakamega Branch
P.O Box 595- 50100

KAKAMEGA

Standard chartered bank
Kakamega Branch
PO BOX 292-50100

KAKAMEGA




(h) Independent Auditors

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

(i) Principal Legal Adviser

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

II. THE BOARD OF DIRECTORS

<p>1. Hon. Joseph Kipchumba Lagat-Chairman, LVNWSB. The Board's chairman was appointed by the president on 17th April, 2015 as Non-Executive Board Chair, Former MP Eldoret East Constituency, Uasin Gishu County. He is an economist, a holder of BA in Economics from Egerton University and MBA, Marketing Option from the University of Nairobi.</p>	
<p>2. Peter Kitelo Chongeywo - Chairman, Technical & Environmental Committee and also a member of Finance & Administration Committee. He was appointed on 14th June 2016 by the Cabinet Secretary Water & Irrigation as a Non- Executive Board member. He is an Electrical Engineer and a holder of Bachelor of Science in Electrical/Electronic Engineering.</p>	
<p>3. Isaac Kipyego Maiyo - Member of the Board. He was appointed on 14th June 2016 by the Cabinet Secretary Water & Irrigation as a Non- Executive director. He sits in Finance and Administration Committee as well as Technical and Environmental Committee. He served previously as a director at National Irrigation Board. He is an administrator being a holder of Bachelor's degree in Public Administration and Diploma in Public Administration. He has Certificate in County Governance.</p>	

▶ 4. **Robert Namunyu Wawire - Chairman, Audit & Risk Committee Chairman and also a member of Finance & Administration Committee.**

He was appointed on 14th June 2016 by the Cabinet Secretary Water & Irrigation as a Non- Executive Board member. He is a social worker and a holder of MA, Rural Sociology and Community Development from University of Nairobi and Postgraduate Diploma in Education from Kenyatta University. He also holds Bachelor of Science in Agriculture from University of Eastern Africa. He has worked as a lecturer at Kibabii University.



5. **Hezron Krop Ripko - Chairman, Finance & Administration Committee and also a member of Audit & Risk Committee.**



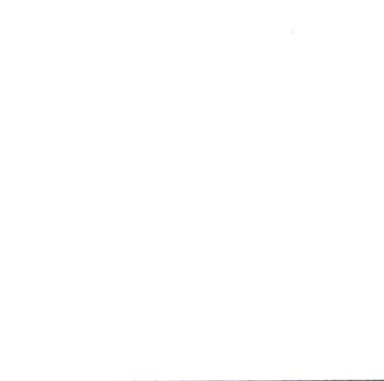
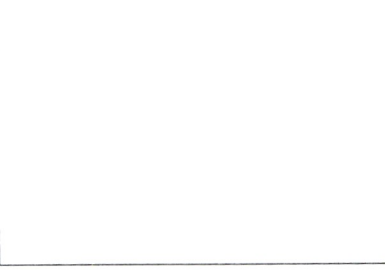
He was appointed on 17th April 2015 by the Cabinet Secretary Water & Irrigation as a Non- Executive Board member. He is a social worker having been awarded MSc. Organisational Development from USIU and Bachelors Degree in Community Development at Daystar University. He runs career related consultancy business in Nairobi.



6. **Jacinta Aluoch Odhiambo - A member of the Board of Directors.**

She was appointed on 14th June 2016 by the Cabinet Secretary Water & Irrigation as a Non- Executive director. She sits in Audit and Risk Committee as well as Technical and Environmental Committee. She is a development practitioner. A graduate of Brandeis University in Massachusetts USA (MA-Sustainable International Development), Kenyatta University in Nairobi Kenya (BA-Ed. French and Business Studies and active alumni of the Ford Foundation International Fellowship Program.



<p>7. Abdi Sheikh Mohamed - A member of the Board of Directors. He was appointed on 14th June 2016 by Cabinet Secretary Water & Irrigation as a Non- Executive director. He sits in Audit and Risk Committee as well as Finance and Administration Committee. He is a politician/HR/Peace Advocate. He holds Bachelor of Arts, Political Science - International Relations and Diploma in Human Resource Management.</p>	
<p>8. Robert Masika Watangwa - A member of the Board of Directors. He was appointed on 22nd January 2016 by the Cabinet Secretary Water & Irrigation as a Non- Executive director. He sits in Audit and Risk Committee as well as Technical and Environmental Committee. He holds a BA in Government/Literature, Diploma in Personnel Management, Diploma in Business Administration, an advanced Certificate in Education and also a holder of Certificate in Business Management.</p>	
<p>9. Eng John Mugo Muiruri - Alt. member of the Board of Directors. He was appointed on 23rd February 2016 as a Non- Executive director to represent Principal Secretary, State Department of Water - Ministry of Water & Irrigation. He is an Engineer and holds MBA, Esami BSc and Civil Engineering from the University of Nairobi.</p>	
<p>10. David Mbugua Gichuhi - Alt. member of the Board of Directors. He was appointed on 23rd February 2016 as a Non- Executive Director and inspector General representing Inspectorate of State Corporations.</p>	

11. Daniel Mutua - Alt. member of the Board of Directors.

He was appointed on 23rd February 2016 as a Non- Executive director to represent PS, National Treasury. He is an economist and holds B. Ed. (Eco/Buss) from Kenyatta University and MBA-ESAMI from Maastricht.










**12. CPA Anthony C Kisaka
Ag. Chief Executive Officer.**




He was appointed on 13th January 2017 by the Board of Directors as the acting Chief Executive officer. He previously held the position Chief Manager Finance & Strategy. He is a Certified Public accountant and he holds a B.com and an MBA from University of Nairobi.





1. MANAGEMENT TEAM

<p>1. CPA Anthony Kisaka</p> 	<p>Ag.Chief Executive Officer He was appointed on 13th January 2017 by the Board of Directors as the acting Chief Executive officer. He previously held the position Chief Manager Finance & Strategy. He is a Certified Public accountant and he holds a B.com and an MBA from University of Nairobi.</p>
<p>2. Eng Peter Ouma</p> 	<p>Chief Manager Technical Services Eng. Peter Ouma holds Bachelors of Science in civil engineering. He is a registered member with Engineers Board of Kenya and Corporate member of the Institution of Engineers of Kenya. He has 17 years experience in civil engineering works. He is well versed with development of funding proposals and software engineering skills.</p>
<p>3. Ms Elizabeth Ngala</p> 	<p>Corporation Secretary Elizabeth Kiasyo holds a Bachelor’s of Laws (LLB) Hons. Degree, a Post Graduate Diploma in Law, and Certified Public Accountant. Elizabeth is an advocate of the High Court of Kenya. She is a Certified Public Secretary registered with the Institute of Certified Public Secretaries of Kenya. Furthermore, she is a Member of Kenya Institute of Management. Elizabeth has wide experience in Legal, company secretarial and corporate governance having served in both private and public sectors. She is responsible for providing guidance and support to the Board and driving the corporate governance agenda.</p>

<p>4. CPA Fredrick T Musungu</p> 	<p>Ag.Chief Manager Finance and Strategy CPA Fredrick holds a Bachelor of Commerce (Accounting) Degree from Kenyatta University. He is full member of the Institute of certified public accountants of Kenya. He is a financial management and accounting professional with 16 years extensive experience in financial planning, analysis, reporting, general accounting operations and business process improvement.</p>
<p>5. Mr Peter Bett</p> 	<p>Manager Procurement Peter Bett holds Masters in Business Administration from India, Bachelor of Science Economics and a diploma in Education. He is a member of Kenya Institute of Supplies Management. He has over 20years experience in the field of procurement, wealth of practical experience in the public procurement and donor funded procurement procedures.</p>
<p>6. Ms Naomi Jelimo</p> 	<p>Manager Human Capital, Planning and Development Naomi Jelimo has 14 years of extensive experience in public sector and 10 years experience in management and human resource practise. She holds Masters in Business Administration, Bachelors in Agribusiness and a postgraduate diploma in human resource management. She is a member of Institute of Human Resource Management (IHRM).</p>
<p>7. Ms Nelly Mkoko</p> 	<p>Technical Manager Community Development Nelly C. K. Mkoko heads the Community Development Section which has the mandate of ensuring rural communities have sustainable access to portable water. She has a Bachelor Degree (BA) Economics and Sociology, Masters (MBA) Strategic Management and a holder of professional certificate in Monitoring and Evaluation. Has over 24 years experience in project planning, management and resource mobilization and proposal development.</p>

<p>8. Mr Daniel Owino</p> 	<p>Manager Corporate Affairs Daniel Odoyo Owino (MPRSK) Holds a Masters of Arts Degree in Media, Communication and Public Relations from Leicester University, UK, MA in Linguistics from Maseno University, Postgraduate Diploma in Public Relations from Kenyatta University and Bachelors of Education, Arts (Linguistics and Literature) from Kenyatta University. He is full member of the Public Relations Society of Kenya. Owino is a Communications Expert with several years of experience in Corporate Affairs Management and Communications gained mainly in the Public Service. Prior to joining LVNWSB he worked with the Teachers Service Commission and Egerton University.</p>
<p>9. Mr Christopher Bwire</p> 	<p>Technical Manager Infrastructure Development Eng Christopher Bwire has 13 years professional experience in designs, supervision and management of water and sanitation systems. He has handled large donor funded projects as well as mobilization of funds through bankable proposals. He holds an MSc Water Resources Engineering and BSc Civil Engineering from the University of Nairobi. He has knowledge in latest Engineering software. Registered with Engineers Board of Kenya and Corporate member of the Institution of Engineers of Kenya</p>
<p>10. Mr Julius Nyang'or</p> 	<p>Manager ICT Julius Omondi Nyang'or heads the Information and Communication Technology (ICT) section that has a mandate to support ICT functions within the Board. He is a Kenya and South Africa-trained ICT professional who holds MSc in Information Systems, Hons BSc in Information Systems and a BSc in Computer Science. He has over 21 years experience in different areas of ICT</p>

	<p>having worked in the government sector in both Kenya and Botswana.</p>
<p>11. CPA Yussuf Alhaji</p> 	<p>Manager Internal Audit CPA. Hassan Alhaji Yusuf holds MSC in Commerce (Finance and Investments) Bachelor of Commerce (Finance) Degrees. He is a full member of both the Institute of certified public accountants of Kenya (ICPAK) and Institute of Internal Auditors (IIA). He has a vast experience in Accounting, Financial management, Internal Auditing and Risk management. Prior to joining LVNWSB he worked with Oil City Limited and Telkom Kenya Limited as Finance manager and Internal Auditor respectively</p>
<p>12. Mr Dickson Opiyo</p> 	<p>Technical Manager Water Services Dickson Ouma Opiyo has Bachelor of Technology in civil Engineering From Egerton University, Higher Diploma in Structural Engineering and Diploma in Water Engineering from Kenya Polytechnic. He is a member of Institution of Engineering Technologist of Kenya (MIET) and registered with Kenya Engineering Technologist Registration Board (KETRB) as Professional Engineering Technologist (P.Eng. Tech). He has been in water sector since 1991.</p>

2. CHAIRMAN'S STATEMENT



I am pleased to present to you the Lake Victoria North Water Services Board Financial Report for the year ended 30th June 2017. This was indeed a very good year for the Board as is reflected in the ongoing infrastructural growth momentum, and progress made towards establishing LVNWSB as a critical player in the provision of water and sanitation services in its jurisdiction area.

Lake Victoria North Water Services Board (LVNWSB) is one of the eight Water Services Boards established in March 2004, under the Water Act 2002, as part of the reforms in the water sector. The Board is responsible for the efficient and economical provision of water and sewerage services within eight counties, i.e. Bungoma, Kakamega, Vihiga, Busia, Uasin Gishu, Trans-Nzoia, and parts of Nandi and Elgeyo Marakwet counties.

In undertaking our activities as per the Board's mandate, we are guided by a five year Strategic Plan, the Water Act 2016 and the Constitution of Kenya 2010. The Constitution places water services provision function under the county governments, leaving Major infrastructural developments within the purview of the national government.

During the period under review, the Board continued with its infrastructural investments programmes geared towards expanding service provision to our people in order to keep up with the growing demand for our services.

In the period under review, many new water supplies were completed and a number of old ones rehabilitated and operationalised. The majority of these were implemented under the Water and Sanitation Services improvement programme WaSSIP financed by the World Bank and the Government of Kenya. In addition, there were a number of small water supplies, boreholes, shallow wells and dams financed by the national government which were also operationalised during the period. The bulk of these small water supply projects funded by the national government majorly target the rural population which apparently form the bulk of our stakeholders.

The enormous success as is depicted in this statement is attributable to the sound corporate governance and management infrastructure at the Board. I thank the Government of Kenya through the Ministry of Water and Irrigation, our development partners and other stakeholders for their support and co-operation during the period. Finally, I also thank the Board of Directors for their continued commitment and support for providing the necessary oversight that has steered LVNWSB in the right direction; the Management and staff for their dedication and hard work without which this exemplary performance could not have been achieved. I look forward to continued support as we look forward to expanding the access to adequate, quality and affordable water and sanitation services within our area of service.

Hon. Joseph Lagat

Chairman of the Board

Lake Victoria North Water Services Board

3. REPORT OF THE CHIEF EXECUTIVE OFFICER



The financial year ending 30th June 2017 was one of the most successful in the history of Lake Victoria North Water Services Board, as can be seen in the Financial Report.

This year saw the completion of a number of major water supply projects in various locations within the Board area with financial support from our various development partners including the KIDDP (Italy), World Bank, KOICA (Korea), Belgium Government, African Development Bank (AfDB) and the Republic of Kenya through the Ministry of Water and Irrigation. Under the World Bank funded WASSIP Additional Financing, the Board undertook Expansion of Kapsoya Treatment Works and Ellegerini pipeline, Improvement of Water and Sanitation Services in informal settlements of Eldoret, Construction of Upstream Water Supply for Kapcherop and the Rehabilitation of Kwanza Water Supply System in addition to construction of several Drought Mitigation boreholes.

In the same period, the Sirisia - Chesikaki Water Supply was rehabilitated with financial support from the Government of the Republic of Kenya and the Italian Government under the KIDDP programme. In Bungoma County, the Board rolled out the Chwele Water Project funded by a grant from KOICA at a cost of over 5 Million USD. Other notable projects completed in the period also include Namwela Pipeline and Associated Works and Extension of Sewer lines within Milimani estate of Kitale among a host of small water supply projects financed mainly the National Government of Kenya targeted at increasing access in the rural areas and small and upcoming towns and growth centers.

During the period, the Board made took a major stride towards the commencement of the long awaited Greater Vihiga Gravity Project with the signing of the Commercial Contract with the CMI Industry Balteau. This programme earmarks to rehabilitate and expand Kaimosi, Mbale and Maseno Water Supply systems, the construction works is expected to commence in later in the year; 2017.

In the coming financial period, the Board has in place four major projects for roll out to be financed by the African Development Bank (AfDB) under the Kenya Small Towns Water and Sanitation Programme-Phase II. The Projects proposed for implementation under the programme include Malaba Water and Sanitation Project (Bungoma and Busia Counties) estimated to cost KShs. 1.1 Billion, Kiptogot-Kolongolo Water Supply Project estimated to cost Kshs 1.2 Billion and the Kipkarren Dam Treatment Works and Associated Pipelines estimated to cost Kshs 1.3 Billion.

In order to fast track expansion of the infrastructural investments and increase water and sanitation coverage, the Board has recently adopted a novel approach for sourcing for project financing under the Funding, Design and Build model. The two major projects earmarked to be financed under this arrangement in the next financial year include Keben Dam Water Supply Project estimated to cost Ksh 6 Billion, the Proposed Nzoia Multipurpose Water Project (Kakamega-Bungoma Bulk Water Supply Project) expected to cost over Kshs. 20 billion and the Kitale Cluster Water and Sanitation Project.

Looking ahead and in laying the foundation for greater water and sanitation infrastructural developments, the Board has planned to undertake designs and feasibility studies for a number of projects in the coming financial year. Some of the projects earmarked for this include the Mt-Elgon - Bungoma-Busia Gravity Water Project, Moi's Bridge-Matunda Water and Sewerage Works and Malava Gravity Scheme. Others are The Two Rivers Dam Water Supply project in Uasin Gishu County, Studies for Keben Dam and Water Supply in Nandi County, Studies for Kitale Sewerage for Kitale Sewerage Project in Trans Nzoia County, Studies for Kapsabet, Busia, Nambale and Webuye Towns Sewerage Projects and Studies for Mumias and Kimilili Sewerage Project.

During the reporting period and in line with our strategic plan, the Board procured for a consultancy services that are intended to help provide baseline information necessary for future planning. These services include development of the Eldoret and Satellite Towns Water Master Plan, Eldoret and Satellite Towns Sanitation Master Plan Consultancy, Non Revenue Water (NRW), Geographical and Information Systems (GIS) and Block Mapping for Kimilili and Mumias Water Supply Schemes Consultancy, Preparation of Investment Plan for the Board Area and Drought Mitigation Studies.

We will continue to work in partnership with all our stakeholders to ensure that the goals and aspirations set out in the Strategic Plan are achieved in an efficient and prudent manner.

**CPA Anthony Kisaka
Ag.Chief Executive Officer
Lake Victoria North Water Services Board**

4. CORPORATE GOVERNANCE STATEMENT

The Lake Victoria North Water Services Board is committed to the values and principles of good corporate governance. The Board of Directors and Management of the Board regard corporate governance as pivotal to the success of the Board and are committed to ensuring that the Board adheres to the highest standards of conduct and accountability in accordance with the best practice and principles of corporate governance. These principles are applied throughout all levels of the corporation.

The Role of the Board

The role of the board of Directors is to set the policy and strategy, to monitor the attainment of board's objectives and to ensure that the Board meets its obligations to stakeholders. The Directors are also responsible for overseeing the Board's assets and ensure the reliability of financial information used within the corporation. The Directors are also responsible for overseeing the Board's internal control system. These controls are designed both to safeguard the Board's assets and ensure reliability of financial information used within the corporation's business.

Board Committees

In line with guidelines issued by the Government, the board has delegated its authority to committees to deal with specific aspects of its responsibilities. These committees have specific terms of reference and reports to the full Board meeting. LVNWSB has the following Board committees:-

1. Finance and Administration Committee, whose main duties are: - to review financial statements and annual budgets; periodic review of staff remuneration and terms of service; appointments and disciplinary actions for senior staff; and general welfare of the Board's employees.
2. Audit and Risk management Committee, whose main duty is to ensure that the systems of internal control are effective and complied with.
3. Technical and Environment Committee, whose focus is on issues arising from LVNWSB stewardship of essential water infrastructure and has a duty of reviewing the conditions and performance of technical assets including projects. The committee is also tasked with ensuring safeguarding the environment.

Meetings of the Board

The Board of Directors and Board committees held the statutory meetings during the year.

Organisation Structure

Lake Victoria North Water Services Board has a clearly defined organisation structure within which individual responsibilities are identified in relation to internal financial controls. The structure is complemented by policies and management operates the business in compliance with these policies.

Management Team

The Chief Executive Officer chairs the Management team which comprises heads of department and other senior staff. The team deals with operational matters and coordinates activities across the Board's various departments/divisions, water schemes and water services providers.

5. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Lake Victoria North Water Services Board recognizes its obligations to act responsibly, ethically and with integrity in its dealings with staff, customers, neighbours and the environment as a whole.

To this end: -

1. The Board has integrated Corporate Social Responsibility in its operations and has established a budget line within its annual budget through which it supports its planned corporate social responsibility activities for each financial year.
2. The Board makes special efforts to improve the lives of identified disadvantaged in the communities it serves by donating water tanks, buckets, mosquito nets, bedding and sanitary equipments. In this, the Board mainly targets institutions of the disadvantaged including orphanages, homes for the old and special needs schools.
3. The Board also takes cognizance of the importance of environmental sustainability and undertakes annual catchment conservation and protection activities by planting seedlings in select catchment areas.

6. REPORT OF THE DIRECTORS

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

Principal activities

The mandate of the *LVNWSB* is to provide water and sewerage services in the eight counties under its jurisdiction. The principal activities are to contract water service providers (WSPs), asset development and maintenance.

Results

The results of the Board for the year ended 30th June, 2017 are set out on page 1.

	Kshs
Surplus/(Deficit) before depreciation and finance costs	6,971,366
Less: Depreciation	<u>(188,841,646)</u>
Surplus/(Deficit) before finance costs	<u>(181,870,280)</u>
Net Finance costs	-
Net surplus/(Deficit) for the period	<u>(181,870,280)</u>

Net deficit for the period

The Board registered a Deficit of **Ksh. 181,870,280** during the year.

Directors

The members of the Board of Directors who served during the year are shown on page **V**.

Auditors

The Auditor General is responsible for the statutory audit of the *Board* in accordance with the Section 81 of the Public Finance Management (PFM) Act, 2012 and Article 229 of the Constitution of Kenya.

By Order of the Board

Chief Executive Officer

Date: 2nd August, 2017

7. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 68 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act 446, require the Directors to prepare financial statements in respect of the *LVNWSB*, which give a true and fair view of the state of affairs of the *LVNWSB* at the end of the financial year/period and the operating results of the *LVNWSB* for that year/period. The Directors are also required to ensure that the *LVNWSB* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *LVNWSB*. The Directors are also responsible for safeguarding the assets of the *LVNWSB*.


The Directors are responsible for the preparation and presentation of the *LVNWSB's* financial statements, which give a true and fair view of the state of affairs of the *LVNWSB* 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 Board; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *LVNWSB*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *LVNWSB's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the *LVNWSB's* financial statements give a true and fair view of the state of *LVNWSB's* transactions during the financial year ended June 30, 2017, and of the *LVNWSB's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *LVNWSB*, which have been relied upon in the preparation of the *LVNWSB'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 *LVNWSB* will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The *Board's* financial statements were approved by the Board on 2nd August, 2017 and signed on its behalf by:


Chairman


Director



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON LAKE VICTORIA NORTH WATER SERVICES BOARD FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Lake Victoria North Water Services Board set out on pages 1 to 26 which comprise the statement of financial position as at 30 June 2017 and the statement of financial performance, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Lake Victoria North Water Services Board 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 comply with the Water Act, 2002.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective manner.

Basis for Qualified Opinion

1. Non-Current Assets

As previously reported in 2015/2016, the Board inherited non-current assets of undetermined value formally owned by the Ministry of Water and Irrigation and National Water Conservation and Pipeline Corporation in respect of water distribution infrastructure which have not been incorporated in the financial statements.

Consequently, it is not possible to confirm whether the carrying values as stated in the financial statements reflect the fair values of the properties.

2. Rehabilitation and Augmentation of Chesikaki – Cheptais-Sirisia Water Supply

As previously reported in 2015/2016, an overseas construction engineering company was awarded a tender for rehabilitation and augmentation of Chesikaki – Cheptais – Sirisia water

supply project at a contract sum of Kshs.117,209,380. According to International Federation of Consulting Engineers (FIDIC) General Terms and Conditions of Contract clause 13.5 payments of provisional sums should be based on actual amount incurred or due to be paid by a contractor.

However, the Board made initial payment to the contractor of Kshs.1,146,160 for insurances and Kshs.1,500,000 for land to put up a site camp at a time when the contractor had only incurred Kshs.149,887 on the project.

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

Key Audit Matters

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

Other Matter

1. Budget Variance

The budget relating to Lake Victoria North Water Services Board did not meet the above criteria as it contained huge variances between the estimated and actual income and also between estimated and actual expenditure in several components. There was an under receipt of income of Kshs.131,011,109 which is 23% of the expected income. There was also an under expenditure of Kshs.302,093,823 which was 33% of the expected expenditure as tabulated:

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue					
Government Grants	42,000,000	280,039,288	322,039,288	322,039,288	-
WSTF Grants	48,000,000	-	48,000,000	-	(48,000,000)
UNICEF Grants	75,000,000	-	75,000,000	-	(75,000,000)
Other Revenues	34,848,125	-	34,848,125	9,708,455	(25,139,670)
Levy Income from WSPs	82,321,680	-	82,321,680	81,776,759	(544,921)
Interest Income	-	-	-	17,673,483	17,673,483
Total income	282,169,805	280,039,288	562,209,093	431,197,984	(131,011,109)

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue					
Expenses					
Employee costs	102,857,330	-	102,857,330	101,417,295	1,440,035
Remuneration of Directors	15,947,600	1,453,184	17,400,784	17,400,784	0
Repairs and maintenance	11,946,450	2,224,645	14,171,095	14,171,095	(0)
Supply and services	8,822,262	8,259,101	17,081,363	17,081,363	0
Transport Costs	10,476,720	-	10,476,720	10,009,444	467,276
General expenses	43,480,308	16,204,526	59,684,834	59,684,834	(0)
Depreciation and amortization expense	362,392,129	-	362,392,129	188,841,646	173,550,483
Rural water supply Development	79,200,000	251,897,832	331,097,832	204,461,803	126,636,029
Total expenditure	635,122,799	280,039,288	915,162,087	613,068,264	302,093,823
Surplus for the period	(352,952,994)	(0)	(352,952,994)	(181,870,280)	(433,104,932)

2. Leseru Water Project

It was noted that the contract agreement for the project (contract sum Kshs.56,371,411) as indicated in the kick-off minutes dated 16 May 2016 shows that the expected completion period was twelve months with commencement date of 16 May 2016. However, it was noted that about six months after the expected completion time, the project was still far away from completion.

Also, the Board did not provide a progress report to show the level of completion of the project.

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 Board's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to going concern/ sustainability of services 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 Board'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 Board'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 Board'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 consolidated/ financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my

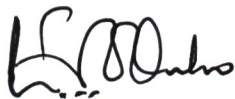
audit report. However, future events or conditions may cause the Board to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements.

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 consolidated /financial statements of the current period and are therefore the key audit matters. These matters are described in my 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

21 January 2019

8. STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2017	Note	2016-2017 Kshs	2015-2016 Kshs
Revenue from non-exchange transactions			
Transfers from other Governments-gifts and services-in-kind	3	322,039,288	182,161,764
Levy Income from WSPs	4	81,776,759	82,267,575
		403,816,047	264,429,339
Revenue from exchange transactions			
Other Income	5	9,708,454	7,955,502
Finance Income	6	17,673,483	16,470,538
		27,381,937	24,426,040
Total revenue		431,197,984	288,855,379
Expenses			
Employee costs	7	101,417,295	90,732,290
Remuneration of Directors	8	17,400,784	16,577,954
Depreciation and amortization expense	9	188,841,646	219,134,766
Repairs and maintenance	10	14,171,095	10,468,809
Supply and services	11	17,081,363	12,734,625
Transport Costs	12	10,009,444	6,455,445
General expenses	13	59,684,834	44,564,007
Rural water supply Development	14	204,461,803	105,691,359
Total expenses		613,068,264	506,359,256
Other gains/(losses)			
Surplus before tax		(181,870,280)	(217,503,877)
Taxation		-	-
Surplus for the period		(181,870,280)	(217,503,877)

The notes set out on pages 6 to 20 form an integral part of the Financial Statements

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**XII. STATEMENT OF FINANCIAL POSITION
As at 30 June 2017**

	Note	2016-2017 Kshs	2015-2016 Kshs
Assets			
Current assets			
Cash and cash equivalents	15	1,047,049,584	474,123,711
Receivables from exchange transactions	16	424,176,317	364,212,233
Receivables from non-exchange transactions	17	179,772,586	47,221,224
Inventories	18	411,091	719,813
		1,651,409,578	886,276,982
Non-current assets			
Property, plant and equipment	19	5,770,744,424	5,955,786,789
Capital Works In Progress	20	6,184,148,280	5,464,358,580
		11,954,892,704	11,420,145,369
Total assets		13,606,302,282	12,306,422,351
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	21	130,576,673	202,295,040
Provisions	22	15,446,006	13,612,802
Deferred income	23	340,211,423	170,496,710
Employee benefit obligation	24	3,809,948	3,428,763
Taxation	25	8,015,044	6,096,092
		498,059,094	395,929,407
Non-current liabilities			
Borrowings	26	11,290,920,692	10,549,421,692
		11,290,920,692	10,549,421,692
Total liabilities		11,788,979,7856	10,945,351,099
Net assets		1,817,322,496	1,361,071,252
Reserves		2,894,982,135	2,256,860,612
Accumulated surplus/deficit		(1,077,659,639)	(895,789,359)
Total net assets and liabilities		1,817,322,496	1,361,071,252

The Financial Statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:
Chief Executive Officer

Chairman of the Board

Date.....

Date.....

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

	Note	Total Kshs
Balance as at 30 JUNE 2015	27	1,429,740,226
Transfers to/from during the period		148,834,903
Surplus for the period		(217,503,877)
Balance as at 30 JUNE 2016	27	1,361,071,252
Transfers to/from during the period		638,121,524
Surplus for the period		(181,870,280)
Transfers to/from accumulated surplus		-
Balance as at 30 JUNE 2017	27	1,817,322,496

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XIV. STATEMENT OF CASH FLOWS

	Note	2016-2017 Kshs	2015-2016 Kshs
Cash flows from operating activities		(181,870,280)	(217,503,877)
Excess of income over Expenditure		188,841,646	219,134,766
Adjustment Provision/Depreciation		6,971,366	1,630,889
Operating Surplus		(192,515,445)	(38,022,444)
Increase in debtors		308,722	205,707
Increase in stores		102,129,685	104,529,963
Decrease in Creditors		(90,077,038)	66,713,225
Net working capital		(83,105,672)	68,344,114
Net Cash flows from operating activities			
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	19	(3,799,280)	(905,183)
Additional Capital works in progress	20	(719,789,699)	(614,035,107)
Net cash flows used in investing activities		(723,588,979)	(614,940,290)
Cash flows from financing activities			
Proceeds from borrowings	26	741,499,000	131,816,014
Increase in deposits		638,121,524	148,834,903
Net cash flows used in financing activities		1,379,620,524	280,650,917
Net increase/(decrease) in cash and cash equivalents		572,925,873	(265,945,260)
Cash and cash equivalents at 1 JULY 2016	15	474,123,711	740,068,970
Cash and cash equivalents at 30 JUNE 2017	15	1,047,049,584	474,123,711

V. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget 2016-2017 Kshs	Adjustments 2016-2017 Kshs	Final budget 2016-2017 Kshs	Actual on comparable basis 2016-2017 Kshs	Performance difference 2016-2017 Kshs
Revenue					
Government Grants	42,000,000	280,039,288	322,039,288	322,039,288	-
WSIF Grants	48,000,000	-	48,000,000	-	(48,000,000)
UNICEF Grants	75,000,000	-	75,000,000	-	(75,000,000)
Other Revenues	34,848,125	-	34,848,125	9,708,455	(25,139,670)
Levy Income from WSPs	82,321,680	-	82,321,680	81,776,759	(544,921)
Interest Income	-	-	-	17,673,483	17,673,483
Total income	282,169,805	280,039,288	562,209,093	431,197,984	(131,011,109)
Expenses					
Employee costs	102,857,330	-	102,857,330	101,417,295	1,440,035
Remuneration of Directors	15,947,600	1,453,184	17,400,784	17,400,784	0
Repairs and maintenance	11,946,450	2,224,645	14,171,095	14,171,095	(0)
Supply and services	8,822,262	8,259,101	17,081,363	17,081,363	0
Transport Costs	10,476,720	-	10,476,720	10,009,444	467,276
General expenses	43,480,308	16,204,526	59,684,834	59,684,834	(0)
Depreciation and amortization expense	362,392,129	-	362,392,129	188,841,646	173,550,483
Rural water supply Development	79,200,000	251,897,832	331,097,832	204,461,803	126,636,029
Total expenditure	635,122,799	280,039,288	915,162,087	613,068,264	302,093,823
Surplus for the period	(352,952,994)	(0)	(352,952,994)	(181,870,280)	(433,104,932)

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9. NOTES TO THE FINANCIAL STATEMENTS

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

The Board's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Board and all values are rounded to the nearest thousand (Ksh000). 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 indirect method. The financial statements are prepared on accrual basis.

The Public Finance Management (PFM) Act 2012 Section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for state organs operating as Commercial Business Entities and The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, the Lake Victoria North Water Services Board has adopted the pronouncements made by the IPSAS board in preparation of its current year financial statements.

2. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Fees, taxes and fines

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

Transfers from other government entities

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

ii) Revenue from exchange transactions – IPSAS 9

Rendering of services

The Board 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.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Board.

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.

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.

b) Budget information - IPSAS 24

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Board. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Board 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) Investment property - IPSAS 16

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

e) Property, plant and equipment - IPSAS 17

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Board 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.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Furniture, office equipment & fittings	12.5%
Computers & Accessories	33.3%
Motor vehicle	25 %
Plant, machinery & equipment	20%
Water Supply infrastructure	2.5%
Buildings	10%

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f) Leases – IPSAS 13

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Board. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Board also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Board will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Board. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

g) Intangible assets – IPSAS 31

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

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

i) Research and development costs

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

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

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

h) Financial instruments – IPSAS 29

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Board determines the classification of its financial assets at initial recognition.

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Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Financial assets are valued at the lower of cost or net realizable value. Management estimates the amount of accounts receivable that will not be collectible and provides an allowance for doubtful accounts. Estimates are based upon such factors as an aging of outstanding balances, collection experience, legal advice and known factors such as customers in bankruptcy.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Board has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Board assesses at each reporting date whether there is objective evidence that a financial asset or a Board of financial assets is impaired. A financial asset or a Board of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Board of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a Board of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Board determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

IPSAS 29.65

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

i) Inventories - IPSAS 12

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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 conditions 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 are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Board.

j) Provisions – IPSAS 19

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

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

Contingent liabilities

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

Contingent assets

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

k) Nature and purpose of reserves

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

l) Changes in accounting policies and estimates – IPSAS 3

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

m) Employee benefits – IPSAS 25

Retirement benefit plans

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

n) Foreign currency transactions – IPSAS 4

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

o) Borrowing costs – IPSAS 5

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

p) Related parties – IPSAS 20

The Board regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Board, or vice versa. Members of key management are regarded as related parties and comprise the Board of Directors, CEO, Chief managers.

q) Service concession arrangements – IPSAS 32

The Board analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Board recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Board also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

r) 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

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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.

s) Comparative figures

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

t) Significant judgments and sources of estimation uncertainty - IPSAS 1

The preparation of the Board'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.

State all judgements, estimates and assumptions made: e.g

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 Board 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 Board. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

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 Board
- 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.

Assumptions were used in determining the provision for rehabilitation of landfill sites. Landfill areas are rehabilitated over years and the assumption was made that the areas stay the same in size for a number of years.

Provision is made for the estimated cost to be incurred on the long-term environmental obligations, comprising expenditure on pollution control and closure over the estimated life of the landfill. The provision is based on the advice and judgment of qualified engineers.

The estimates are discounted at pre-tax discount rates that reflect current market assessments of the time value of money.

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The increase in the rehabilitation provision due to passage of time is recognized as finance cost in the statement of financial performance.

The cost of ongoing programs to prevent and control pollution and rehabilitate the environment is recognized as an expense when incurred.

u) Grants and deferred income

Grants are recognized when:

- i) The board will comply with the conditions attaching to them
- ii) The grants has been received

Grants are recognized in the statement of financial performance in the same periods that the related expenses are recognized.

Grants exclude assistance that cannot reasonably be valued, and transactions between the government and the board that are in the normal course of business.

v) Subsequent events - IPSAS 14

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

3. Transfers from other Governments-gifts and services-in-kind

Unconditional Grants

Government Grants

Actual	2017	2016
	Shs	Shs
Recurrent	42,000,000	20,625,000
Development	280,039,288	155,072,355
Total Government Grants	322,039,288	175,697,355

Conditional Grants

Rural Water Supply Development Grants

	2017	2016
	Shs	Shs
UNICEF	-	6,464,409
Total	-	6,464,409
Total Government grants and subsidies	322,039,288	182,161,764

4. Levy Income from WSPs

	2017	2016
	Shs	Shs
Billed revenue from WSPs	81,776,759	82,267,575
Total transfers and sponsorships	81,776,759	82,267,575

5. Other Income

	2017	2016
	Shs	Shs
Sale of tenders, Water bowsers services & Other income	9,708,454	7,955,502
Total	9,708,454	7,955,502

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6. Finance Income

	2017	2016
	Shs	Shs
Interest from WaSSIP funds	17,673,483	16,470,538
Total revenue from the sale of goods	17,673,483	16,470,538

7. Employee costs

	2017	2016
	Shs	Shs
Basic salary and house allowance	70,872,864	62,706,134
Other allowances	3,923,705	2,668,872
Staff recruitment expenses	316,449	1,365,753
Staff welfare expenses	1,070,078	1,136,422
Commuter allowance	5,985,176	5,613,391
Medical allowance/expenses	6,793,234	6,927,081
Contributions to pensions/NSSF	10,696,348	8,993,944
Leave allowance & Accrued leave expense	1,759,441	1,320,694
Employee costs	101,417,295	90,732,290

8. Remuneration of directors

	2017	2016
	Shs	Shs
Board committee & conference	16,440,784	15,617,954
Honoraria for chairman	960,000	960,000
Total Board remuneration	17,400,784	16,577,954

9. Depreciation and amortization expense

	2017	2016
	Shs	Shs
Furniture, Office equipment and fittings	80,070	97,851
Computers and related equipments	1,177,508	445,850
Motor Vehicles	120,000	120,000
Plant, Machinery and equipments	-	31,024,874
Water supply infrastructure	187,464,068	187,446,191
Total depreciation and amortization	188,841,646	219,134,766

10. Repairs and maintenance

	2017	2016
	Shs	Shs
Laboratory/quality control expenses	400,250	530,065
Maintenance of equipments	392,047	165,048
Minor alteration to building	2,215,150	210,190
Maintenance of computers	-	161,900
Electricity expenses-Interim WSPs	-	1,120,243
Monitoring and evaluation	9,247,088	6,077,302
Support to water service providers	1,916,560	2,204,061
Total repairs and maintenance	14,171,095	10,468,809

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11. Supplies and Services	2017	2016
	Shs	Shs
Advertisement and publicity	1,739,888	-
Computers stationery and accessories	622,593	7,000
Courier and postal services	607,792	336,577
General office supplies	2,672,356	2,876,511
Internet connections/ICT Expenses	1,544,070	2,209,612
Legal and professional services	4,424,650	2,476,285
Hospitality supplies & services	95,610	113,815
Professional subscriptions and membership	289,820	262,009
Publishing & printing services	354,660	1,147,340
Purchase of uniforms	8,500	26,550
Sanitary and cleaning materials	29,916	29,572
Subscription to newspapers	566,319	427,164
Telephone, Fax and mobile phones	241,985	142,131
Tender/Seek quotations	3,883,204	2,680,059
Total contracted services	17,081,363	12,734,625

12. Transport Costs	2017	2016
	Shs	Shs
Transport operating costs-MV Maintenance	1,347,051	815,843
Motor vehicle insurance	2,085,288	1,734,769
Fuels and oils for motor vehicle	6,577,105	3,904,833
Total grants and subsidies	10,009,444	6,455,445

13. General Expenses	2017	2016
	Shs	Shs
Electricity & Water	852,179	1,055,016
Trade shows & exhibitions	946,520	2,560,345
National Celebrations	1,764,555	-
Training expenses	11,180,544	12,382,790
Workshops and meeting expenses	6,309,929	3,396,586
Contracted guards & cleaning services	2,996,998	2,552,656
Corporate social responsinsibility,publicity	-	-
Audit and accountancy	2,320,000	-
Staff travel and accommodations	8,286,753	11,074,661
Board establishment costs	5,915,760	1,872,552
Board Capacity Development	5,874,259	1,409,300
Research and development	762,300	100,550
ISO Preparation and acquisition expenses	4,591,736	1,757,612
Work environment survey/safety	675,936	1,618,839
Adjustment on provisions of debtors	6,662,676	4,548,123
Bank Charges	544,690	234,977
Total general expenses	59,684,834	44,564,007

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14. Rural water supply Development

	2017	2016
	Shs	Shs
Rehabilitation of water supplies-UNICEF Funded	325,695	1,961,094
Rural water supply development-Design & Construction	204,136,108	103,730,265
Total	204,461,803	105,691,359

15. Cash and cash equivalents

		2017	2016
		Shs	Shs
KCB Revenue account	1103686909	369,305,449	77,057,473
KCB Recurrent account	1103686550	3,616,304	37,148,339
KCB Development account	1103686313	16,815,835	8,557,160
KCB KISIP Account	1130930009	13,555,023	27,290,065
Cooperative bank Development	01136098355501	373,455,740	60,773,273
Cooperative bank gratuity	01136098355500	4,532,169	3,620,580
Standard Chartered- KIDDP	0102002530000	10,182,500	5,251,856
Standard Chartered- WaSSIP	0102002530002	251,395,196	250,011,975
Standard Chartered- UNICEF	0102002530001	3,764,618	4,377,991
MPESA	909318	426,750	35,000
Total cash and cash equivalents		1,047,049,584	474,123,711

16. Receivables from exchange transactions

		2017	2016
		Shs	Shs
Current receivables			
WSP Debtors		424,176,317	364,212,233
Total current receivables		424,176,317	364,212,233
Non-current receivables		-	-
Total non-current receivables		-	-
Total receivables		424,176,317	364,212,233

17. Receivables from non-exchange contracts

		2017	2016
		Shs	Shs
Current receivables			
Imprest due from staff		1,052,261	4,441,520
Salary Advances		113,511	2,192,018
Contractor Debtors -WaSSIP-Account		171,378,083	24,008,877
Contractor Debtors - KIDDP and Unicef		7,228,731	16,578,809
Total current receivables		179,772,586	47,221,224

18. Inventories

		2016	2016
		Shs	Shs
Consumable stores		411,091	719,813
Total inventories at the lower of cost and net realizable value		411,091	719,813

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19 Property, Plant and Equipments

Cost or Valuation	Furniture office equipment&fittings 12.5%	Computer & Accessories 33.3%	Motor Vehicle 25%	Plant, Machinery & Equipment 20%	Water Supply Infrastructure 2.5%	Land and Buildings	Total
As at July 1,2015	4,563,151	9,785,870	67,752,821	161,135,116	6,668,548,067	225,245,323	7,137,030,348
Additions at cost	-	461,600				450,000	911,600
Disposals		69,000					69,000
As at June 30,2016	4,563,151	10,178,470	67,752,821	161,135,116	6,668,548,067	225,695,323	7,137,872,948
Depreciation							
Balance as at June 30,2015	4,300,363	9,376,260	67,512,823	130,110,241	668,790,743	82,929,964	963,020,394
Charge for the year	97,850	445,849	119,999	31,024,875	166,713,702	20,732,491	219,134,766
Disposals		69,000					69,000
Balance as at June 30,2016	4,398,213	9,753,109	67,632,822	161,135,116	835,504,445	103,662,455	1,182,086,160
Net book Values							
As at June 30,2015	262,789	409,610	239,999	31,024,875	5,999,763,742	142,315,360	6,174,016,374
As at June 30,2016	164,938	425,361	120,000	-	5,833,043,622	122,032,868	5,955,786,789
Cost or Valuation	Furniture office equipment&fittings 12.5%	Computer & Accessories 33.3%	Motor Vehicle 25%	Plant, Machinery & Equipment 20%	Water Supply Infrastructure 2.5%	Land and Buildings	Total
As at July 1,2016	4,563,151	10,178,470	67,752,821	161,135,116	6,668,548,067	225,695,323	7,137,872,948
Additions at cost	357,320.00	2,726,960			715,000	-	3,799,280
Revaluations							
Disposals		-					-
As at June 30,2017	4,920,471	12,905,430	67,752,821	161,135,116	6,669,263,067	225,695,323	7,141,672,228
Depreciation							
Balance as at June 30,2016	4,398,213	9,753,109	67,632,822	161,135,116	835,504,445	103,662,455	1,182,086,159
Charge for the year	80,070	1,177,508	120,000	-	166,731,577	20,732,491	188,841,645
Disposals		0					0
Balance as at June 30,2017	4,478,283	10,930,617	67,752,822	161,135,116	1,002,236,021	124,394,946	1,370,927,805
Net book Values							
As at June 30,2016	164,938	425,361	120,000	-	5,833,043,622	122,032,868	5,955,786,789
As at June 30,2017	442,188	1,974,813	(1)	-	5,667,027,046	101,300,377	5,770,744,424

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20. Capital Works In Progress	2017	2016
WaSSIP	Shs	Shs
Balance at the beginning of the year	4,877,148,877	4,488,277,646
Additional during the year	638,650,694	388,871,229
Balance as at 30 June	5,515,799,571	4,877,148,877
KIDDP		
Balance at the beginning of the year	218,362,141	206,777,544
Additional during the year	5,036,622	11,584,598
Balance as at 30 June	223,398,762	218,362,141
Pans & Dams		
Balance at the beginning of the year	368,847,563	155,268,282
Additional during the year	76,102,384	213,579,280
Balance as at 30 June	444,949,947	368,847,563
Total Capital Works In Progress	6,184,148,280	5,464,358,580
21. Trade and Other payables	2017	2016
	Shs	Shs
WaSSIP payables	69,866,122	112,884,453
General Suppliers	56,662,448	77,955,925
Other payables	4,048,102	11,454,661
Total trade and other payables	130,576,673	202,295,040
22. Current provisions	2017	2016
	Shs	Shs
Balance at the beginning of the year	13,612,802	5,112,802
Additional provisions raised	1,833,204	8,500,000.00
Balance as at 30 June 2017	15,446,006	13,612,802
23. Deferred income	2017	2016
	Shs	Shs
Balance at the beginning of the year(National government)	170,496,710	120,657,802
Addition during the year	449,754,000	204,911,264
Deferred Income utilized	(280,039,288)	(155,072,355)
Total deferred income	340,211,423	170,496,710

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24. Pensions and other post-employment benefit plans

	2017	2016
	Shs	Shs
Balance at the beginning of the year	3,428,763	5,502,035
Current benefit obligation	3,548,723	0
Gratuity released in the year	(3,167,539)	(2,073,272)
Total employee benefit liability	3,809,948	3,428,763

25. Taxation

	2017	2016
	Shs	Shs
Withholding VAT	4,848,482	3,540,829
Withholding tax	3,166,562	2,555,263
Total	8,015,044	6,096,092

26. Borrowings

	2017	2016
	Shs	Shs
KFW LOAN		
Balance at the beginning of the year	5,957,479,502	5,957,479,502
During the year	-	-
Less: total current portion of bank loans	-	-
	5,957,479,502	5,957,479,502
IDA LOAN		
Balance at the beginning of the year	4,591,942,190	4,460,126,176
During the year	741,499,000	131,816,014
Less: total current portion of bank loans	-	-
	5,333,441,190	4,591,942,190
Total non-current borrowings	11,290,920,692	10,549,421,692

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27. Statement of changes in net assets

	Grants Kshs	Grants KIDDP Kshs	Grants KFW Kshs	Accumulated surplus Kshs	Grants GOK Kshs	Total Kshs
Balance as at 30 JUNE 2015	25,924,938	187,048,424	221,783,948	(678,285,482)	1,673,268,399	1,429,740,226
Transfers to/from during the period		50,000,000	-		98,834,903	148,834,903
Surplus for the period	-	-	-	(217,503,877)		(217,503,877)
Balance as at 30 JUNE 2016	25,924,938	237,048,424	221,783,948	(895,789,359)	1,772,103,302	1,361,071,252
Transfers to/from during the period		57,850,524	-		580,271,000	638,121,524
Surplus for the period	-	-	-	(181,870,280)		(181,870,280)
Transfers to/from accumulated surplus	-	-	-		-	-
Balance as at 30 JUNE 2017	25,924,938	294,898,947	221,783,948	(1,077,659,639)	2,352,374,302	1,817,322,496

Grants from KIDDP (Kenya Italy Debt Development Project) relates to projects funded by the Italy Government for water projects within the Board area.

Grants from KFW (German Development Bank) relates to development of water projects in Trans Nzoia, Bungoma, Kakamega & Busia counties.

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28. RELATED PARTY DISCLOSURE

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

The following have significant influence over the boards operating and financial decisions

- i) County Governments within the boards area of Jurisdiction
- ii) Water Service trust fund
- iii) WASREB
- iv) WARMA
- v) Water Service Providers
- vi) Development partners
- vii) Key management
- viii) Board of directors

	2017	2016
	KES	KES
a) Related party transactions		
Grants received from related parties' GOK	1,072,025,000	324,371,167
Grants received from related parties' Others	57,850,524	50,000,000
Loans received from related parties' IDA	741,499,000	131,816,014
	<u>1,871,374,524</u>	<u>506,187,181</u>
b) Key management remuneration		
Directors	17,400,784	16,577,954
Key management compensation	13,817,159	7,843,720
	<u>31,217,942</u>	<u>24,421,674</u>
c) Due from related parties		
Due from Water Services Companies	424,176,317	364,212,233
	<u>424,176,317</u>	<u>364,212,233</u>
d) Due to related parties		
Due to GOK	10,333,204	8,500,000
Due to county Busia	1,552,802	1,552,802
	<u>11,886,006</u>	<u>10,052,802</u>

29. Financial Risk Management

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

The company's financial risk management objectives and policies are detailed below:

(j) Credit risk

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The company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Board's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Board's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Fully performing	Past due	Impaired
At 30 June 2017	Ksh	Ksh	Ksh
Trade receivables	179,772,586	424,176,317	-
Bank balances	1,047,049,584	-	-
At 30 June 2016			
Trade receivables	47,221,224	364,212,233	-
Bank balances	474,123,711	-	-

The customers under the fully performing category are paying their debts as they continue operating. The credit risk associated with past due receivables is minimal and the allowance for uncollectible amounts that the Board has recognized in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The bank balance consists of funds held in savings and current accounts.

The Board has significant concentration of credit risk on amounts due from Water Service providers.

The board of directors sets the Board's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

(ii) Liquidity risk management

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

The table below represents cash flows payable by the Board under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant. The liability will however be disposed of when funding is received or the defects liability period for projects is complete.

	Less than 1 month	Between 3- 12 months	Over 12 Months	Total
At 30 June 2017				
Trade Payables	9,368,163	39,335,116	81,873,394	130,576,673
At 30 June 2016				
Trade Payables	13,385,735	31,761,520	157,147,784.52	202,295,040

(iii) Market Risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the LVNWSB on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate and foreign exchange rates which will affect the Board's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Board's Finance and Strategy department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the Board's exposure to market risks or the manner in which it manages and measures the risk.

(a) Foreign Currency Risk

The Board has transactional currency exposures. Such exposure arises through purchases of works, goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid within 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

As at the end of the reporting period the board did not have any assets or liabilities denominated in foreign currency.

(b) Interest Rate Risk

Interest rate risk is the risk that the Board's financial condition may be adversely affected as a result of changes in interest rate levels. The Board's interest rate risk arises from bank deposits. The interest rate risk exposure arises mainly from interest rate movements on the Board's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavored to bank with institutions that offer favorable interest rates.

(iv) Capital management

Capital managed by the Board is the equity attributable to the equity holders (GOK). The primary objective of the Board's capital management is to ensure that it maintains healthy capital ratio in order to support its business.

The Water business is currently in the growth phase driven by a rise in demand and Government policy. The funding of Water capacity is obtained from exchequer funding, donor funding from international institutions and cash generated from water asset lease fees. The adequacy of water tariffs allowed by the regulator and the level of Government support are key factors in the sustainability of the Board.

30. Contingent Liabilities

	2017	2016
	Ksh	Ksh
Legal Contingent Liabilities	<u>3,600,000</u>	=

The likely outcome of these suits cannot be determined as at the date of signing these financial statements.

Based on the information currently available, the Directors believe that the ultimate resolution of these legal proceedings would most likely not have a material effect on the results of the Board's operations, financial position or liquidity.

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31. 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.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1. Presentation, Accuracy and Completeness of Financial Statements.	The International Public Sector Accounting Standards (Accruals Basis) financial statements presentation format prescribed by The National Treasury requires the management to include the action taken on previous year's auditors recommendations. In the year 2014/2015, Lake Victoria Water service Board had a qualified audit opinion however no report on the follow up of action taken on audit issues raised was included in the financial statements for the year under review.	The report was part of the statements	Chief Manager Finance & Strategy	Resolved	
1. Presentation, Accuracy and Completeness of Financial Statements	Further, deferred income balance of Ksh.170, 496,710.00 under note 6 on the statement of financial position was not supported by any schedule to analyze the movement of	Information was provided in response to draft report	Chief Manager Finance & Strategy	Resolved	

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	balances. In addition, receivables on exchange transactions of Kshs.364,212,233 reflected in the statement differs with the ledger amount of Kshs.364,070,459 resulting in unreconciled variance of Kshs. 141,774.				
2.Non-Current Assets	Assets previously by National Water Conservation and pipeline and the Ministry of Water and Irrigation have not been incorporated in the accounts.	The board is pursuing the transfer of ownership of the assets from National Water Conservation and pipeline and the Ministry of Water and Irrigation.	Corporation Secretary	Not resolved	One year
3.Rehabilitation and Augmentation of Chesikaki-Cheptais-Sirisia Water Supply Project.	M/s Zhonghao Overseas Construction Engineering was awarded a tender for rehabilitation and augmentation of chesikaki-cheptais-sirisia water supply project at a contract sum of Kshs.117,209,380. According to International Federation of Consulting Engineers (FIDIC) General Terms and Conditions of Contract Clause 13.5 payment of provisional sums should be based on actual amount incurred or due to be paid by a Contractor. However, the board made initial payment to the contractor of Kshs.1,146,160 for insurance and Kshs.1,500,000 for land to put up a site camp at a time when the contractor had only incurred Kshs.149,887 on the project. Similarly, there was no evidence of		Chief Manager Technical Services		

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	<p>expenses incurred by the contractor amounting to Kshs.1,000,000 on the billed item no.3.60 for survey of clear water gravity main to allow review of the design. Further, there was also a provision of furniture for the Resident Engineer's office bill payment of Kshs.250,000 yet the furniture found in the Office belongs to the Water Service Board. In view of the foregoing, the propriety of Kshs. 121,105,540 as proper change on public funds could not be confirmed</p>			
<p>4. Irregularities in Plinth Construction and Gutter Installations for Rift Valley Water Service Board- Lot (2B)</p>	<p>As reported in the water and sanitation improvement project (WASSIP) report for the financial year of 2014/2015, the issue on construction of plinths and installation of gutters under paragraph 2 of that report costing Kshs.14,014,337 has not been resolved to date.</p>	<p>Construction of Gutters and Plinths complete</p>	<p>Chief Manager Technical Services</p>	<p>Resolved</p>


Chief Executive Officer


Chairman of the Board

Date.....

Date.....