

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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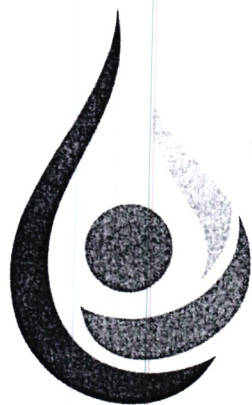
THE AUDITOR-GENERAL

ON

**WATER SERVICES REGULATORY
BOARD**

**FOR THE YEAR ENDED
30 JUNE, 2020**





WASREB
Water Services Regulatory Board

WATER SERVICES REGULATORY BOARD

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30TH JUNE, 2020

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

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1.0 INSTITUTIONAL DETAILS/INFORMATION

Establishment

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 On April 21st 2017 the Water Act 2002 was repealed by the Water Act 2016.

Background

Water Services Regulatory Board is a body corporate established under the provisions of the Water Act 2016 and operating under the provisions of the State Corporations Act, Cap 446 of the laws of Kenya and it is domiciled in Kenya. The mandate of the institution is to oversee the implementation of policies and strategies relating to provision of water and sewerage services. WASREB sets rules and enforces standards that guide the sector towards ensuring that consumers are protected and have access to efficient, adequate, affordable and sustainable services.

Vision

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

Mission

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

Strategic Objectives

The Board's five objectives are as follows: -

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

Water Services Regulatory Board

Responsibilities

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

- a) Determine and prescribe national standards for the provision of water services and asset development for water services providers;
- (b) Evaluate and recommend water and sewerage tariffs to the county water services providers and approve the imposition of such tariffs in line with consumer protection standards;
- (c) Set licence conditions and accredit water services providers;
- (d) Monitor and regulate licensees and enforce licence conditions;
- (e) Develop a model memorandum and articles of association to be used by all water companies applying to be licensed by the regulatory board to operate as water services providers;
- (f) Monitor compliance with standards including the design, construction, operation and maintenance of facilities for the provision of water services by the water works development bodies and the water services providers;
- (g) Advise the cabinet secretary on the nature, extent and conditions of financial support to be accorded to water services providers for providing water services;
- (h) Monitor progress in the implementation of the water strategy and make appropriate recommendations;
- (i) Maintain a national database and information system on water services;
- (j) Establish a mechanism for handling complaints from consumers regarding the quality or nature of water services;
- (k) Develop guidelines on the establishment of consumer groups and facilitate their establishment;
- (l) Inspect water works and water services to ensure that such works and services meet the prescribed standards;
- (m) Report annually to the public on issues of water supply and sewerage services and the performance of relevant sectors and publish the reports in the gazette;
- (n) Make regulations on water services and asset development which shall include business, investment and financing plans in order to ensure efficient and effective water services and progressive realization of the right to water services;
- (o) Advise the cabinet secretary on any matter in connection with water services; and
- (p) Make recommendations on how to provide basic water services to marginalised areas.

Principal Legal Advisor

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

Registered Office and Principal Place of Business

NHIF Building
Ngong Road
P.O. Box 41621-00100-NAIROBI
Tel: 020 2733561
Email: info@wasreb.go.ke
Website: www.wasreb.go.ke

Banks

National Bank of Kenya
Hill Branch
P.O. Box 45219-00100
NAIROBI
KENYA

Kenya Commercial Bank
Capital Hill
Nairobi

Co-operative Bank
Upperhill branch
Nairobi

Independent Auditors

Office of the Auditor General
Anniversary Towers
P.O. Box 30084
NAIROBI
KENYA

2.0 BOARD OF DIRECTORS

Hon. Joshua W. Irungu



He was appointed on 8th February 2019. He holds an MSC Degree in Agriculture and Rural Development. He has over 20 years' experience in public administration and agriculture. He has served the government as the first governor of Laikipia County and previously worked for PACT Kenya.

Mr. Ezra K. Ronoh



He is an independent director appointed on 8th February 2019. He holds a Master of Business Administration (MBA). He is currently pursuing a PHD in Entrepreneurship Management. He serves as the Program's Co-ordinator at Kabarak University Nakuru Town Campus. He previously served as a Consultant in Assessing SMEs with Best Practices and as a Business Advisor Ministry of Industrialization.

Mrs. Fakira Kassim



She is an independent director appointed on 8th February 2019. She holds a Higher National Diploma in Clinical Medicine and Surgery. She is also qualified in Quality Assurance and Standards. She has worked for National Hospital Insurance Fund (NHIF) as a Quality Assurance Officer, Mandera District Hospital and KICC, Nairobi.

Ms Esther W. Njogu



She is an independent director appointed on 8th February 2019. She holds a Diploma in Leadership. She is an astute businesswoman in real estate and construction. Currently she works as an Administration Manager at Jubilee Party Headquarters where she provides guidance in leadership and governance. Previously, she served at Nyandarua County Council in Alcoholic Drinks Regulation Committee.

Dr. Erick K. Ruto



He is an independent director appointed on 8th February 2019. He holds a Masters Degree in Tropical and Infectious Diseases and a Bachelors Degree in Medicine and Surgery. He is currently pursuing a PHD in Medical Microbiology. He is the Medical Director and Chairman of Reale Hospital and Clinics and a lecturer at Moi University School of Medicine.

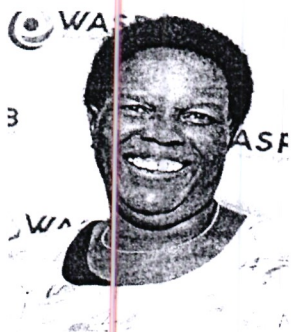
Mr. Kennedy Onditi



He is an independent director appointed on 8th February 2019. He holds a Masters Degree in Executive Business Administration. He is currently pursuing a PHD in Business Management and Strategic Business Management respectively.

He is the Executive Chairman of Contemporary Electrical Enterprises Ltd. accomplished engineer with over 20 years of experience in the sector. He resigned as a member of the board on 24th March 2020.

Ms. Irene W. Kamau



She is an independent director appointed on 8th February 2019. She is a holder of Masters in Counselling Psychology. She is the Founder and Managing Director of 3M Overseas Education Advisory Committee. She was also the Headmistress at Pan African Girls High School.

Eng. Fidelis.K. Kyengo **Alternate Member PS Ministry of Water and Sanitation and Irrigation**



Eng. Kyengo is the Deputy Director Water Services under the Ministry of Water and Sanitation and Irrigation.

He has held senior positions in the Ministry and has been Project Coordinator/Programme Manager for the major Development Partners. He holds BSc in Engineering from the University of Nairobi. He is a corporate member of the Institution of Engineers of Kenya and a professional Engineer with the Engineers Board of Kenya.

Water Services Regulatory Board

KEY MANAGEMENT STAFF

Eng Robert N. Gakubia, HSC



Eng. Gakubia is the Chief Executive Officer of Wasreb. He has held senior positions in the Ministry of Water and Irrigation, rising to the position of Director of Water services. He holds BSc degree in Engineering from University of Nairobi and a MSc degree at IHE Delft, Netherlands. He is a corporate member of the Institution of Engineers of Kenya and a Professional Engineer with the Engineers Board of Kenya.

Dr. Julius Itunga



Dr. Julius K. Itunga is the Director Corporate Services. He holds a Doctor of Philosophy (PhD) in Business Administration from Jomo Kenyatta University of Agriculture and Technology (JKUAT), Master in Business Administration and Bachelor of Commerce, Finance Option both from the Catholic University of Eastern Africa (CUEA). He is a Certified Public Accountant of Kenya (CPAK), Certified Public Secretary of Kenya (CPSK); a member of the Institute of Certified Public Accountant of Kenya (ICPAK) and Institute of Certified Public Secretaries of Kenya (ICPSK). Dr. Itunga has over 25 years of experience in public sector management having worked previously in senior positions in Kenya Posts and Telecommunications Corporation/Telkom Kenya, Agricultural Development Corporation and National Biosafety Authority. He also worked as an Associate Lecturer at the Kenya Methodist University and has published extensively in refereed journals.

Ms. Bernadette Njoroge



Ms. Bernadette Njoroge is the Director Legal and Enforcement Services. She is an advocate of the High Court of Kenya. She holds an LLB (Hons) degree from the University of Nairobi; an LLM degree from the University of Nairobi, she is a Certified Public Secretary CPS (K) and an associate arbitrator at the CI Arb (Kenya). She exited the service on 23th November 2019.



Eng Peter Njaggah

Eng Peter Njaggah is the Director Technical Services. He holds a Bachelor of Science degree in Civil Engineering from the University of Nairobi and Master of Science degree in Environmental Engineering from the University of New Castle –Upon Tyne in UK.

Eng. Njaggah has over 23 years experience and knowledge in the water sector having previously worked as a senior manager in several water utilities as the Managing Director of Western Water Services Company; as Head of Water and Wastewater departments in Central District Council, South East District Council and Ghanzi District Council- all in the Republic Of Botswana, and also in the then Water & Sewerage Department- Nairobi City Council- Republic of Kenya.

He is a Professional Engineer with the Engineers Board of Kenya, a Corporate Member of the Institution of Engineers of Kenya (I.E.K) and member of Institute of Waste Management of Southern Africa.

He exited the service on 15th October 2019.

Herbert A Kassamani



Mr. Kassamani is the Director Consumer and Public Affairs. He holds an MBA (Marketing) and a Post-Graduate Diploma in Mass Communication from the University of Nairobi; and a Bachelor of Education from Kenyatta University. He has held senior positions in marketing and communications both in the public and private sector. He has also published extensively in magazines, journals and the local media.

He exited the service on 15th October 2019.

4.0 CHAIRMAN'S STATEMENT



WASREB continued to monitor utilities with the sole purpose of improving services to citizens. However, this performance has had to be facilitated both by the Regulator, National government and County governments. To foster collaboration, WASREB initiated the County Engagement Strategy, an initiative whose objective is to create synergy between the two levels of government in driving the water services agenda. Clarity on roles and areas of convergence is required to ensure that both National and County Governments exploit their complimentary roles. To this end, we are proud to say that WASREB has registered success judging from the growing number of Water Service Providers applying for licence renewal under the new framework of Water Act 2016. We have seen County Governments' commitment in seeking WASREB's guidance in the licencing process. Over 30 WSPs now operate under new licences.

The regulatory framework has fully been developed, with most of the regulatory tools in place. The development and launch of the Guideline on Provision of Water Services in the Rural and Underserved Areas, was a major milestone for WASREB. This new front will enable the Regulator report on water service coverage nationally, considering that current commercialised utilities cover only about 50% of the national population. For the first time, the regulation of rural water service provision can begin in earnest. Community projects, Water Users Associations, or those commissioned by churches, non-governmental organizations, can now enjoy recognition by mainstream WSPs, be stand-alone WSPs or aggregate/cluster for economies of scale and progressive improvement of services within their service areas. This will progressively reduce informality in rural areas.

Another first was development of Guideline on Water Safety Planning and Water Vending to address a grey area that has for a long time caused concern on quality of water that millions consume without knowing the quality and/or source. To strengthen the leadership and management of our WSPs we also launched the Corporate Governance Guideline which addresses the corporate governance standards in the WSPs especially with regards to appointment of board members and the role of the County Government as the water services function owner, in the management of the WSPs in their areas. This will hopefully reduce conflict and misinterpretation of the law as far as governance of WSPs is concerned.

While the future is bright, the task ahead is huge and the challenges numerous. I must, however, say that each new day offers us a chance to work together, pursue new opportunities and improve upon the past.

Hon. Joshua Irungu
Chairman of the Board of Directors

5.0 REPORT OF THE CHIEF EXECUTIVE OFFICER



The Sustainable Development Goal 6, as well as, the national vision 2030, aims to ensure availability and sustainable management of water and sanitation for all by the year 2030. We have entered the Vision 2030 and SDG 6 decade and the launch of the IMPACT 12 2020 Report 10 years to 2030, signals an important dispensation reminding us to take accelerated and cohered actions towards the realization of this goal.

I am glad to note that Impact 12 Report shows water coverage currently stands at 59% in urban and urbanising areas. The trend in coverage has been growing albeit slowly, with a growth of four percentage points in the last five years. To get to the national target of universal by 2030, the required annual growth is at least four percentage points but this is only to the extent of the areas with WSPs. The effort required would even be greater considering that WSPs currently serve only 49% of the national population. It is estimated that an average of 200,000 new households have to be served additionally to reach the target of universal access by 2030.

As the demand for water services continues to increase so will the demand for water resources increase. This implies that greater efforts will be required in water resources management and development. This calls for increased coordination in planning and financing both at the regional and national levels through a basin management approach that respects natural boundaries, so as to ensure a need-based allocation of the resources.

As we look to the future, our interest is on the licencing of all WSPs operating in the country. Operationalization of the Guideline on Provision of Water Services in Rural and Underserved Areas in Kenya, has given WASREB the much needed impetus to bring all types of Water Service Providers – private and public, under regulation. As we spread the regulatory umbrella across the 47 Counties, so much is required from us but we are committed to discharging our mandate with uniformity.

As the Regulator focuses on the next strategic phase, our main challenge will be to ensure commercial viability, create possibilities for cross-subsidization to benefit vulnerable people and avoid unjustified costs to consumers. Thus, the issue of sustainability will be paramount. To achieve these, it will be necessary to re-examine the concept of clustering with a view to ensuring economies of scale. Already some Counties have approached WASREB to bring their clustering initiatives to fruition.

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

Eng. Robert Gakubia,
Chief Executive Officer

6.0 REVIEW OF WASREB PERFORMANCE FOR THE YEAR 2019/2020

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

During the period under review, the regulatory levy drooped from Kshs.171 million to Kshs 167.3 million. This facilitated the internal financing of development and operational expenditures.

Government grant support was about 8% which assisted in attaining full cost coverage. The approved budget for the period was strictly followed and this, coupled with cost control measures, ensured a healthy cash flow position during the year.

7.0 CORPORATE GOVERNANCE STATEMENT

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

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

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

Board of Directors

The directors are given appropriate information so that they can maintain full and effective control over strategic, financial, operational and compliance issues. Except for direction and guidance on general policy, the board has delegated authority for

conduct of day to day business to the Chief Executive Officer. The board nonetheless retains oversight responsibility for establishing and maintaining the control of financial, operational and compliance issues.

Committees of the Board

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

Corporate Services Committee

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

Technical Services Committee

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

Audit and Risk Management Committee

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

Corporate Social Responsibility

WASREB acknowledges its responsibility to society in its capacity as a corporate citizen; consequently, it endeavours to play an active role in national matters as per its mandate besides contributing to various worthy causes. In the financial year under review WASREB continued to offer advices to different stakeholders in the sector to facilitate access to quality water services.

8.0 MANAGEMENT DISCUSSION AND ANALYSIS

Internal Controls

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

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

Risk Assessment and Control Activities

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

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

Challenges

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

Water Service Provision Registers Growth

WASREB undertakes a continuous exercise of monitoring the performance of the water services sector as a way of taking stock on gains made so that desired improvements can be made. The product of this monitoring exercise is IMPACT Report which is published annually.

According to Impact 12 2020 Report, the average Water Coverage was 59%, which is a growth of 2 percentage points from 2017/18 where coverage was 57%. In 2018/19 there was an additional 894,827 people, representing 229,442 households. The average for Very Large utilities was 75%, just five (5) percentage points short of the sector benchmark of 80%. For the Small utilities the average slightly increased to 29%.

Meanwhile, Sewered Sanitation Coverage improved from 16% to 17%. Sewer services available remained at 32 urban centres spread across 26 counties. 21 counties have no sewer services and rely on onsite solutions. The number of sewer connections increased by 4% which was 1% decline from the previous period. Other highlights include;

- Hours of Supply marginally improved from 13 to 14
- Non-Revenue Water declined from 41% to 43%. In financial terms at the current average of NRW at 43%, the sector is losing slightly more than Kshs. 8.9 Billion from a turnover of Kshs. 22.63 Billion
- Metering level recorded a decrease from 95% to 94%.
- Cost coverage improved from 99% to 105%

While positive growth was recorded in the sector, a number of factors continued to hamper this growth. They included poor governance, high water losses, and inadequate investment planning and reporting.

Regulatory Actions to Improve Performance in the Sector

Embracing Resilience

Climate change will have far reaching effects on drinking water supplies. Apart from quantity aspects, climate change exacerbates many forms of water pollution. As interventions are being put to address the Impacts of weather variability and climate change, there is need to review resilience of the water supply systems as a means of adaptation and to mitigate these impacts. Further, the sector needs to address the following among others:

- review policies on water storage and flood control;
- manage water demand among competing needs and
- Improve operation and maintenance to reduce wastage.

The realities of climate change are here with us and the sector should not be seen to be reactive in its approach but rather take action in anticipation of these challenges.

Securing a High Fund Effectiveness

It is appreciated that the gap between the available financial resources for the sector against the investment requirements remains huge. Further, a big proportion of this funding

Water Services Regulatory Board

which is currently estimated at more than 90% comes from development partners. This calls for the sector to ensure that investments are well targeted and highly effective. Additionally, the sector policy should ensure that progressively, the funding increases in line with international commitments while increasing the proportion financed through internally generated funds. Under the SDG 6 reporting framework, the commitment is to allocate at least 5% of the annual national budget for water supply, sanitation and hygiene [not less than Kshs. 100 Billion in our case].

Paying Attention to Non-sewered Sanitation

It is estimated that poor sanitation costs Kenya approximately Kshs. 27 Billion each year. Investments in sanitation therefore would give high returns quantified both in monetary and non-monetary terms. At the current population of 47.6 million, this is equivalent to USD 6 per person, per year, which is higher than the current investments per capita on water and sanitation combined.

Access to sewerage services has declined over time with the current figure of 17% being lower than the figure reported ten years ago of 19%. This is mainly due to population increasing at a higher rate than that of service expansion as well as the rapid urbanization in most of the areas. Some of the factors that have contributed to this state of affairs include:

- Inadequate investment, competing needs for Government – below 1% of GDP and 3% of National Budget
- Sanitation Value chain has been neglected in terms of service delivery and regulation
- Priority has been to water supply – now sanitation component is being imbedded to development plans
- Non targeted investments – greatest impact would be on densely populated urban areas which also happen to be where the low-income populace lives Inherent institutional weaknesses – overlaps and mandates

To deal with the above challenges, the sector requires conscious efforts in the sanitation sector which include:

- A Strong and Functional, Policy, Legal, Institutional and regulatory framework;
- A strong regulatory framework to address the full chain of non sewered sanitation;
- Inclusive urban Sanitation approach that combines both sewered and non sewered sanitation services.
- A holistic strategy/approach in the form of a citywide/county wide inclusive sanitation

Reducing Water Losses

The progressive realization of the right to water enshrined in the constitution is going to be achieved only with the proactive and effective management of the water losses. This means that all players must deliberately play their roles in concerted way if any meaningful gains in NRW reduction are to be realized. In particular, there is no other option especially where no significant resources are required to address water losses apart from people

changing their attitude and practices on NRW management. At the current NRW level of 43% and sector turnover of Kshs. 22.15 Billion, the sector is losing approximately Kshs. 8.9 Billion after factoring in the acceptable level of losses. It is therefore evident that NRW starves the sector of the scarce resource and which can be harnessed to significantly improve access levels. In support of this fight, the regulator is developing an online system for anonymously reporting on NRW with the rallying call of "Operation Okoa Maji".

Management of Water Resources

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

Enhancing Inclusivity

The current population served by the regulated WSPs is just about 50% implying that the rest of the population is still reliant on services that are not regulated. The guidelines on water and sanitation services in rural and unserved areas aim to drive the objective of uniform standards under the rights to water and sanitation. It is therefore incumbent upon the counties and WSPs to ensure implementation of these guidelines in order to guarantee the health and safety of consumers by ensuring that operators adhere to standards in terms of quality, cost and customer service.

In furtherance of this obligation, the regulator in partnership with the counties will require all water system operators to register and obtain licenses for their operations. The initiative has already started in the county of Nairobi.

Improving Governance

Preservation and enforcement of proper governance standards is crucial to the stability of the sector. Having institutions that are properly run ensures productivity, which in turn contributes progressively to sustainability. Sustainable institutions are more effective in discharging their mandate and are less dependent on subsidies. Thus, it would be in the interest of county governments to embrace the regulator's corporate governance standards and actively promote their adherence. WASREB commits to joint monitoring of utilities to ensure they adhere to prescribed service standards through a collaborative framework that facilitates transparency through proper reporting, and makes the activities of each player predictable for a more robust sector.

9.0 CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

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

It is important to note that a number of activities slated for March and subsequent months of 2020 were postponed or cancelled due to advent of the COVID 19 Pandemic which affected the globe. Further to the measures set out by H.E President Uhuru Kenyatta vide Executive Order No.2 of 2020, and to enable Kenya play her rightful role in limiting factors that may exacerbate the spread of COVID-19, all public gatherings, working from office, among other meetings were banned. Citizens were given a raft of measures including observing social distancing. Colleges and Universities were closed. This affected major events, shows and exhibitions.

However, in the financial year under review WASREB continued to offer advices to different stakeholders in the sector to facilitate access to quality water services through the following activities;

Shows and Exhibitions

WASREB participated in the main Agriculture Society of Kenya shows in Kisumu, Mombasa and Nairobi between July and December 2019. WASREB participated at the Kenya Sanitation Conference that was held from 28-31/10/2019 at the KICC, Nairobi. In addition, WASREB launched four guidelines early December 2019 in Nairobi.

WASREB in conjunction with Kenya Markets Trust held a capacity building seminar on enhancing governance in water services delivery for Management teams and Board of Directors of WSPs from Central, Northern, Rift Valley and Western regions. The seminars were held in December in Nyeri and Nakuru respectively.

Charitable Events

WASREB carried out a tree planting exercise of over 7,000 alongside other agencies under the Ministry of Water and Sanitation and Irrigation at Mpirani Primary School, a catchment of Mwache Dam in Kwale County, as part of CSR activities and in line with the Presidential Directive on tree planting in November 2019. WASREB donated 2,000 indigenous seedlings towards the venture.

County Engagement Activities

WASREB Board of Directors and Management undertook a turnaround of utilities tour of Nyanza Region from 4-8/11/2019. The team visited County Governors and County Water Chiefs of Siaya, Migori and Homabay. The visit to Governors was also part of County Engagement Strategy by WASREB.

Public Consultation for Renewal of Licences among WSPs

WASREB also held public consultations meetings for renewal of licences in 15 WSPs namely, Murang'a, Nyeri, Kiambu, Vihiga, Nandi, Embu, Laikipia Kahuti, Ngandori Nginda, Kapsabet Nandi, Mathira, Amatsi, Gatamathi, Ruiru-Juja and Nanyuki.

Media Interventions

Notices to the public on licencing process of several WSPs were published in the dailies, while other stories were carried on Television.

WASREB participated in the Nation Leadership Forum aired live by NTV in November 2019 from Taifa Hall, University of Nairobi on the topic Sanitation for All. CEO Eng. Robert Gakubia was one of the resources persons to answer questions while seven staff were among the audience.

KBC Channel carried a story on launch of four Guidelines developed by WASREB namely; Provision of Water Services in Rural and Underserved Areas in Kenya, Water Safety Planning, Water Vending and Corporate Governance early December 2019 during the 7pm and 9pm news. The guidelines were launched by Cabinet Secretary Ministry of Water and Sanitation and Irrigation in Nairobi.

Water Services Regulatory Board

10.0 REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of Water Services Regulatory Board (WASREB) affairs.

Principal activities

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

Results

The results of the entity for the year ended June 30, 2020 are set out on page 23 - 26


Directors

The members of the Board of Directors who served during the year are shown on page 5 - 7.

Auditors

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

By Order of the Board


John Hosea Muruka
Corporate Secretary
Nairobi
Date: 16/03/2021

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

The Directors are responsible for the preparation and presentation of the *entity's* financial statements, which give a true and fair view of the state of affairs of the *entity* for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the *entity*; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *entity*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *entity's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act), Water Act 2016 . The Directors are of the opinion that the *entity's* financial statements give a true and fair view of the state of *entity's* transactions during the financial year ended June 30, 2020, and of the *entity's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the *entity'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 *entity* 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 *entity's* financial statements were approved by the Board on 18th February 2021 and signed on its behalf by:



Hon. JOSHUA IRUNGU
CHAIRMAN



ENG. ROBERT GAKUBIA
CHIEF EXECUTIVE OFFICER



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

DATE: 16/03/2021

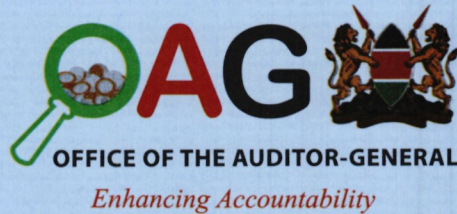
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DATE: 16/03/2021

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON WATER SERVICES REGULATORY BOARD FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Water Services Regulatory Board set out on pages 22 to 41, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Water Services Regulatory Board as at 30 June, 2020, and of its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Water Act, 2016 and State Corporations Act, Cap 446 of the Laws of Kenya and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Regulatory Levy

As disclosed in Note 5 to the financial statements, the statement of financial performance reflects regulatory levy of Kshs.167,317,611 for the year ended 30 June, 2020. However, records maintained by the Board indicated that a total Kshs.242,603,154 regulatory levy was received during the year under review. The receipts were however adjusted to Kshs.167,317,611, through journal vouchers of Kshs.75,285,543 which related to debtors accrued in previous year but received in the current year. This is contrary to the Board's policy whereby, revenue from levies is recognized when it is received.

Under the circumstances, the accuracy and completeness of regulatory levy of Kshs.167,317,611 for the year ended 30 June, 2020 could not be confirmed.

2.0 Unsupported Expenditure

The statement of financial performance reflects an expenditure of Kshs.134,225,699 under employee costs which, as disclosed in Note 8 to the financial statements, includes

an amount of Kshs.16,698,358 in respect of travel and motor car allowances. The latter balance includes an amount of Kshs.15,472,226 relating to surrendered imprest, out of which an amount of Kshs.4,817,356 was not supported by boarding passes, original receipts, work tickets and other supporting evidence as detailed below:

Missing Supporting Evidence	Amount (Kshs.)
No memos attached	42,000
Boarding pass and copies of passports for foreign travel	1,111,073
Original receipts	1,907,811
Original work tickets	45,000
Surrenders not examined	23,100
Surrenders not approved and not examined	208,200
Inconsistency in signatures of imprest holder	252,400
Taxi expenditures with no receipts attached	1,138,025
Payment for days in excess of the approved days	89,747
Total	4,817,356

Under the circumstances, the accuracy and authenticity of the expenditure of Kshs.4,817,356 could not be confirmed.

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Un-Budgeted Donor Funds

As disclosed in Note 7 to the financial statements, the statement of financial performance reflects revenue receipts of Kshs.1,121,100 being donor funds received by the Board during the year under review. However, the funds were not included in the Board's final approved budget. Further, there was no evidence that the Cabinet Secretary, The National Treasury was informed of this budgetary change, arising from the additional revenue, contrary to provisions of Section 47(1) of the Public Finance Management (National Government) Regulations, 2015, which require such disclosure.

The Management was in breach of the regulations.

2. Procurement

2.1 Procurement Plan - Development Grants

The statement of comparison of budget and actual amounts reflects development grants and subsidies of Kshs.18,000,000 out of which an amount of Kshs.15,000,000 was spent on development and refining of two (2) regulatory systems of the Board. However, the budgeted funds were not included in the Board's procurement plan for use on the intended purpose of developing and refining the systems. In the absence of a fully developed and refined regulatory system, the Board's regulatory activities may not have been effective as envisaged.

Under the circumstances, it was not possible to confirm that the funds allocated for development and refining of the regulatory systems was utilized in an effective way.

2.2 Procurement of iPads

During the year under review, the Board purchased nine (9) iPads for its Board members at a unit price of Kshs.112,520, all totalling to Kshs.1,012,680. The iPads were procured through request for quotations instead of using the framework agreement developed by Ministry of ICT. Further, there was no evidence that the Board sought and received approval from the Ministry of ICT, for use of the alternative procurement method. This was contrary to the Government directive issued by the Head of Public Service vide Circular No. OP/CAB.39/1A of 23 February, 2018 centralizing procurement of all Information and Communication Technology (ICT) equipment under the Ministry of ICT for purposes of managing price, quality, quantity and standards, as well as to ensure economies of scale in procurement.

The Board was therefore in breach of Government directive on procurement of ICT equipment.

2.3 Procurement of Conference and Workshop Services

The statement of financial performance reflects an expenditure of Kshs.58,603,740 under administrative expenses which, as disclosed in Note 10(a) to the financial statements, includes an amount of Kshs.3,487,605 in respect of conference and workshop expenses. However, a list of prequalified suppliers for conference and workshop services was not provided for audit verification. Further, the expenditure of Kshs.3,487,605 exceeded the

respective budget of Kshs.2,000,000 disclosed in the procurement plan, resulting to an unexplained over-expenditure of Kshs.1,487,605.

Under the circumstances, the propriety of the expenditure of Kshs.3,487,605 incurred on conference and workshop services could not be confirmed.

2.4 Non-Compliance with Executive Order on Procurement

During the year under review, the Board did not publish its processed tenders in the Public Procurement Information Portal. This is contrary to the Government Executive Order No.2 of 2018 which required all public entities to publish all tenders processed by the respective entities, through the Public Procurement Regulatory Authority website, and the Public Procurement Regulatory platforms. Further, Executive Order No.6 of 2016 required all public entities to migrate their procurement processes to E-Procurement. However, the Board had not migrated its procurement processes to the E-procurement and all procurements were processed manually during the year under review.

The Board was in breach of Government directive on procurement.

3. Fringe Benefits Tax and Owner Occupier Interest Tax Relief

The Board extended loans to its employees at interest rates which are below the market rates, as well as the rate prescribed by the Commissioner of Income Tax, for the purpose of computation of fringe benefit tax. However, no fringe benefit tax was deducted in relation to the fringe benefit arising from the low interest rate loan. This is contrary to Section 12(B)(1) of the Income Tax Act, which requires an employer to deduct from its employees such tax and remit it to the Kenya Revenue Authority (KRA).

Further, review of employee records revealed that some Board employees had house mortgages. However, the employees did not benefit from owner occupier interest deduction, as provided for under Section 15(3)(b) of the Income Tax Act and Section 6(b) of the Finance Act, 2016, which provides for deduction of interest paid on amounts borrowed from a financial institution, when determining the taxable income.

Consequently, the Board was in breach of tax laws.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my

report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1.0 Weaknesses in the Board's Information System

The Board acquired a Systems Application and Products in Data Processing (SAP) software through the parent Ministry on 5 June, 2006. However, the Board did not finance the maintenance or upgrade the software as per the terms of the related Agreement. According to Management, the system was acquired by the parent Ministry which was therefore responsible for financing its maintenance and upgrade. Due to lack of maintenance and upgrade, there was system breakdown during the year under review, and the Board's transactions were processed manually. Further, the Board did not utilize all the modules of the system, specifically the human resources and the procurement modules.

Under the circumstances, it was not possible to confirm that the Board obtained value for money from the SAP system whose information processing was supplemented with manual procedures.

2.0 Composition of the Board of Directors

As previously reported, the Cabinet Secretary appointed seven (7) independent Directors to the Board instead of five (5) as provided for under the Water Act, 2016, resulting to an excess of two (2) Directors. Further, the Audit and Risk Committee did not have any Director with expertise in auditing, financial management or accounting experience and knowledge in risk management and membership of professional body in good standing, as required under the Mwongozo Code of Governance for State Corporations. The Board was therefore, not properly constituted.

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

Responsibilities of Management and the Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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


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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions which 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 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 financial statements represent the underlying transactions and events in a manner which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Board to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

03 December, 2021

1.

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2020**

	Note	2019-2020 Kshs	2018-2019 Kshs
Revenue from non-exchange transactions			
GOK Grants	4(a)	15,000,000	49,012,500
WSDP Project	4(b)	21,725,852	-
Regulatory Levy	5	167,317,611	171,248,473
Miscellaneous Income	6	16,938,932	3,010,966
ESAWAS Grants	7	1,121,100	-
Total revenue		<u>222,103,495</u>	<u>223,271,939</u>
Expenses			
Employee costs	8	134,225,699	152,348,940
Board expenses	9	21,860,607	9,919,326
Administrative Expense	10(a)	58,603,740	57,460,290
Transfer to Government Entity	10b	7,793,000	-
Depreciation	14	3,744,377	4,205,917
Total expenses		<u>226,227,423</u>	<u>223,934,473</u>
Deficit for the period		<u>(4,123,928)</u>	<u>(662,534)</u>

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AS AT 30TH JUNE 2020

	Note	2019-2020 Kshs	2018-2019 Kshs
Assets			
Current assets			
Cash and cash equivalents	11	135,147,501	69,923,698
Receivables from non- exchange transactions	12	55,306,306	115,736,344
Other current assets	13	10,238,112	14,287,386
		200,691,919	199,947,428
Non-current assets			
Property, plant and equipment	14	9,164,819	12,317,016
Long-term Mortgage Facility	19	27,164,900	33,292,919
Total assets		237,021,638	245,557,363
Liabilities			
Current liabilities	15	6,227,209	9,565,172
Net assets		<u>230,794,429</u>	<u>235,992,191</u>
Capital Reserve	16	36,487,577	36,487,577
Revaluation Reserve	17	4,200,000	5,250,000
Accumulated surplus	18	190,106,852	194,254,614
Total net assets and liabilities		<u>230,794,429</u>	<u>235,992,191</u>



Hon. JOSHUA IRUNGU
CHAIRMAN

DATE: 16/03/2021



ENG. ROBERT GAKUBIA
CHIEF EXECUTIVE OFFICER

DATE: 16/03/2021



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

DATE: 16/03/2021

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**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30TH JUNE 2020**

	Capital Reserves	Revenue Reserve	Revaluation Reserve	Total
	Kshs	Kshs	Kshs	Kshs
Balance as at 1st July 2018	36,487,577	194,912,148	492,665	231,892,390
Amortisation of revalued assets	-	-	(492,665)	(492,665)
Salary advance restated	-	5,000	-	5,000
Surplus/ (Deficit) for the period	-	(662,534)	-	(662,534)
Revaluation of motor vehicles	-	-	5,250,000	5,250,000
Balance as at 30th June 2019	<u>36,487,577</u>	<u>194,254,614</u>	<u>5,250,000</u>	<u>235,992,191</u>
Balance as at 1st July 2019	36,487,577	194,254,614	5,250,000	235,992,191
Amortisation of revalued assets	-	-	(1,050,000)	(1,050,000)
Salary advance adjustment	-	(23,834)	-	(23,834)
Surplus/ (Deficit) for the period	-	(4,123,928)	-	(4,123,928)
Balance as at 30th June 2020	<u>36,487,577</u>	<u>190,106,852</u>	<u>4,200,000</u>	<u>230,794,429</u>

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STATEMENT OF CASH FLOWS AS AT 30TH JUNE 2020

	Note	2019/2020	2018/2019
		Kshs	Kshs
Surplus /Deficit generated from operating activities		(4,123,928)	(662,534)
Adjustment for Depreciation	14	<u>3,744,377</u>	<u>4,205,917</u>
Cash flow from operating activities before			
Working capital changes		(379,551)	3,543,383
(Increase)/Decrease in Receivables & other Current Assets		64,479,312	37,973,551
Increase/ (Decrease) in Receivables		(3,337,963)	(4,431,614)
Cash flow from changes in working capital		<u>61,141,349</u>	<u>33,541,937</u>
Net cash Flow from operating activities		60,761,798	37,085,320
Cash Flow from investing Activities			
Acquisition of assets		(1,642,180)	(408,557)
Cash flow from financing activities		<u>59,119,618</u>	<u>36,676,763</u>
Increase in Long term Mortgage Facility (17,521,124)		6,128,019	
Decrease /Increase in Revenue Reserves		<u>(23,834)</u>	<u>5,000</u>
Net increase in cash and cash equivalent		65,223,803	19,160,639
Cash and cash equivalent at the start of the year		69,923,698	50,763,059
Cash and cash equivalent at the end of the year		135,147,501	69,923,698

I.

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
AS AT 30TH JUNE 2020**

	Original Budget	Adjustments	Final Budget	Actual on comparable basis	P
	2019-2020		2019 – 2020	2019-2020	
Revenue					
Regulatory levies	260,000,000	-	260,000,000	167,317,611	
Government grants and subsidies	18,000,000	-	18,000,000	15,000,000	
Water Sanitation Development Project	-		-	21,725,852	
Miscellaneous Income	-	-	-	16,938,932	
Donor Grants	-	-	-	1,121,100	
Retained Earnings	-	-	-	-	
Total income	278,000,000	-	278,000,000	222,103,495	
Expenses					
Compensation of employees	156,859,928	-	156,859,928	134,225,699	
Administrative expenses	91,140,072	-	91,140,072	58,603,740	
Transfer to government entity	-	-	-	7,793,000	
Board Expenses	25,000,000	-	25,000,000	21,860,607	
Other payments - Depreciation	5,000,000	-	5,000,000	3,744,377	
Total expenditure	278,000,000	-	278,000,000	226,227,423	
Surplus for the period	-	-	-	(4,123,928)	

* Notes on

Annual Report and Financial Statements for the year ended 30th June 2020

- **Performance differences**

- On the Compensations of employees, Administrative expenses and Board expenses we underutilized the budget due to austerity measures put in place by the National treasury and the corona virus pandemic.
- On the regulatory levies we fell short of our target

Water Services Regulatory Board

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

Wasreb'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 entity and all values are rounded to the nearest shilling. 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 in-direct method. The financial statements are prepared on accrual basis.

3. ADOPTION OF NEW AND REVISED STANDARDS

i) Relevant new standards and amendments to published standards effective for the year ended 30th June 2020

IPSAS 40: Public Sector Combinations

Wasreb has not undergone any form business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations.

IPSAS 33: First time adoption of Accrual Basis IPSAS

Wasreb adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to Wasreb.

IPSAS 34: Separate Financial Statements

Wasreb does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.

IPSAS 35: Consolidated Financial Statements

Wasreb does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.

IPSAS 35: Investments in Associates and Joint Ventures

The entity does not have investments in associates or joint ventures.

IPSAS 37: Joint Arrangements

The entity does not have an interest in a joint arrangement and therefore the standard does not apply.

IPSAS 38: Disclosure of Interests in Other Entities

The entity does not have any interests in other entities and therefore the standard does not apply.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30th June 2020

IPSAS 39: Employee Benefits

Applicable: 1st January 2018

The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.

IPSAS 40: Public Sector Combinations

Applicable: 1st January 2019:

The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018.

4. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Regulatory levy, license fees and fines

The Board recognizes revenues from levies, penalties and fees when received. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

Transfers from other government entities

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

ii) Revenue from exchange transactions – IPSAS 9

Miscellaneous income

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

b) Budget information – IPSAS 24

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

c) Taxes – IAS 12

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or

substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

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

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 entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

Per Annum		%
Motor Vehicle	-	20
Furniture, Fittings and Office Equipment	-	15
Computers, software	-	33.33

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.

h) Research and development costs

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

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

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

i) Provisions – IPSAS 19

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

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

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

Contingent liabilities

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

Contingent assets

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

j) Nature and purpose of reserves

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

k) Changes in accounting policies and estimates – IPSAS 3

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

l) Employee benefits – IPSAS 25

Retirement benefit plans

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

m) FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The entity'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

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acceptable levels of risk. The entity 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 entity's financial risk management objectives and policies are detailed below:

i) **Liquidity risk management**

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

ii) **Capital Risk Management**

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

	2019-2020	2018-2019
	Kshs	Kshs
Revaluation reserve	4,200,000	5,250,000
Retained earnings	190,106,852	194,254,614
Capital reserve	36,487,577	36,487,577
Total funds	230,794,429	235,992,191
Total borrowings	-	-
Less: cash and bank balances	135,147,501	69,923,698
Net debt/(excess cash and cash equivalents)	(128,920,292)	(60,358,526)
Gearing	56%	26%

n) **Related parties – IPSAS 20**

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

o) Dividends/Surplus remission

The entity did not make any surplus during the year financial year 2019/2020 and hence no remittance to the Consolidated Fund.

p) Cash and cash equivalents

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

q) Comparative figures

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

r) Significant judgments and sources of estimation uncertainty – IPSAS 1

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

s) Provisions for bad debts

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

t) Subsequent events – IPSAS 14

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30th June 2020.

u) Currency

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

Water Services Regulatory Board

NOTES TO THE FINANCIAL STATEMENTS

4a. GOK Grants	2019/2020 Shs	2018/2019 Shs
Unconditional grants		
Recurrent/ Development Grant	15,000,000	49,012,500
Total government grants and subsidies	<u>15,000,000</u>	<u>49,012,500</u>
4b Water Sanitation Development Project (WSDP)	<u>21,725,852</u>	=
5. Regulatory Levy		
Regulatory levy	167,317,611	171,248,473
Total	<u>167,317,611</u>	<u>171,248,473</u>
6. Miscellaneous Income		
Prequalification of suppliers	-	1,000
Insurance Compensation	-	159,966
Licenses	1,125,000	2,850,000
Reduction in provision of debtors	15,813,932	-
Total other income	<u>16,938,932</u>	<u>3,010,966</u>
7. ESAWAS Grants		
Belinda gates	1,121,100	-
GIZ	=	=
Total Donor Grants	<u>1,121,100</u>	=
8. Employee costs		
No of employees	34	34
Salaries and wages	96,688,714	84,074,827
Housing benefits and allowance	-	18,854,462
Travel, motor car allowances	16,698,358	22,412,193
Performance and other bonuses	-	3,110,790
Contributions to pensions	9,943,309	9,262,651
Staff Welfare and HIV AIDS	671,850	980,000
Gratuity	5,076,042	7,809,945
Surcharge	-	-
Leave Allowance	<u>5,147,426</u>	<u>5,844,072</u>
Employee costs	<u>134,225,699</u>	<u>152,348,940</u>

Water Services Regulatory Board

NOTES TO THE ACCOUNTS CONT'

	2020 Shs	2019 Shs
9. Board Expenses		
Chairpersons Honoraria	1,020,000	403,750
Sitting Allowance	<u>20,840,607</u>	<u>9,515,576</u>
Total Board remuneration	<u>21,860,607</u>	<u>9,919,326</u>
10a. Administrative Expenses		
Advertising & Publicity	8,006,609	10,157,661
Audit fees	464,000	464,000
Conferences expenses	3,487,605	2,166,969
Consulting fees	1,664,315	2,422,395
Office running Expenses	3,790,494	3,252,091
Computer Expense	825,981	510,453
Insurance expenses	14,963,104	9,347,582
Internet	1,232,160	1,658,258
Printing	1,599,330	751,470
Rental	16,329,910	16,558,054
Bank Charges & Other Operating Exp	1,380,712	1,668,829
Telecommunication	256,417	259,673
Capacity building	2,189,844	5,324,475
Fuel and oil	2,413,259	2,918,380
Total Administrative Expenses	<u>58,603,740</u>	<u>57,460,290</u>
10b. Transfer to Government Entity	<u>7,793,000</u>	=
11. Cash and cash equivalents		
National Bank of Kenya Account No 01001032110300)	69,787,573	40,286,106
National Bank of Kenya (Account No 01001032110301)	755,978	755,978
National Bank of Kenya (Account No 01071032110300)	19,744,750	-
National Bank of Kenya (Account No 01288032110300)	12,626,681	5,758,229
Kenya Commercial Bank (Account No 1117496953)	24,140,558	18,564,182
Cooperative Bank of Kenya (Account No 01136160928601)	8,004,081	4,466,439
Cooperative Bank of Kenya (Account No 01136160928600)	87,880	92,764
Total cash and cash equivalents	<u>135,147,501</u>	<u>69,923,698</u>

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12. Receivables from non-exchange transaction

2020 (Kshs) 2019 (Kshs)

Current receivables

Staff Debtors	1,357,777	1,739,704
Water Service Boards	-	576,500
Trade debtors	107,897,057	183,182,600
Less: impairment allowance	<u>(53,948,528)</u>	<u>(69,762,460)</u>
Total current receivables	<u>55,306,306</u>	<u>115,736,344</u>

Reconciliation of impairment of receivables

As at 1 st July 2019	69,762,460	69,762,460
Reduction in provision for impairment	(15,813,932)	-
As at June 2020	<u>53,948,528</u>	<u>69,762,460</u>

13. Other Current Assets

2020 2019
Shs Shs

Mortgage Facility	5,307,759	6,048,192
Prepaid Insurance	4,930,353	8,239,194
Total	<u>10,238,112</u>	<u>14,287,386</u>

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14. Property, plant and equipment

	Motor Vehicles Shs	Furniture & Fittings Shs	Computer & Equipment Shs	Total Shs
Cost				
At 1 st July 2018	12,984,000	9,523,590	30,369,804	52,877,394
Additions	-	-	408,557	408,557
Revaluation	5,250,000	-	-	5,250,000
At 30 th June 2019	18,234,000	9,523,590	30,778,361	53,285,951
Depreciation and impairment				
At 1 st July 2018	(10,387,200)	(7,820,959)	(23,312,195)	(41,520,354)
Charge for the year	-	(605,657)	(3,600,259)	(4,205,917)
Amortization	(492,665)	-	-	(492,665)
At 30 th June 2019	(10,879,865)	(8,426,616)	(26,912,454)	(46,218,935)
Net book values				
At 30 th June 2019	<u>7,354,135</u>	<u>1,096,974</u>	<u>3,865,907</u>	<u>12,317,016</u>
At 1 st July 2019				
Cost	Shs	Shs	Shs	Shs
At 1 st July 2019	18,234,000	9,523,590	30,778,361	58,535,951
Additions	-	-	1,642,180	1,642,180
At 30 th June 2020	18,234,000	9,523,590	32,420,541	60,178,131
Depreciation and impairment				
At 1 st July 2019	(10,879,865)	(8,426,616)	(26,912,454)	(46,218,935)
Charge for the year	-	(306,815)	(3,437,562)	(3,744,377)
Amortization	(1,050,000)	-	-	(1,050,000)
At 30 th June 2020	(11,929,865)	(8,733,431)	(30,350,016)	(51,013,312)
Net book values				
At 30 th June 2020	<u>6,304,135</u>	<u>790,159</u>	<u>2,070,525</u>	<u>9,164,819</u>

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15. Trade and other payables

	2020 Shs	2019 Shs
Trade payables	-	-
Audit fees	1,392,464	928,464
Performance Guarantee	903,000	979,500
Gratuity	3,931,745	7,657,208
Total trade and other payables	<u>6,227,209</u>	<u>9,565,172</u>

16. Capital Reserve

Brought Forward	36,487,577	36,487,577
Carried Forward	<u>36,487,577</u>	<u>36,487,577</u>

17. Revaluation Reserve

Amortization in the year	5,250,000	492,665
Revaluation in the year	(1,050,000)	(492,665)
Carried Forward	-	5,250,000
	<u>4,200,000</u>	<u>5,250,000</u>

18. Revenue Reserve

Brought Forward	194,254,614	194,912,148
Salary Advance Adjustment	(23,834)	5,000
Deficit for the years	(4,123,928)	(662,534)
	<u>190,106,852</u>	<u>194,254,614</u>

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19. LONG TERM MORTGAGE FACILITY

	2020 Shs	2019 Shs
Balance brought forward	33,292,919	-
Balance Brought down	<u>27,164,900</u>	<u>33,292,919</u>

20. RELATED PARTIES TRANSACTIONS

	2020 Shs	2019 Shs
Wasreb's CEO & Senior Management	21,829,160	34,362,690
Board of Directors	21,860,607	9,515,576
Belinda gates	1,121,100	-
Water Sanitation Development Project	21,860,607	-
-		
Ministry of Water and Sanitation	<u>15,000,000</u>	<u>49,012,500</u>
TOTAL	<u>81,671,474</u>	<u>92,890,766</u>

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Appendix 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

WATER AND SANITATION DEVELOPMENT PROJECT (WSDP)

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

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	ENTITY NAME:	WATER SERVICES REGULATORY BOARD		
	Break down of Transfers from the MINISTRY OF WATER & SANITATION			
	FY 19/20			
a.	GOK Grants			
		Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
	Ministry of Water & Sanitation	4 th July 2019	15,000,000	2019/2020
		Total	15,000,000	

Appendix III: INTER-ENTITY TRANSFERS

The above amounts have been communicated to and reconciled with the parent Ministry