

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

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*Paper laid  
By the leader  
of majority  
Party, Hon  
Walter Ombati  
on Tuesday  
27/8/2015*

REPORT

OF



THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
ATHI WATER SERVICES BOARD

FOR THE YEAR ENDED  
30 JUNE 2014







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**ATHI WATER SERVICES BOARD  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2014**

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

Table of Content

Page

|   |      |
|---|------|
| I. KEY ENTITY INFORMATION AND MANAGEMENT .....                          | ii   |
| II. THE BOARD OF DIRECTORS .....  | vi   |
| III. MANAGEMENT TEAM.....   | ix   |
| IV. CHAIRMAN'S STATEMENT .....  | xi   |
| V. REPORT OF THE CHIEF EXECUTIVE OFFICER.....                           | xiii |
| VI. CORPORATE GOVERNANCE STATEMENT .....                                | xv   |
| VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT .....                    | xvii |
| VIII. REPORT OF THE DIRECTORS .....                                     | xix  |
| IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES .....                      | xx   |
| X. REPORT OF THE INDEPENDENT AUDITORS ON ATHI WATER SERVICES BOARD..... | xxii |
| XI. ATHI WATER SERVICES BOARD.....                                      | 1    |
| STATEMENT OF FINANCIAL PERFORMANCE.....                                 | 1    |
| XII. ATHI WATER SERVICES BOARD .....                                    | 2    |
| STATEMENT OF FINANCIAL POSITION .....                                   | 2    |
| XIII. ATHI WATER SERVICES BOARD.....                                    | 3    |
| XIV. ATHI WATER SERVICES BOARD.....                                     | 4    |
| XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS .....          | 5    |
| XVI. NOTES TO THE FINANCIAL STATEMENTS.....                             | 8    |
| XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS.....             | 17   |

## I. KEY ENTITY INFORMATION AND MANAGEMENT

### (a) Background information

Athi Water Services Board is a state corporation established under the Water Act 2002 vide Gazette Notice No.1775 of 21st March 2003 and licensed by the Water Services Regulatory Board (WASREB). The current licence is for a term of 10 years commencing 8<sup>th</sup> February 2010.

### (b) Principal Activities

The principal activity of the board is to ensure efficient and sustainable provision of quality and affordable water and sewerage services in its area of jurisdiction which comprises of Nairobi County, Kiambu County and Gatanga in Muranga County.

Main Functions of Athi Water Services Board include:

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

### (c) Key Management

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

- Chief Executive Officer
- Head Capital Planning and Engineering
- Head of Corporate Services
- Head of Finance and Strategy

#### (d) Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2014 and who had direct fiduciary responsibility were:

| No. | Designation                           | Name                |
|-----|---------------------------------------|---------------------|
| 1.  | Chief Executive Officer               | Eng. Malaquen Milgo |
| 2.  | Head Capital Planning and Engineering | Eng. John Muiruri   |
| 3.  | Head of Corporate Services            | Mr. Gordon Misigo   |
| 4.  | Head of Finance and Strategy          | Mrs. Rose Nyaga     |
| 5.  | Corporation Secretary                 | Mr. Clement Mugambi |

#### (e) Fiduciary Oversight Arrangements

##### Board Committees:

In ensuring that corporate governance is enhanced and that the power of Athi Water Services Board is properly exercised in the stewardship of the corporation's total portfolio of functional assets and resources to maintain stakeholder value, the board of directors has established the following 3 board sub-committees:

##### Finance, Human Resource and General Purpose Committee

This committee is the overseer of the financial reporting process, the corporation's internal controls, the efficient allocation and utilization of financial and Human resources and approves investment and funding programs for the corporation. The committee is also charged with the duty of ensuring that AWSB has the right staff and skills and also ensures that the staff welfare is guaranteed.

Their Terms of Reference includes but not confined to human resource planning, employee welfare, recruitment, training, performance appraisal, discipline, health and safety and HIV/ AIDS.

##### Audit, Risk and Governance Committee

In order to promote corporate Governance principles, Athi Water Services Board has constituted an audit committee.

The committee is charged with the role of monitoring the effectiveness of internal systems and processes and the practice of good corporate governance. The committee focuses in particular on:

- Safeguarding of the Assets

- Scope and effectiveness of the internal controls.
- Preparation and Audit of the Annual financial statements
- Overseeing the implementation of the institutional risk management framework policy of the Board
- Compliance with all applicable regulatory requirements and Accounting standards.

### **Planning and Development Committee**

This committee has the oversight responsibility of infrastructure development and ensures that water service providers comply with the agreements signed between them and Athi water services board for the provision of water services.

Athi Water services Board being an asset holder, the technical committee ensures that there is adequate asset development, maintenance and infrastructure improvement and expansion to ensure sustainability of all water and Sewerage infrastructure.

The committee is also charged with the duty of monitoring the implementation of the strategic plan and in proposing alternative financing mechanism to ensure realization of the investment and development of the blue print for the organization.

**(f) Entity Headquarters**

Athi Water Services Board  
P.O. Box 42583-00100 GPO  
Africa-Re Centre, 3<sup>rd</sup> Floor  
Hospital Road-Upper Hill  
NAIROBI

**(g) Entity Contacts**

Telephone: (254) 020 2724292/3  
E-mail: [info@awsboard.go.ke](mailto:info@awsboard.go.ke)  
Website: [www. awsboard.go.ke](http://www.awsboard.go.ke)

**(h) Entity Bankers**



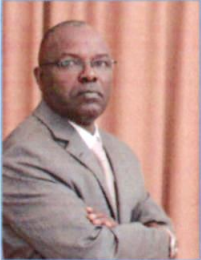
1. Kenya Commercial Bank  
Kipande House Branch  
NAIROBI.
2. Cooperative Bank of Kenya  
University Way Branch  
NAIROBI.
3. NIC Bank  
Upper Hill  
NAIROBI
4. Chase Bank  
Upper Hill  
NAIROBI





**(i) Independent Auditors**


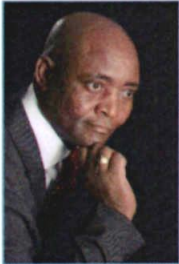


Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084  
GPO 00100  
Nairobi, Kenya


## II. THE BOARD OF DIRECTORS

The Board of Directors who held office during the year were:



|  |  |
|--|--|
| <p>1.</p>  <p>Mr. Peter Githinji Kung'u</p> | <p>Born 1948, a seasoned banker having held several managerial positions in the banking sector, and a successful businessman. Appointed 9<sup>th</sup> Oct 2012 for a 3 year term.</p>                                 |
| <p>2.</p>  <p>Mrs Mary Mwelu Malinda</p>   | <p>Born 1954, an experienced and professional teacher, counsellor, and motivational speaker. Appointed 9<sup>th</sup> Oct 2012 for a 3 year term.</p>  |
| <p>3.</p>  <p>Mr. Mbuvi Kathenge</p>      | <p>Born 1956, Holds BSc Eng (Survey and Photogrammetry), is a qualified and practising land surveyor and consultant with a wealth of professional experience. Appointed 9<sup>th</sup> Oct 2012 for a 3 year term.</p> |


|  |  |
|--|--|
| <p>4.</p>  <p>Eng. Lawrence Simitu</p>            | <p>Born 1965, Director of Water Services in the State Department of Water, Ministry of Environment, Water and Natural Resources. Holds MSc in Civil Engineering, is professionally qualified, and has over 24 years' experience.</p> |
| <p>5.</p>  <p>Mr. Enosh Onyango</p>               | <p>Born 1962, Urban and spatial planning expert. Alternate Director representing the Principal Secretary Ministry of Lands, Housing and Urban Development</p>  |
| <p>6.</p>  <p>Mr. Francis Anyona</p>            | <p>Born 1965, An economist. Alternate Director representing the Principal Secretary of the National Treasury</p>   |
| <p>7.</p>  <p>Mrs. Josephine Kabura Gichuhi</p> | <p>Born 1950, with a wealth of experience in the public service on administration and finance. Appointed 30<sup>th</sup> Nov 2012 for a 3 year term</p>  |

|   |  |
|---|--|
| <p>8.</p>  <p>Mr. Gerishom Lujitio Majanja</p> | <p>Born 1947, a seasoned economist with wide experience in private sector administration, finance and human resource management. In the past has been Director in Kenya Petroleum Refineries (4 years) and Kenya Pipeline Company (5 years). Appointed 30th Nov 2012 for a 3 year term</p> |
| <p>9.</p>  <p>Mr John Charles Giathi</p>      | <p>Born 1960, he was a lecturer, consultant and a professional in marketing and strategic planning. Passed on after retiring during the year.</p>  |
| <p>10.</p>  <p>Mr Aden S. Ali</p>            | <p>Born 1969, experienced conflict management and arbitration. Retired during the year.</p>  |
| <p>11.</p>  <p>Hon. Reuben Ndolo</p>         | <p>Born 1954, experience in public administration and seasoned sports administrator. Retired during the year.</p>  |

|   |  |
|---|--|
| <p>12.</p>  <p>Eng. Malaquen Milgo</p> | <p>Born 1960. Holds Honours degree in Civil Engineering from the University of Nairobi and is professionally qualified. Has been trained both locally and abroad on sustainable development and regulation of water and sanitation services. Has over 30 years in engineering practice and technical advisory services to the water sector in Kenya.</p> |
| <p>13. Mr. Clement Mugambi, Board Secretary</p>   | <p>Born 1975, experience in legal services, company secretarial and legal counsel and arbitration.</p>   |

### III. MANAGEMENT TEAM

| Name and professional / academic qualifications   | Area of Responsibility                          |
|---|---|
| <p>1</p>  <p>Eng. Malaquen Milgo, BSc. Civil Engineering registered with IEK and ERB</p>   | <p>Chief Executive Officer</p>                  |
| <p>2</p>  <p>Eng. John Muiruri, MBA, BSc Civil Engineering registered with IEK and ERB</p> | <p>Head of Capital Planning and Engineering</p> |

|  |                                     |
|--|-------------------------------------|
| <p>3</p>  <p>Ms. Rose Nyaga, MBA, CPA-K,<br/>CPS-K, B-COM</p> | <p>Head of Finance and Strategy</p> |
| <p>4</p>  <p>Mr. Gordon Misigo,<br/>MBA, CPS-K, BA</p>        | <p>Head of Corporate Services</p>   |
| <p>5</p> <p>Mr. Clement Mugambi, LLB, CPS-K registered with LSK</p>  | <p>Corporation Secretary</p>        |

#### IV. CHAIRMAN'S STATEMENT

During the year AWSB made significant changes to its strategy. The Strategic Plan was revised to conform to the changes in the water sector as a result of devolution. Water Service Providers who were previously appointed by the water service board and whose operations were overseen by the boards have now commenced devolving to the county governments in response to the Kenya's constitutional devolution agenda.

The draft water bill that outlines the revised roles and responsibilities of the water sector institutions is before parliament. This necessitated AWSB to redefine its strategy to adapt to the new operating environment.

We have, and continue to execute the revised strategy in a focused, determined and disciplined manner, while dealing with the headwinds that we, and the sector as a whole, continue to face. We have achieved a great deal already. We have demonstrated that AWSB continue to play a leading role in the water sector as an infrastructure development.

The focus of our revised strategy is on the following:


- i. To plan and develop bulk water and sanitation infrastructure.
- ii. To formulate development and investment plans in liaison with county governments.
- iii. To provide input to the national development and financing plan.
- iv. To provide technical assistance to Water Service Providers (WSPs) for county asset developer.

#### **Our Achievements During the year 2013-2014**

Some of the Board's achievements during the year are outlined below:

- i. Implementation of our revised strategic plan- We are in line with, or ahead of, many of our key strategic and financial targets. This has been recognized by our stakeholders who have entrusted us with more resources.
- ii. Launch of the Master plan which defines the Water Supply development blue print for Nairobi and satellite towns to be implemented in five (5) phases from 2012 to 2030.
- iii. Successfully negotiated for additional resources from Development Partners. These resources will be used to develop water and sewer infrastructure in our area.
- iv. During the year our capital investments grew by more than 15% as a result of heavy investments in the water infrastructure, largely financed by donors such as World Bank, AfDB and AFD. The investments have ensured that the Board meet its annual target of increasing water and sewerage services to all areas under its jurisdiction.

On behalf of the Board of Directors, I would like to extend our sincere gratitude to all stakeholders who have reposed great trust in us and in our work. I also thank the various national and county governments for supporting us in our activities and helping us achieve our mandate.



**MR. PETER GITHINJI KUNG'U**

**AG. CHAIRMAN**

## V. REPORT OF THE CHIEF EXECUTIVE OFFICER

This is the Annual Report 2013 - 2014. Overall this was a year of excellent achievement for Athi Water Services Board despite the economic challenges. The year under review has seen the country grapple with a wide range of challenges across the broader socio-economic spectrum. The rising cost of living, effects global warming effect, and erratic weather patterns continue to greatly impact on food security and water availability.

### **Our performance**

The Financial year ending June 2014 was a year of building momentum at Athi WSB, as we began executing the strategic vision set out in 2012 to expand water and sewerage infrastructure. We experienced asset growth, up 25%, from Ksh14.25 billion to Ksh17.82 billion. The transfers to the accumulated funded was Ksh 24.47 Million for the financial year 2013-14.

AWSB is gearing to realize its vision of becoming a centre for best practices in the development of bulk water infrastructure. We have been relentlessly pursuing our strategy to realize this vision. We have transformed the way we discharge all our functions. We are optimizing the resources available to us, laying the foundation for a leaner more agile institution that makes a growing contribution to our economy.

### **Delivering on purpose**

Athi Water is responsible for the development of Water and Sewerage infrastructure in the counties of Nairobi, Kiambu and Gatanga Sub County of Muranga County.

After defining our strategic vision in 2012, we began developing and embedding a number of performance indicators to provide a clear framework for tracking our trajectory towards making our contribution of Vision 2030 and implementing our five year strategic plan. The measures link directly with our strategic goals – being a centre for best practices in bulk water infrastructure development that is attractive to private sector financing within the region and beyond, delivering extraordinary business performance, and being an organisation where people love to work.

In 2013-2014, we focused on the implementation of the master plan on the water security for Nairobi and the satellite towns. During the Financial Year the phase 1 of the least cost scenario of investments was completed which involved drilling of well fields in Kiunyu and Ruiru. Phase 2 of the implementation which involved construction of the Northern collector tunnel to Thika Dam commenced

### **Financing**

To meet our strategic objectives and capacity expansion plan, we have continued to engage various development financial institutions to acquire affordable long-term financing to fulfil AWSB's vision of providing quality water and sewerage services .In this regard we wish to record our appreciation to the Government of Kenya for its continued support to secure concessional loans from various development Partners.

### **Outlook**

I am greatly encouraged as I reflect on the strides we have made this year, and the pace at which they have been achieved. We shall continue implementing the Water sources master plan and also develop the water distribution master plan for Nairobi city, and sewerage master plan for Nairobi and satellite towns.

2014-15 is about making our Athi Water Services even more customer-centred, establishing our global brand direction, and integrating and driving growth from our newly acquired businesses.

Whilst regulatory and operating conditions in the sector are expected to change with the implementation of the Constitution, our Team will focus on delivering sustained growth and continuing to drive operational efficiencies. Our strategic partnerships create opportunities to reach and have an impact on greater numbers of people, and 2014 will see a cementing of these arrangements.

2014-15 looks set to be another significant year for AWSB. As we continue to build on our diversified international platform, our purpose of longer, healthier, happier lives remains the driving force behind everything we do.

### **Appreciation**

I extend my appreciation to the Government including National Treasury, the National Assembly and our parent Ministry, the Ministry of Environment, Water and Natural Resources for their continued support and insights. I would also like to thank the AWSB Board of directors and the staff and management for their determination and commitment to the institution.

Above all, I extend my thanks to all staff of AWSB,WSPs and the county water officers who have made it possible to keep the water flowing and are continuously working to ensure we bring more water projects in the pipeline. Over the next year, Kenya will rely on this highly talented team to use all the skills and resources at our disposal to ensure that we meet our targets.



**ENG MALAQUEN MILGO**  
**CHIEF EXECUTIVE OFFICER**

## **VI. CORPORATE GOVERNANCE STATEMENT**

Athi Water Services Board is committed to operating under a clear governance framework and strongly adheres to sound management and control practices. The board is committed to ensuring compliance with the provisions of Water Act 2002 among other regulatory and supervisory corporate governance requirements.

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

### **Board of Directors**

The structure of Athi Water Services Board starts with the Board of Directors comprising of 11 members: 8 independent directors and 3 directors representing the Ministry of Environment Water and Natural Resources, Ministry of Finance and Ministry of Devolution and Planning.

The Board of Directors exercises leadership, enterprise, integrity and judgment in directing Athi Water Services Board. The Board is mandated with determining the purpose and values of Athi Water Services Board, the strategy to achieve that purpose, and the implementation of its values.

The Board of Directors is expected to enhance the corporate governance practices in running of Athi Water Services Board and to bring the level of governance in the corporation in line with international standards. The essence of corporate governance is to protect stakeholder interests including the Government, water services providers during the transition period, consumers and the communities during the transition period.

The Board of Directors has been trained on Corporate Governance and procurement procedures to ensure that the board is run effectively and efficiently.

### **Role of the Chairperson and Chief Executive**

Local and international best practices require a separation of the roles of the Board and the Management.

The Board is headed by the chairperson who is appointed by the Cabinet Secretary in charge of Environment Water and Natural resources under the Water Act 2002 for a period not exceeding three years as specified in the instrument of his appointment and is eligible for reappointment from time to time. All the directors are also appointed by the Cabinet Secretary in charge of Environment Water and Natural resources according to the Water Act 2002.

The responsibility for execution of the Board's policies and resolutions lies with the management headed by the Chief Executive Officer. The Chief Executive Officer's role is to provide the strategic leadership for the organization and act as the link between staff and the Board of Directors.

**Board Committees:**

In ensuring that corporate governance is enhanced and that the power of Athi Water Services Board is properly exercised in the stewardship of the corporation's total portfolio of assets and resources to maintain stakeholder value, the board of directors has established the following 3 board sub-committees:

- Finance, Human Resource and General Purpose Committee
- Audit, Risk and Governance Committee
- Planning and Development Committee

## VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

At **Athi Water Services Board**, we are committed to conducting our business in a socially responsible and ethical manner. We recognize our responsibility to contribute positively to the community that supports us.

Athi WSB acts beyond its legal obligations and integrates social, environmental and ethical concerns into business process. It recognizes our corporate and social responsibilities to our employees, customers and suppliers and ensures that Athi Water is committed to conducting business in a way which will achieve sustainable growth, in line with legal and moral obligations. We aim to achieve our business objectives in a caring and responsible manner taking into account economic, social and environmental impacts.

Through stakeholder engagement, we dialogue with employees, customers, investors, regulators, suppliers, Non-governmental Organizations (NGOs) and community representatives, who have helped us to identify and tackle our key issues and ensure that we are dealing with what matters most to our business and those involved with it.

In the past year we have asked people to talk to us about their experiences and views of Athi Water. Some of the feedback came through structured, formal market research covering the whole Board area. Other feedback came from talking to people – customers, colleagues and suppliers – and hearing their views.

We gained a clear picture of the things we do well, what we should concentrate on and the challenges/shortcomings we face. We found the real strength in Athi Water. We have learnt that our customers appreciate the value we offer, our high standards of service and execution of mandate. They recognized our unique features and therefore Athi Water converted to its new corporate Identity: Transforming Life, Inspiring Progress.

Athi WSB has re-considered its CSR priorities and further structured the approaches to three principal areas that this policy will focus on:

- **Environment:** Taking good care of our planet, Climate change, Health and Hygiene, Water and Waste Management and Sustainability and adopting the principal of 'DO NO HARM'
- **Society:** Taking good care of our customers, colleagues (employees), communities, work and neighbors. This also includes offering scholarships to students in our area of jurisdiction and employees
- **Business:** Taking good care as we go about our business (sourcing, supply, engagement)

### **Working Environment**

Athi Water Services Board employees are one of our most important assets. We are proud to provide a work environment where employees are appreciated, valued and given regular feedback. All of the management staff work in an open space, promoting an 'open door' policy for concerns, thoughts and feedback for staff. We promote based on merit and skill and do not discriminate.

We recognize parental and family obligations of our employees and ensure that all staff members are supported by being flexible with their hours, or allowing them personal time on short notice.

### **Our Customers**

Athi Water Services Board nurtures our relationships with customers based on quality products, honesty and extraordinary turnaround. We are excited to work closely with every one of our customers.

## VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2014 which show the state of the *entity's* affairs.

### Principal activities

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

Main Functions of Athi Water Services Board include:

- i) Ownership and holding of water and sewerage assets/Infrastructure on behalf of the National Government.
- ii) Planning, development and expansion of water and sewerage services Infrastructure on behalf of the National Government.

Assisting the County Governments within its jurisdiction, during the transition period, in contracting out water and sewerage services provision to water service providers (WSPs) and in the monitoring of water and Sewerage services provision.

### Results

The results of the entity for the year ended 30<sup>th</sup> June 2014 are set out on page 1

### Directors

The members of the Board of Directors who served during the year are set out on page vi. In the course of the Financial year 2013-2014 the terms of three directors namely Hon. Reuben Ndolo, Mr Aden S. Ali and Mr John Giathi expired and the terms were not renewed.

### Auditors

The Kenya Audit Office is responsible for the statutory audit of Athi Water Services Board in accordance with the Public Finance Management (PFM) Act, 2012.

By Order of the Board

For and on its behalf

Corporation Secretary

Date.....

## IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Sections 88 and 89 of the Public Finance Management Act, 2012 and the State Corporations Act, 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, 2014. 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 and the State Corporations Act. 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, 2014, 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 financial statements of Athi Water Services Board were approved by the Board on 25<sup>th</sup> September 2014 and signed on its behalf by:



**ENG MALAQUEN MILGO**  
**CHIEF EXECUTIVE OFFICER**



**MR. PETER GITHINJI KUNG'U**  
**AG. CHAIRMAN**

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON ATHI WATER SERVICES BOARD FOR THE YEAR ENDED 30 JUNE 2014

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the financial statements of Athi Water Services Board set out on pages 1 to 17, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets and statement of cash flows 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 14 of the Public Audit Act, 2003. 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.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards 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.

The management is also responsible for the submission of its financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement in the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### **Basis for Qualified Opinion**

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

As similarly reported in 2012/2013, the Board inherited non-current assets of undetermined value previously owned by the Ministry of Water and Irrigation and the National Water and Conservation and Pipeline Corporation in respect of water distribution infrastructure which have not been incorporated in the financial statements.

In the circumstances, the accuracy of the property, plant and equipment balance of Kshs.13,577,293,697 as at 30 June 2014 could not be confirmed.

#### **2. Debtors**

The statement of financial position as at 30 June 2014 reflects debtors amounting Kshs.2,610,015,724 which includes an amount of Kshs.1,948,857,176 owing from the Nairobi City Water and Sewerage Company, an amount of Kshs.506,783 related to a long outstanding imprest from the Machakos District Water Officer and an amount of Kshs.600,000 owing from Umande Trust. These amounts are long outstanding and their recoverability appear doubtful.

In the circumstances, the accuracy and full recoverability of the debtors balance of Kshs.2,610,015,724 as at 30 June 2014 could not be confirmed.

### **Qualified Opinion**

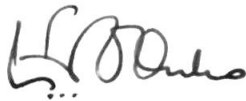
In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Board as at 30 June 2014, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Water Act, 2002.

## Other Matter

### Non Compliance with Legal Notice No.101 of August 2005 -Transfer Plan

According to the Transfer Plan under the Water Act, 2002, which was operationalised vide Legal Notice No.101 of August 2005, the Water Services Boards ought to have taken over assets, staff and other water infrastructure inherited from the Ministry of Water and Irrigation and the National Water and Conservation and Pipeline Corporation. Although Athi Water Services Board, Ministry of Water and Irrigation and the National Water and Conservation and Pipeline Corporation had finalised the valuation of the assets, Athi Water Services Board had not taken over the assets as at 30 June 2014.

The Board is therefore in contravention of the Legal Notice No.101 of August 2005 and the Water Act, 2002 on the Transfer Plan. My opinion is not qualified in respect to this matter.



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

**Nairobi**

**30 June 2015**

**XI. ATHI WATER SERVICES BOARD  
STATEMENT OF FINANCIAL PERFORMANCE  
PERIOD ENDED 30TH JUNE 2014**

|   |                           | <i>Jun-14</i>        | <i>Jun-13</i>        |
|---|---------------------------|----------------------|----------------------|
|   | Notes                     | KSH                  | KSH                  |
| <b>REVENUE</b>  |                           |                      |                      |
| Operational Income  | <a href="#"><u>10</u></a> | 1,081,443,100        | 1,070,243,660        |
| Other Income  | <a href="#"><u>11</u></a> | 54,408,533           | 34,241,614           |
| Grants – Restricted (Donor)                                 | <a href="#"><u>18</u></a> | 119,480,886          | 235,413,238          |
| Grants - Un restricted (GoK)                                | <a href="#"><u>19</u></a> | 92,274,231           | 24,458,833           |
| <b>TOTAL REVENUE</b>  |                           | <b>1,347,606,750</b> | <b>1,364,357,345</b> |
| <b>EXPENDITURE</b>  |                           |                      |                      |
| Administrative Expense                                      | <a href="#"><u>12</u></a> | 88,595,845           | 99,137,288           |
| Board Expenses  | <a href="#"><u>13</u></a> | 14,846,512           | 17,477,528           |
| Staff Costs   | <a href="#"><u>14</u></a> | 166,944,170          | 152,279,484          |
| Operational Expenses  | <a href="#"><u>15</u></a> | 102,173,660          | 94,530,635           |
| General Expenses  | <a href="#"><u>16</u></a> | 7,925,420            | 4,841,728            |
| Lease Fees to Nairobi City Council                          |                           | 260,000,000          | 260,000,000          |
| Lease Fees to Other Council                                 |                           | 19,464,729           | 19,464,729           |
| Project Costs   | <a href="#"><u>17</u></a> | 305,506,005          | 310,555,755          |
| <b>TOTAL EXPENDITURE</b>                                    |                           | <b>965,456,341</b>   | <b>958,287,147</b>   |
| <b>EARNINGS BEFORE INTEREST, TAX<br/>&amp; DEPRECIATION</b> |                           | <b>382,150,410</b>   | <b>406,070,198</b>   |
| Less Depreciation   | <a href="#"><u>2</u></a>  | 275,140,534          | 211,493,703          |
| <b>EARNINGS BEFORE INTEREST &amp; TAX</b>                   |                           | <b>107,009,876</b>   | <b>194,576,495</b>   |
| Less Interest   |                           | 81,418,041           | 73,698,397           |
| <b>NET SURPLUS/(DEFICIT)</b>                                |                           | <b>-</b>             | <b>-</b>             |
| <b>TRANSFER TO ACCUMULATED FUND</b>                         |                           | <b>25,591,835</b>    | <b>120,878,098</b>   |

The notes set out on pages 9 to 18 form an integral part of the Financial Statements

X. REPORT OF THE INDEPENDENT AUDITORS ON ATHI WATER SERVICES BOARD

**XII. ATHI WATER SERVICES BOARD  
STATEMENT OF FINANCIAL POSITION  
AS AT 30TH JUNE 2014**

|                                   |                  | <i>Kshs</i><br><u>Jun-14</u> | <i>Kshs</i><br><u>Jun-13</u> |
|-----------------------------------|------------------|------------------------------|------------------------------|
|                                   | Notes            |                              |                              |
| <b>ASSETS</b>                     |                  |                              |                              |
| <b>CURRENT ASSETS</b>             |                  |                              |                              |
| Inventory                         |                  | 1,179,386                    | 842,935                      |
| Debtors                           | <u>3</u>         | 2,610,015,724                | 2,253,667,456                |
| Prepayments                       | <u>4</u>         | 8,357,654                    | 9,371,148                    |
| Cash & Bank Balances              | <u>5</u>         | 1,625,050,269                | 966,268,205                  |
| <b>Total Current Assets</b>       |                  | <b>4,244,603,032</b>         | <b>3,230,149,744</b>         |
| <b>NON-CURRENT ASSETS</b>         |                  |                              |                              |
| Property, Plant and Equipment     | <u>2</u>         | 13,577,293,697               | 11,020,432,630               |
| <b>TOTAL ASSETS</b>               |                  | <b>17,821,896,729</b>        | <b>14,250,582,374</b>        |
| <b>CURRENT LIABILITIES</b>        |                  |                              |                              |
| Creditors and Accruals            | <u>8</u>         | 795,054,413                  | 381,850,000                  |
| <b>Total</b>                      |                  | <b>795,054,413</b>           | <b>381,850,000</b>           |
| <b>NON-CURRENT LIABILITIES</b>    |                  |                              |                              |
| Wassip Loan                       | -                | 7,181,932,028                | 5,545,246,113                |
| AfDB Loan - Nairobi Rivers        | -                | 2,100,707,424                | 963,540,163                  |
| Loans-AFD                         |                  | 2,879,917,251                | 2,752,181,014                |
|                                   |                  | <b>12,162,556,704</b>        | <b>9,260,967,290</b>         |
| <b>Total Liabilities</b>          |                  | <b>12,957,611,118</b>        | <b>9,642,817,290</b>         |
| <b>Net Assets</b>                 |                  | <b>4,864,285,611</b>         | <b>4,607,765,083</b>         |
| Accumulated funds                 | 6                | 359,426,991                  | 333,835,156                  |
| Deffered Income                   | <u>7 &amp; 9</u> | 4,504,858,620                | 4,273,929,927                |
| <b>Net Assets and Liabilities</b> |                  | <b>4,864,285,611</b>         | <b>4,607,765,083</b>         |

The Financial Statements set out on pages 1 to 8 were signed on behalf of the Board of Directors by:



ENG. MALAQUEN MILGO  
CHIEF EXECUTIVE OFFICER

Date.....



MR. PETER GITHINJI KUNG'U  
AG. CHAIRMAN

Date.....

**XIII. ATHI WATER SERVICES BOARD  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE PERIOD ENDED 30TH JUNE 2014**

Attributable to the owners of the controlling entity

|  | Accumulated surplus<br>Kshs | Reserves<br>Total<br>Kshs |
|--|-----------------------------|---------------------------|
| Balance as at 30 JUNE 2012                     | 212,957,058                 | 212,957,058               |
| Surplus/(deficit) for the period               | 120,878,098                 | 120,878,098               |
| Transfers to/from accumulated surplus          |                             |                           |
| <b>Balance as at 30 JUNE 2013</b>              | <b>333,835,156</b>          | <b>333,835,156</b>        |
| Surplus for the period                         | 333,835,156                 | 333,835,156               |
| Transfers to/from accumulated surplus          | 25,591,835                  | 25,591,835                |
| <b>Balance carried down as at 30 June 2014</b> | <b>359,426,991</b>          | <b>359,426,991</b>        |

**XIV. ATHI WATER SERVICES BOARD  
STATEMENT OF CASHFLOWS  
FOR THE PERIOD ENDED 30TH JUNE 2014**

|   | 2014<br>KSHS           | 2013<br>KSHS           |
|---|------------------------|------------------------|
| <b>Cash flow from operating activities</b>              |                        |                        |
| Surplus for the period                                  | 25,591,835             | 120,878,098            |
| Prior Year  |                        |                        |
| Adjustments for:  |                        | -                      |
| Depreciation  | 275,140,534            | 211,493,703            |
| <b>Operating surplus before working capital changes</b> | <b>300,732,369</b>     | <b>332,371,801</b>     |
| (increase)/Decrease in debtors                          | (356,348,268)          | (891,359,065)          |
| (increase)/Decrease in prepayments                      | 1,013,494              | 946,609                |
| (increase)/Decrease in stocks                           | (336,451)              | 447,582                |
| increase/(Decrease) in creditors                        | 413,204,413            | 48,785,984             |
| <b>Net cashflow from operating activities</b>           | <b>57,533,189</b>      | <b>(841,178,890)</b>   |
| <b>Investing Activities</b>                             |                        |                        |
| Increase in Fixed Assets                                | (2,832,001,601)        | (1,638,587,592)        |
| <b>Net cashflow from investing activities</b>           | <b>(2,832,001,601)</b> | <b>(1,638,587,592)</b> |
| <b>Financing Activities</b>                             |                        |                        |
| increase/(Decrease) in deferred income                  | 230,928,693            | 474,657,269            |
| Increase in loan  | 2,901,589,413          | 1,899,708,116          |
| <b>Net cashflow from financing activities</b>           | <b>3,132,518,105</b>   | <b>2,374,365,385</b>   |
| <b>Net increase in cash and cash equivalent</b>         | <b>658,782,062</b>     | <b>226,970,704</b>     |
| <b>Movement in cash and cash equivalents</b>            |                        |                        |
| Cash and cash equivalents at beginning of period        | 966,268,207            | 739,297,503            |
| <b>Cash and cash equivalents at the End of period</b>   | <b>1,625,050,269</b>   | <b>966,268,207</b>     |

**XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

| DESCRIPTION                        | Original budget      | Adjustments        | Final budget         | Actual on comparable basis | Performance difference |
|------------------------------------|----------------------|--------------------|----------------------|----------------------------|------------------------|
|                                    | 2013-2014            | 2013-2014          | 2013-2014            | 2013-2014                  | 2013-2014              |
| <b>Revenue</b>                     | <b>Ksh</b>           | <b>Ksh</b>         | <b>Ksh</b>           | <b>Ksh</b>                 | <b>Ksh</b>             |
| Lease Fees from NWSC               | 996,155,725          | -                  | 996,155,725          | 996,155,803                | 78                     |
| Lease Fees from other Wsps         | 85,262,472           | -11,936,746        | 73,325,726           | 85,287,297                 | 11,961,571             |
| <b>Gross lease fees</b>            | <b>1,081,418,197</b> | <b>-11,936,746</b> | <b>1,069,481,451</b> | <b>1,081,443,100</b>       | <b>11,961,649</b>      |
| <b>(Less) revenue remitted to:</b> |                      |                    |                      |                            |                        |
| Nairobi city council               | 260,000,000          | -                  | 260,000,000          | 260,000,000                | -                      |
| Other Local Government Councils    | 19,464,729           | -                  | 19,464,729           | 19,464,729                 | -                      |
| <b>Net lease fees Payable</b>      | <b>279,464,729</b>   | <b>-</b>           | <b>279,464,729</b>   | <b>279,464,729</b>         | <b>-</b>               |
| Net Lease Fees                     | 801,953,468          | -11,936,746        | 790,016,722          | 801,978,371                | 11,961,649             |
| Other revenue                      | 16,500,000           | 4,950,000          | 21,450,000           | 54,408,533                 | 32,958,533             |
| Grants-Unrestricted(GoK)           |                      |                    |                      | 92,274,231                 | 92,274,231             |
| Grants-restricted                  |                      |                    |                      | 119,480,886                | 119,480,886            |
| <b>Total income</b>                | <b>818,453,468</b>   | <b>-6,986,746</b>  | <b>811,466,722</b>   | <b>1,068,142,021</b>       | <b>256,675,299</b>     |

| Expenses                        | Original budget | Adjustments | Final budget | Actual on comparable basis | Performance difference |
|---------------------------------|-----------------|-------------|--------------|----------------------------|------------------------|
| <b>A) Administration</b>        |                 |             |              |                            |                        |
| Rent and Rates                  | 14,052,011      | -           | 14,052,011   | 15,368,437                 | -1,316,426             |
| Advertising                     | 8,000,000       | 3,200,000   | 11,200,000   | 11,063,756                 | 136,244                |
| Official Entertainment          | 1,500,000       | 225,000     | 1,725,000    | 1,715,354                  | 9,646                  |
| General office running expenses | 2,200,990       | -           | 2,200,990    | 1,698,388                  | 502,602                |
| Printing & Stationary           | 2,400,000       | -           | 2,400,000    | 1,011,919                  | 1,388,081              |
| Printing & Publishing           | 2,156,220       | -           | 2,156,220    | 1,300,499                  | 855,721                |

| Expenses  | Original budget    | Adjustments      | Final budget       | Actual on comparable basis | Performance difference |
|---|--------------------|------------------|--------------------|----------------------------|------------------------|
| Education & training  | 6,000,000          | -                | 6,000,000          | 5,728,134                  | 271,866                |
| Library Expenses  | 540,000.00         | -                | 540,000.00         | 514,926.00                 | 25,074.00              |
| Workshop and Seminars   | 9,000,000          | -                | 9,000,000          | 7,817,101                  | 1,182,899              |
| Travel and accommodation  | 8,000,000          | 1,200,000        | 9,200,000          | 9,270,275                  | -70,275                |
| Telephone Expenses & Postage                                    | 4,200,000          | -                | 4,200,000          | 3,214,762                  | 985,238                |
| Audit Expenses  | 540,000            | -                | 540,000            | -                          | 540,000                |
| Bank Charges  | 700,000            | 1,400,000        | 2,100,000          | 7,069,696                  | -4,969,696             |
| I.T Costs   | 4,415,374          | -                | 4,415,374          | 4,808,230                  | -392,856               |
| Transport operating   | 10,500,000         | -                | 10,500,000         | 8,268,564                  | 2,231,436              |
| Uniform and clothing  | 800,000            | -                | 800,000            | -                          | 800,000                |
| Repairs & maintenances-Office Equipment, Furniture and Fittings | 2,381,000          | -                | 2,381,000          | 2,323,367                  | 57,633                 |
| Emergency Works and Hire of plant & Equipment                   | 1,500,000          | -750,000         | 750,000            | -                          | 750,000                |
| Professional Consultancy Fees                                   | 5,000,000          | -                | 5,000,000          | 4,703,962                  | 296,038                |
| Depreciation  | 142,400,000        | -                | 142,400,000        | 275,140,534                | -132,740,534           |
| Provision for interest on loans                                 | 72,500,000         | -                | 72,500,000         | 81,418,041                 | -8,918,041             |
| Monitoring and Evaluation                                       | 3,000,000          | -                | 3,000,000          | 2,718,475                  | 281,525                |
| <b>Sub -total</b>   | <b>301,785,595</b> | <b>5,275,000</b> | <b>307,060,595</b> | <b>445,154,420</b>         | <b>-138,093,825</b>    |
| <b>B) Board Expenses</b>  |                    |                  |                    |                            |                        |
| Honoraria   | 960,000            | -                | 960,000            | 412,000                    | 548,000                |
| Board Allowances  | 17,000,000         | -                | 17,000,000         | 14,434,512                 | 2,565,488.             |
| <b>Sub total</b>  | <b>17,960,000</b>  | <b>-</b>         | <b>17,960,000</b>  | <b>14,846,512</b>          | <b>3,113,488</b>       |
| <b>C) Staff Costs</b>   |                    |                  |                    |                            |                        |
| Salaries and Wages  | 111,571,168        | 784,000          | 112,355,168        | 102,078,093                | 10,277,075             |
| House allowance   | 22,952,160         | -                | 22,952,160         | 19,431,000                 | 3,521,160              |

| Expenses                                | Original budget    | Adjustments        | Final budget       | Actual on comparable basis | Performance difference |
|---|--------------------|--------------------|--------------------|----------------------------|------------------------|
| Entertainment allowance                 | 1,242,000          | -                  | 1,242,000          | 1,080,440                  | 161,560                |
| Transport                               | 10,681,200         | -                  | 10,681,200         | 8,153,100                  | 2,528,100              |
| Leave and Passage allowance             | 2,396,035          | -                  | 2,396,035          | 1,494,059                  | 901,976                |
| Gratuity Contributions                  | 25,403,620         | -                  | 25,403,620         | 19,029,063                 | 6,374,557              |
| N.S.S.F Employers contribution          | 252,000            | -                  | 252,000            | 146,400                    | 105,600                |
| Staff Welfare                           | 3,726,000          | -                  | 3,726,000          | 2,512,309                  | 1,213,691              |
| Medical Expenses                        | 13,662,000         | -                  | 13,662,000         | 13,019,706                 | 642,294                |
| <b>Sub total</b>                        | <b>191,886,183</b> | <b>784,000</b>     | <b>192,670,183</b> | <b>166,944,170</b>         | <b>25,726,013</b>      |
| <b>D) General Expenses</b>              |                    |                    |                    |                            |                        |
| Membership to professional associations | 2,100,000          |                    | 2,100,000          | 2,099,011                  | 989                    |
| General Insurance                       | 4,800,000          | -240,000           | 4,560,000          | 5,826,409                  | -1,266,409             |
| <b>Sub total</b>                        | <b>6,900,000</b>   | <b>-240,000</b>    | <b>6,660,000</b>   | <b>7,925,420</b>           | <b>-1,265,420</b>      |
| <b>E) Operation Expenses</b>            |                    |                    |                    |                            |                        |
| Planning and Design                     | -                  | 4,000,000          | 4,000,000          | 2,200,902                  | 1,799,098              |
| Environmental impact Assessment         | -                  | 2,000,000          | 2,000,000          | 1,432,460                  | 567,540                |
| Asset Renewal-Other wsps                | 19,000,000         | 6,000,000          | 25,000,000         | 17,261,086                 | 7,738,914              |
| Compensation-Escrow                     | -                  | -                  | -                  | 62,970,419                 | -62,970,419            |
| AFD Counterpart Expenses                | -                  | -                  | -                  | 16,653,583                 | -16,653,583            |
| USTDA Counterpart Funds                 | -                  | -                  | -                  | 1,655,210                  | -1,655,210             |
| Asset Renew -NWSC                       | 250,000,000        | -                  | 250,000,000        | -                          | 250,000,000            |
| Project Costs                           | -                  | -                  | -                  | 305,506,005                | -305,506,005           |
| <b>Sub total</b>                        | <b>269,000,000</b> | <b>12,000,000</b>  | <b>281,000,000</b> | <b>407,679,655</b>         | <b>-126,679,665</b>    |
| <b>Total Expenditure</b>                | <b>787,531,778</b> | <b>17,819,000</b>  | <b>805,350,778</b> | <b>1,042,550,187</b>       | <b>-237,199,409</b>    |
| <b>Surplus</b>                          | <b>30,921,690</b>  | <b>-24,805,746</b> | <b>6,115,944</b>   | <b>25,591,835</b>          | <b>493,874,708</b>     |

## XVI. NOTES TO THE FINANCIAL STATEMENTS

### 1. Statement of compliance and basis of preparation

The entity'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. This is the first year for AWSB to use IPSAS as we have consistently used IFRS.

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.

#### 1.1 Summary of significant accounting policies

##### a) Revenue recognition

Lease fees Income is recognized in the year in which it is due.

A grant from the Government of Kenya and other donors for specific expenses is recognized as income in the same period as the relevant expense.

Grants related to depreciable assets are recognized as income over the periods and in the proportions in which depreciation of those assets is charged.

##### b) Budget information

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

##### c) Property, plant and equipment

Property, Plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

Depreciation is calculated on the straight line basis, at annual rates estimated to write off the carrying values of the assets over their expected useful lives.

The annual depreciation rates in use are:

|                                 |      |
|---------------------------------|------|
| Office Equipment – Computers    | 33%  |
| Furniture and fittings          | 10%  |
| Motor Vehicles                  | 25%  |
| Plant and Equipment             | 10%  |
| Dams and Pans                   | 2.5% |
| Water & Sewerage Infrastructure | 2.5% |
| Accounting and GIS Software     | 33%  |

##### d) Intangible assets

Intangible assets acquired separately are initially recognized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

## e) Financial liabilities

### (i) Initial recognition and measurement

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

### (ii) Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

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.

## f) Inventories

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

## g) Provisions

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

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

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

## h) Contingent liabilities

The Board has given no guarantees to third parties. In the ordinary course of business, the Board has been sued in various cases with potential exposure estimated at Kshs. 500 million. The Board is a defendant or co-defendant in various litigations and claims. The outcomes of these litigations and claims are yet to be determined; hence the Board has not made any provisions in these accounts towards contingent liabilities.

## i) Contingent assets

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

**j) Nature and purpose of reserves**

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

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

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

**l) Employees entitlements**

**(i) Leave:**

Employees' entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees' up to the balance sheet date.

**(ii) National Social security Fund**

The corporation contributes to the statutory National Social security Fund (NSSF). This is a defined contribution scheme. The company's obligation under this scheme is limited to specific contribution regulated from time to time and currently at Ksh 200 per employee. The company's contribution is charged to the income statement in the year to which they relate.

**m) Capital and Revenue Grants**

Grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is initially recognized as deferred income (liability) and released as income over periods necessary to match the grant on a systematic basis to the cost that it is intended to compensate.

When the grant relates to an asset, (Capital) the landed cost or the fair value is credited to a deferred income account and is released to the income statement income over the periods and in the proportions in which depreciation of those assets is charged.

**n) Foreign currency transactions**

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

**o) Borrowing costs**

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

**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 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.

**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) Provisions**

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

**s) Taxation**

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

**t) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

**u) Related Parties Transactions**

In the normal course of business the Board enters into transactions with related parties. Athi Water Services Board (AWSB) as the Asset Holding Entity has signed Service Provision Agreements with eleven Water Services Providers.

During the year the transactions conducted between these related entities were at arm's length and in the normal course of business in compliance with the provisions of the Service Provision Agreement and the Water Act 2002. The following transactions were carried out with related parties:-

|                                     | <b>2014</b>             | <b>2013</b>             |
|-------------------------------------|-------------------------|-------------------------|
|                                     | <b>Kshs</b>             | <b>Kshs</b>             |
| Lease fees receivable from WSPS     |                         |                         |
| As at 1st July                      | 1,562,286,309.00        | 1,353,175,629.00        |
| Lease fees for the year 2013/2014   | 1,081,443,100.00        | 1,070,243,660.00        |
| <b>Amount due from WSPS</b>         | <b>2,643,729,409.00</b> | <b>2,423,419,289.00</b> |
| Lease fees received during the year | 552,619,671.00          | 861,132,980.00          |
| <b>Balance as at 30th June</b>      | <b>2,091,109,738.00</b> | <b>1,562,286,309.00</b> |

## 2. Property, Plant and Equipment For the Year ended June 30th 2014

|   | Office Equipment  | Furniture & Fittings | Motor Vehicles     | Plant & Equipment's | Dams & Pans          | Land              |
|---|-------------------|----------------------|--------------------|---------------------|----------------------|-------------------|
| <b>Cost</b>                                 |                   |                      |                    |                     |                      |                   |
| At the Beginning of the Year                | 41,416,172        | 15,412,863           | 189,049,172        | 42,813,157          | 2,506,373,313        | 14,063,878        |
| <b>Additions</b>                            |                   |                      |                    |                     |                      |                   |
| Operational Asset                           | 1,875,236         | 580,400              | 0                  | 0                   | 0                    | 0                 |
| <b>Disposal</b>                             |                   |                      |                    |                     |                      |                   |
| Reclassification During the Year            |                   |                      |                    |                     | 412,524,623          |                   |
| <b>At the End of the Year</b>               | <b>43,291,408</b> | <b>15,993,263</b>    | <b>189,049,172</b> | <b>42,813,157</b>   | <b>2,918,897,936</b> | <b>14,063,878</b> |
| <b>DEPRECIATION</b>                         |                   |                      |                    |                     |                      |                   |
| At the Beginning of the Year                | 34,306,473        | 9,935,025            | 131,874,462        | 14,733,980          | 125,983,915          | 0                 |
| Depreciation for the year                   | 4,098,248         | 1,533,411            | 23,931,950         | 3,281,103           | 62,659,333           | 0                 |
| Depreciation Adjustment for Disposed Assets |                   |                      |                    |                     |                      |                   |
| <b>At the End of the Year</b>               | <b>38,404,721</b> | <b>11,468,436</b>    | <b>155,806,412</b> | <b>18,015,083</b>   | <b>188,643,248</b>   | <b>0</b>          |
| <b>Net Book Value 30 Jun 14</b>             | <b>4,886,687</b>  | <b>4,524,827</b>     | <b>33,242,760</b>  | <b>24,798,074</b>   | <b>2,730,254,688</b> | <b>14,063,878</b> |
| <b>Net Book Value 30 Jun 2013</b>           | <b>7,109,699</b>  | <b>5,477,838</b>     | <b>57,174,710</b>  | <b>28,079,177</b>   | <b>2,380,389,398</b> | <b>14,063,878</b> |

### Fixed Asset Schedule continued

|   | Meters           | Water Infrastructure | Sewerage Infrastructure | Work in Progress     | Intangible Assets | Total                 |
|---|------------------|----------------------|-------------------------|----------------------|-------------------|-----------------------|
| <b>Cost</b>                                 |                  |                      |                         |                      |                   |                       |
| At the Beginning of the Year                | 5,012,100        | 4,704,859,367        | 2,319,407,026           | 1,630,545,086        | 16,435,857        | 11,485,387,990        |
| <b>Additions</b>                            |                  |                      |                         |                      |                   |                       |
| Operational Asset                           | 0                |                      |                         | 2,822,002,799        | 7,543,163         | 2,832,001,598         |
| <b>Disposal</b>                             |                  |                      |                         |                      |                   |                       |
| Reclassification                            | 0                | 395,219,185          | 189,733,138             | -999,714,947         | 2,238,000         | 0                     |
| <b>At the End of the Year</b>               | <b>5,012,100</b> | <b>5,100,078,552</b> | <b>2,509,140,164</b>    | <b>3,452,832,938</b> | <b>26,217,020</b> | <b>14,317,389,589</b> |
| <b>DEPRECIATION</b>                         |                  |                      |                         |                      |                   |                       |
| At the Beginning of the Year                | 5,012,100        | 66,553,031           | 69,173,848              | 0                    | 7,382,525         | 464,955,360           |
| Depreciation for the year                   | 0                | 118,673,103          | 57,889,853              | 0                    | 3,073,532         | 275,140,533           |
| Depreciation Adjustment for Disposed Assets | 0                |                      | 0                       | 0                    | 0                 | 0                     |
| <b>At the End of the Year</b>               | <b>5,012,100</b> | <b>185,226,134</b>   | <b>127,063,701</b>      | <b>0</b>             | <b>10,456,057</b> | <b>740,095,892</b>    |
| <b>Net Book Value 30 Jun 14</b>             | <b>0</b>         | <b>4,914,852,418</b> | <b>2,382,076,463</b>    | <b>3,452,832,938</b> | <b>15,760,963</b> | <b>13,577,293,697</b> |
| <b>Net Book Value 30 Jun 2013</b>           | <b>0</b>         | <b>4,638,306,336</b> | <b>2,250,233,178</b>    | <b>1,630,545,086</b> | <b>9,053,332</b>  | <b>11,020,432,630</b> |

|  | KSHS                 | KSHS                 |
|--|----------------------|----------------------|
| <b>3 Debtors</b>                         |                      |                      |
| Operating Debtors-WSPs                   | 142,252,562          | 98,339,339           |
| Debtors NWSC                             | 1,948,857,176        | 1,463,946,970        |
| Other Debtors                            | 5,408,594            | 693,890              |
| Staff Debtors                            | 2,543,269            | 2,785,791            |
| Advance payments                         | 507,055,898          | 687,901,466          |
| Rent Deposit                             | 3,898,225            |                      |
| <b>Total</b>                             | <b>2,610,015,724</b> | <b>2,253,667,456</b> |
| <b>4 Prepayments</b>                     |                      |                      |
| Prepaid maintenance                      | 591,525              | 296,892              |
| Prepaid rent                             | 4,801,316            | 5,203,468            |
| Prepaid insurance                        | 2,964,813            | 3,870,788            |
|  | <b>8,357,654</b>     | <b>9,371,148</b>     |
| <b>5 Cash &amp; Bank Balances</b>        |                      |                      |
| Cash in Hand                             | 18,036               | 17,536               |
| Bank Deposits                            | 2,730,640            | 2,730,640            |
| Cash at Bank- KCB                        | 4,372,459            | 202,224,406          |
| Cash at bank-KCB -KISSP                  | 1,328,543            | -                    |
| Cash at Bank- Co-op Bank                 | 83,420,665           | 305,938,785          |
| Cash at Bank- Co-op KWSP                 | 502,856              | 4,632,350            |
| Cash at Bank- KCB WASSIP-AF              | 1,162,156,387        |                      |
| Cash at Bank - Coop Escrow               | 123,482,874          | 181,279,631          |
| Cash at Bank(ACPEU-partner Contribution) | 2,550,253            | 10,434,192           |
| Cash at Bank(NIC-ADB)                    | 383,522              | 379,139              |
| Cash at Bank ACP EU PE 5                 | 14,654,521           | 45,075,408           |
| Cash at Bank Co-op Call Account          | 101,658,664          | 51,438,014           |
| Cash at Bank - Chase Bank 2 Loan         | 127,676,517          | 152,780,510          |
| Cash at Bank - NIC-Nairobi Rivers        | 114,332              | 9,337,594            |
| <b>Total</b>                             | <b>1,625,050,269</b> | <b>966,268,205</b>   |
| <b>6 Accumulated Fund</b>                |                      |                      |
| Opening Balance                          | 333,835,156          | 212,957,058          |
| Prior year                               |                      |                      |
| Surplus for the period                   | 25,591,835           | 120,878,098          |
|  | <b>359,426,991</b>   | <b>333,835,156</b>   |
| <b>7 Deferred Income-Long Term</b>       |                      |                      |
| IDA                                      | 39,265,872           | 40,381,268           |
| KWSP                                     | 14,880,284           | 18,240,778           |
| GOK                                      | 1,767,430,636        | 1,588,784,867        |
| AFD                                      | 2,380,752,839        | 2,391,301,798        |
| WASSIP                                   | 27,240,753           | 28,356,149           |
| ACP-EU                                   | 126,858,454          | 103,402,654          |
| ADB                                      | 141,906,012          | 96,938,643           |
| <b>Total</b>                             | <b>4,498,334,850</b> | <b>4,267,406,157</b> |

|           |   |                      |                      |
|-----------|---|----------------------|----------------------|
| <b>8</b>  | <b>Creditors and Accruals</b>                         |                      |                      |
|           | Employee Entitlements                                 | 3,790,074            | 6,733,603            |
|           | Payroll creditors                                     | 764,931              | 4,390,605            |
|           | VAT & W/holding Tax                                   | 7,012,882            | 19,801,540           |
|           | Accounts Payable                                      | 783,486,526          | 350,924,252          |
|           | <b>Total</b>  | <b>795,054,413</b>   | <b>381,850,000</b>   |
| <br>      |   |                      |                      |
| <b>9</b>  | <b>Deferred Income-Short Term</b>                     |                      |                      |
|           | IDA   | 6,523,770            | 6,523,770            |
|           | <b>Total</b>  | <b>6,523,770</b>     | <b>6,523,770</b>     |
| <br>      |   |                      |                      |
| <b>10</b> | <b>Operational Income</b>                             |                      |                      |
|           | Lease fees from Nairobi Water & Sewerage Company      | 996,155,803          | 996,155,804          |
|           | Lease fee from Other WSP's                            | 85,287,297           | 74,087,856           |
|           | <b>Total</b>  | <b>1,081,443,100</b> | <b>1,070,243,660</b> |
| <br>      |   |                      |                      |
| <b>11</b> | <b>Other Income</b>                                   |                      |                      |
|           | Miscellaneous income                                  | 3,874,062            | 4,229,274            |
|           | Interest on deposit                                   | 50,534,471           | 30,012,340           |
|           | Gain/(Loss) on Disposal                               |                      | -                    |
|           | <b>Total</b>  | <b>54,408,533</b>    | <b>34,241,614</b>    |
| <br>      |   |                      |                      |
| <b>12</b> | <b>Administrative Expense</b>                         |                      |                      |
|           | Rent and Rates  | 15,368,437           | 9,464,502            |
|           | Transport operating                                   | 8,268,564            | 7,175,993            |
|           | Telephone Expenses                                    | 3,161,832            | 3,286,309            |
|           | Postage   | 52,930               | 70,390               |
|           | Printing & Stationery                                 | 1,011,919            | 936,577              |
|           | Printing & Publishing                                 | 1,300,499            | 2,517,860            |
|           | Advertising Expenses                                  | 11,063,756           | 15,278,321           |
|           | General Office Running Expenses                       | 1,698,388            | 2,046,360            |
|           | Entertainment & Office Tea                            | 1,715,354            | 1,199,237            |
|           | IT Costs & Accessories                                | 4,808,230            | 5,919,854            |
|           | Library & subscription Expenses                       | 514,926              | 302,811              |
|           | Bank Charges  | 7,069,696            | 3,588,135            |
|           | Audit & Management fees                               | -                    | 754,000              |
|           | Workshops & seminars                                  | 7,817,101            | 15,573,659           |
|           | Education and Training                                | 5,728,134            | 12,656,559           |
|           | Maintenance of office Equipment, Furniture & Fittings | 2,323,367            | 301,584              |
|           | Travel and Accommodation                              | 9,270,275            | 9,006,835            |
|           | Monitoring and Evaluation                             | 2,718,475            | 3,311,092            |
|           | Professional Consultancy Fees                         | 4,703,962            | 5,406,360            |
|           | Hire of plants & Equipment                            | -                    | 340,850              |
|           | <b>Total</b>  | <b>88,595,845</b>    | <b>99,137,288</b>    |

|   |                    |                    |
|---|--------------------|--------------------|
| <b>13 Board Expenses</b>                    |                    |                    |
| Honoraria                                   | 412,000            | 960,000            |
| Board Allowances                            | 14,434,512         | 16,517,528         |
| <b>Total</b>                                | <b>14,846,512</b>  | <b>17,477,528</b>  |
| <b>14 Staff Costs</b>                       |                    |                    |
| Salaries and Wages                          | 102,078,093        | 88,223,381         |
| House Allowance                             | 19,431,000         | 19,215,250         |
| Transport Allowance                         | 8,153,100          | 8,465,600          |
| Entertainment Allowance                     | 1,080,440          | 1,092,200          |
| Leave and Passage allowance                 | 1,494,059          | 4,344,485          |
| Gratuity Contribution                       | 19,029,063         | 16,964,140         |
| Medical Expenses                            | 13,019,706         | 9,497,129          |
| Staff Welfare                               | 2,512,309          | 4,345,099          |
| N.S.S.F Employers Contribution              | 146,400            | 132,200            |
| <b>Total</b>                                | <b>166,944,170</b> | <b>152,279,484</b> |
| <b>15 Operational Expense</b>               |                    |                    |
| Support to Water Service Providers          | -                  | 14,212,186         |
| Support to Water Service Providers - Salary | -                  | 14,381,433         |
| Planning and Design                         | 2,200,902          | 1,019,640          |
| Environmental Impact Assessment             | 1,432,460          | 1,757,867          |
| Rehabilitation of Waterworks                | 7,194,024          | 4,650,906          |
| Rehabilitation Kazi Kwa Vijana              | -                  | 300,386            |
| Disaster Management                         | -                  | 1,095,644          |
| Asset renewal- other WSPs                   | 10,067,062         | 3,505,239          |
| USTDA Counterpart funds                     | 1,655,210          | 4,797,043          |
| Compensation-Escrow                         | 62,970,419         | 715,000            |
| AFD counterpart Expenses                    | 16,653,583         | 48,095,291         |
| <b>Total</b>                                | <b>102,173,660</b> | <b>94,530,635</b>  |
| <b>16 General Expenses</b>                  |                    |                    |
| Membership of professional Associations     | 2,099,011          | 946,727            |
| Insurance                                   | 5,826,409          | 3,895,001          |
| <b>Total</b>                                | <b>7,925,420</b>   | <b>4,841,728</b>   |
| <b>17 Project Cost</b>                      |                    |                    |
| GOK   |                    |                    |
| IDA   |                    |                    |
| KWSP  | 8,687,328          | 1,700,925          |
| WASSIP                                      | 264,988,281        | 264,685,594        |
| ACP-EU                                      | 25,501,687         | 20,623,517         |
| ADB   | 6,328,709          | 23,545,719         |
| <b>Total</b>                                | <b>305,506,005</b> | <b>310,555,755</b> |

**18 Grants Restricted (Donors)**

|              |                    |                    |
|--------------|--------------------|--------------------|
| WaSSIP       | 18,981,886         | 94,646,987         |
| IDA          | 1,115,396          | 1,182,147          |
| AFD          | 81,193,291         | 114,437,023        |
| ACP-EU       | 9,502,985          | 23,446,156         |
| KWSP         | 8,687,328          | 1,700,925          |
| <b>Total</b> | <b>119,480,886</b> | <b>235,413,238</b> |

**19 Grants Unrestricted (GOK)**

|     |            |            |
|-----|------------|------------|
| GOK | 92,274,231 | 24,458,833 |
|-----|------------|------------|



**XVII. 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) |
|--|---------------------------------|---------------------|--|-----------------------------------|--|
|  |                                 |                     |  |                                   |  |
|  |                                 |                     |  |                                   |  |
|  |                                 |                     |  |                                   |  |
|  |                                 |                     |  |                                   |  |
|  |                                 |                     |  |                                   |  |
|  |                                 |                     |  |                                   |  |
|  |                                 |                     |  |                                   |  |
|  |                                 |                     |  |                                   |  |

Chief Executive Officer

Date.....

Chairman of the Board

Date.....