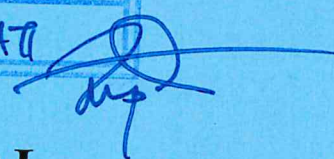




Enhancing Accountability



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| THE NATIONAL ASSEMBLY PAPERS LAID | |
| REPORT | |
| DATE: 15 OCT 2020 | DAY: THURSDAY |
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| CLERK-AT THE-TABLE: | OF R. K. TIAMPATI |



THE AUDITOR-GENERAL

ON

WATER SECTOR TRUST FUND

**FOR THE YEAR ENDED
30 JUNE, 2019**



**WATER SECTOR TRUST FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019**



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

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GLOSSARY OF TERMS

| Acronym | Description |
|----------------|--|
| AOD | Aid on Delivery |
| ASAL | Arid and Semi-Arid Lands |
| BMGF | Bill and Melinda Gates Foundation |
| CBOs | Community Based Organizations |
| CFA | Community Forest Associations |
| DKK | Danish Kroner |
| EU | European Union |
| GETF | Global Environment and Technology Foundation |
| GoF | Government of Finland |
| GoK | Government of Kenya |
| IFAD | International Fund for Agricultural Development |
| KfW | Kreditanstalt fuer Wiederaufbau (German Government Bank) |
| KShs | Kenya Shillings |
| MTAP | Medium Term Arid Programme |
| NIC | National Industrial Credit Bank |
| OBA | Output Based Aid |
| SCAC | State Corporations Advisory Committee (SCAC) |
| SIDA | Swedish International Development Agency |
| SNV | Stichting Nederlandse Vrijwilligers (Netherlands Development Organization) |
| UBSUP | Upscaling Basic Sanitation for the Urban Poor |
| UNICEF | United Nations International Children Emergency Fund |
| USD | United States Dollar |
| WASH | Water and Sanitation for Hygiene |
| WRA | Water Resources Authority |
| WRCCI | Water Resources and Climate Change Investments |
| WRUA | Water Resources Users Association |
| WSPs | Water Services Providers |
| WSTF | Water Sector Trust Fund |

CORPORATE INFORMATION

INCORPORATION

Water Sector Trust Fund (formerly Water Services Trust Fund) – WSTF, is a corporate body established under section 113 (1) of the Water Act, 2016 of the Laws of Kenya and it is domiciled in Kenya.

PRINCIPAL ACTIVITIES

The objective of the WaterFund is to provide conditional and unconditional grants to counties and to assist in financing the development and management of water services in marginalized areas or any area which is considered by the Board of Trustees to be underserved including: -

- a) Community level initiatives for the sustainable management of water resources;
- b) Development of water services in rural areas considered not to be commercially viable for provision of water services by licensees;
- c) Development of water services in the under-served poor urban areas; and
- d) Research activities in the area of water resources management and water services, sewerage and sanitation.

Vision:

“To be the institution of choice in financing the improvement of access to water and sanitation for the underserved in Kenya”

Mission:

“To finance the development of sustainable water and sanitation services and water resources management”

Core Values

- a) **Sustainability** - The Fund strives to ensure that the funded projects are financially, socially and environmentally sound and sustainable through innovative mechanisms.
- b) **Integrity** - The Fund ascribes to high standards of personal and professional ethics and integrity in the conduct of its affairs.
- c) **Good Governance** - The process is as good as the product. The Fund promotes the virtues of equity and fair play for equitable sustainable development through consultations as well as effective communication, coordination and public participation in all undertakings.
- d) **Human Dignity** - The Fund is committed to uphold reasonable standards of access to water and sanitation for the citizens of Kenya to meet its constitutional mandate
- e) **Teamwork** - The Fund relentlessly pursues timely attainment of targeted results at all levels through high level coordination, networking and collaboration within WSTF and its partners.

CORPORATE INFORMATION (continued)

BOARD OF TRUSTEES

| | | |
|-------------------------------|---|--|
| Mr. Patrick O. Kokonya | - | Board Chairman (Served from 07 February 2019) |
| Mr. Ismail Fahmy M. Shaiye | - | Chief Executive Officer |
| Mr. Joseph W. Irungu, CBS | - | PS, Ministry of Water & Sanitation and Irrigation |
| Dr. Kamau Thuge, EBS | - | PS, The National Treasury (TNT) |
| Mr. Mwanja Musau | - | Member (served from 07 February 2019) |
| Mr. Matthew Tuitoek | - | Member (served from 07 February 2019) |
| Ms. Joyce Lay | - | Member (served from 07 February 2019) |
| Dr. Dominic Biwott | - | Member (served from 07 February 2019) |
| Ms. Rose Muguchu | - | Member (served from 07 February 2019) |
| Ms. Ubah Abdi Ibrahim Gedi | - | Member (served from 07 February 2019) |
| Mr. Joel N. Onchwati | - | Alternate Trustee to PS: Ministry of Water & Sanitation and Irrigation |
| Hon. Musikari N. Kombo, EGH | - | Board Chairman (served up to 16th April, 2018) |
| Mr. Stephen N. Gwandaru | - | Member (served up to 25 November 2018) |
| Mr. Adan Omar Enow | - | Member (served up to 25 November 2018) |
| Mr. Joel Onsare Gasuka | - | Member (served up to 25 November 2018) |
| Mr. Joseph Kotoine Nkaiwuatei | - | Member (served up to 25 November 2018) |
| Eng. Onesmus Kipkirui Maritim | - | Member (served up to 25 November 2018) |
| Ms. Rose N. Kinuthia | - | Member (served up to 25 November 2018) |
| Ms. Sheila Murugi Mugo | - | Member (served up to 25 November 2018) |

MANAGEMENT TEAM

| | | |
|---|---|---|
| Mr. Ismail Fahmy M. Shaiye, BA (Global Studies), Masters in International Environmental Law and MSc (Natural Resource Management) | - | Chief Executive Officer |
| Mr. Edwin Korir, B.Ed. (Arts), MBA, CPA (K) | - | Chief Manager, Internal Audit & Risk Management |
| Mr. Willis Okello Ombai, BSc (Forestry), MA (Project Planning & Management) | - | Chief Manager, Investments & Programmes |
| Mr. Samwel Gitau Mbugua, B. Com (Accounting), MBA, CPA (K) | - | Acting Chief Manager, Finance |
| Mr. Bernard Njenga, B. Com (Business Information Systems), MBA | - | Manager, ICT & Corporate Affairs |
| Mr. Ronald Kimaiyo, B.Ed. (Arts), MBA, Higher Dip. HR | - | Manager, Human Resources and Administration (served up to 20 July 2018) |
| Mr. Paul Atwa, BA (HR), Higher Dip. HR, MBA(Ongoing) | - | Acting Manager, Human Resources and Administration |
| Mr. Isaac Kega, BA (Econ), MEcon, PMP, MESK | - | Manager, Research, Planning and M&E |
| Mr. Thomas Nyangau BSC. Eng, MBA Strategy | - | Manager, Urban Investments |
| Mr. Fidelis Tamangani, BSc Natural Resources Management, MBA | - | Manager, Result-Based Financing |
| Ms. Pricilla Kagure Kinyari, BSc Eng. (Agricultural), MSc (Environmental) | - | Manager, Rural Investments |
| Eng. Rose Nyikuri, BEng (Civil), MSc (WREM), R. Eng., MIEK | - | Manager, Water Resources and Climate Change Investments |
| Mrs. Ruth Nganga, BA (Theology), PGC, Ed | - | Manager, Partnership Development and Resource Mobilization |
| Mrs. Halima Ali Abdullahi Bachelor of Law (LLB), LLM, CIARB, CPS | - | Manager, Legal & Corporation Secretary |

CORPORATE INFORMATION (continued)

REGISTERED OFFICES

CIC Plaza First Floor,
Mara Road, Upper Hill,
P.O. Box 49699 - 00100
Nairobi, Kenya.
Tel: +254 - 20-2720696/9017/9018/9019
Fax: +254 - 20-2724357
E-mail: info@waterfund.go.ke
Website: www.waterfund.go.ke

BANKERS

National Bank of Kenya Limited
Hill Plaza Branch,
P.O. Box 45219 - 00100
Nairobi, Kenya.

Kenya Commercial Bank Limited
Capitol Hill Branch
P.O. Box 69695 - 00100
Nairobi, Kenya.

NIC Bank Limited
NIC House, Masaba Road
P.O. Box 44599 - 00100
Nairobi, Kenya.

AUDITOR

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

LEGAL ADVISORS

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

Humphrey & Company LLLP,
Fortis Suites, 8th Floor,
Hospital Road, Upper Hill,
P.O. Box 21398- 00100,
Nairobi, Kenya.

CM Advocates LLP
I&M Bank House, & 7th Floor,
2nd Ngong Avenue,
P.O. Box 22588- 00505,
Nairobi, Kenya.

BOARD OF TRUSTEES

The Board of Trustees' who served the Fund during the financial year are:



Mr. Patrick O. Kokonya – Chairman of the Board of Trustees (Served from 07 February 2019)

Mr. Kokonya holds a Bachelor of Business Administration Degree from Kenya Methodist University (KEMU) and a Diploma in Human Resources Development, Personnel and Industrial Relations from Cambridge Tutorial College International (CTCI) in UK among other Professional Certifications. He has over 16 years' experience as a Practitioner, Coach and Consultant in Human Resource Development and Management, Performance Management, Productivity Improvement, Quality Control, Public Administration Policy and Leadership. Others include Reforms Capacity Building using Rapid Results Initiatives (RRI) tool and Capability Reviews as some of the Performance Management Tools of Results-Based Management (RBM) that are critical in Citizen-Based public service delivery and Private Sector Reforms. He is currently undertaking a Master's Degree in Public Administration and Policy.

Until his Appointment as Chairman of the Board of Trustees of Water Sector Trust Fund (WSTF), Mr. Kokonya was the National Rapid Results Initiatives Coach and Consultant with the Kenya Government. In the Ministry of Water and Sanitation, he was part of the Leadership Team (that include the Cabinet Secretary, Chief Administrative Secretary, Water Secretary and Secretary Administration) that was spearheading the fast tracking of the Water Sector Reforms to guarantee the availability of Water, an enabler to the success of His Excellency President Uhuru Kenyatta's Big Four Agenda of Universal Healthcare, Housing, Manufacturing and Food Security.

As a Practicing National Rapid Results Initiatives Coach with the African Development Bank (AfDB), Mr. Kokonya continued to consult for the Ministry of Devolution and Arid & Semi-Arid Lands, The National Treasury and Planning, Ministry of Foreign Affairs among others in respect to issues that include Immigration, Trade, and Regional Integration, etc. He has also had active engagements as Advisor on Sustainable Development Goals (SDGs) to the National Treasury and Ministry of Planning, State Department of Planning and Statistics, Directorate of Projects and Programs; Rapid Results Initiatives Coach and Advisor to Nyandarua County Government and the Governor (2017-2018); a Practitioner, Facilitator and Member of the African Community of Practice – Managing for Development Results (AfCoP-MfDR) and CAPSCAN (Capacity Scanning) in Africa.

Most of Mr. Kokonya's Consultancy and Advisory roles have been through his Directorship at Unicorp Capital Group Limited – an Integrated Management Consulting Firm offering one-stop solutions in Performance Management, Productivity Improvement, Leadership, Research, Strategy, Marketing, Human Resources and Training, Team Building, Technology and Brand Execution in East and Central Africa – experts in Business Development Consulting.

In 2013, Mr. Kokonya was appointed by the then President H.E. Mwai Kibaki to serve as Director and Member of the Board of Directors of Kenya Water Towers Agency (KWTA), where he served up to 2016. He was the Director and Chairperson of Finance and Human Resources /

Administration Board Committee in charge of Human Resources Development and Management and Financial Policies.

Previously, Mr. Kokonya worked as an Advisor and Reforms Coach to the Office of the Principal Secretary of Interior and Coordination of National Government (then Provincial Administration and Internal Security). He later moved on in the same capacity as Advisor to the Head of Public Service and Secretary to the Cabinet in the Executive Office of the President on Public Service Reforms. This was during the introduction of Results-Based Management (RBM) Tools such as RRI; Performance Contracting; Performance-Based Planning; Budgeting and Corporate Governance. This aimed at fast tracking the Implementation of national development priorities enshrined in Vision 2030 and successive Medium-Term Plans.

Before joining the Office of the Principal Secretary, Ministry of Interior & Coordination of National Government (then Provincial Administration & Internal Security), Mr. Kokonya worked as a Management Consultant and Reforms Coach with Public Sector Reforms Secretariat, Office of the President in Spearheading Capability Reviews; Performance Contracting, Strategic Planning across the entire Government.

Mr. Kokonya's vast knowledge has been enriched with over 16 years' working experience in Public Service and Private Sector institutions across Kenya, Uganda, Tanzania, Sudan, South Sudan and Nigeria in West Africa.

Mr. Kokonya is a tested Expert Trainer of Mwongozo – the Code of Governance in State Corporations and Public Service; Performance Based Budgeting Course at Kenya School of Government; Rapid Results Approach Training Course and Methodology in Results-Based Management by World Bank Institute and Robert H Schaffer & Associates; and Corporate Governance Training on Management of State Corporations, Institutions and Boards of Directors in the Delivery of Targets – Centre for Corporate Governance.

Mr. Kokonya has co-authored and published a number of publications in use including *A Readiness Assessment and Research to establish Kenya's Performance in Managing for Development Results Principles in the Management of Public Affairs in the realization of the Kenya Vision 2030 and Sustainable Development Goals*; and on the Country's Status on Regional Integration within Common Market for Eastern and Southern Africa (COMESA).

Mr. Kokonya has also participated in the development and publication of other Reports including the *Report of the Status of Water Towers in Kenya as Natural Resource and their Economic and Social relevance in National Development* – a Consolidated Milestone Report that presents an Atlas, Narrative and Status Outline of the eighteen Gazetted and nine designated Water Towers of Kenya (2016); Formulation of the Kenyan National Youth Policy and Strategic Plan (2006) and National Aids Control Council Strategic Plan: 2005 – 2010.

Mr. Kokonya is an alumnus of the World Bank Institute and Robert H Schaffer & Associates of USA. He has mentored and trained many young people and women to take up active Leadership Roles on Peace initiatives in Kenya, Uganda, Tanzania, South Sudan and Sudan.

In conclusion, Mr. Kokonya has been distinguished by influential institutions such as Young African Leadership Institute (YALI) in March 2016 and was awarded Certificate of Appreciation and Recognition for contributing time and talent both as Advisor and Mentor to Young African Leaders by YALI Regional Leadership Centre, East Africa in conjunction

with USAID, The MasterCard Foundation, Deloitte and Kenyatta University.

Mr. Kokonya has a great passion and interest for playing chess, the two-player strategy board game.

Mr. Ismail Fahmy M. Shaiye – Chief Executive Officer

Mr. Ismail Fahmy M. Shaiye joined the Trust Fund as Chief Executive Officer on 10th November 2014. He is a Natural Resource Expert with over 10 years' experience in various countries in Eastern Africa and the United States of America (USA). He served as a Program Manager and Environmental Officer at the United States Agency for International Development (USAID) in Nairobi with responsibilities of ensuring that programs comply with both national and international environmental laws. In addition, he advises USAID Missions in the region on broader issues pertaining to water and sanitation, environmental regulations, biodiversity protection, climate change and environmental dispute resolution. Mr. Shaiye holds a master's degree in International Environmental Law (Vermont Law School). He also holds a Master of Science Degree in Natural Resource Management and a Bachelor of Arts Degree in Global Studies (Environmental Governance) from the University of Minnesota. Mr. Shaiye has extensive experience in the application and compliance of Multilateral Environmental Agreements (MEAs) and is an experienced development professional with experience in program management, monitoring and evaluation and communications for clients including World Bank, European Union, DfID, and the United Nations.



Mr. Shaiye has worked with several organizations in the field of water, sanitation and environment including USAID, Kenya Red Cross Society, Mercy USA for Aid and Development and Mississippi County Watershed, USA.



Mr. Joseph W. Irungu, CBS – Principal Secretary, Ministry of Water and Sanitation

Joseph W. Irungu, CBS was appointed the Principal Secretary Ministry of Water and Sanitation on 12th February, 2018. He is an Administrator by profession. He holds a Bachelor of Arts Degree from University of Nairobi and an MBA from JKUAT.

He brings in a wealth of experience in administration having served in different administrative capacities in the Government of Kenya. He has served in various positions in the Ministry of Interior & Coordination of National Government as follows - Principal Administrative Secretary, Secretary of Administration/Internal Security, Director of Administration, Senior Deputy Commissioner, Lower Central Province (Thika), Deputy Provincial Commissioner, Nyanza Province, District Commissioner, Bungoma District, District Officer in Nyanza, Coast and Central Provinces and as an Assistant Secretary, Ministry of Local Government.

He is a member of Kenya Institute Management (KIM) and Kenya Association of Public Administration and Management (KAPAM).

Dr. Kamau Thugge, EBS

Dr. Kamau Thugge became Trustee after his appointment and swearing in as the Principal Secretary to the National Treasury on 26 June 2013. He holds a doctorate in Economics from the Johns Hopkins University. Before his appointment, he was an economic advisor to the National Treasury since December 2005. He had previously served as Director Economic Affairs, Treasury since 29 July 2004. Prior to joining Treasury, he worked at the IMF from 1985 to 2004.



Mr Joel N. Onchwati

Mr. Onchwati is Alternate Trustee to the Principal Secretary, Ministry of Water and Sanitation where he is currently the Chief Finance Officer responsible for financial management including budget planning and preparation, resource mobilisation and budget implementation and control. Mr. Onchwati possesses wide experience in public sector financial management having served in various financial management positions in the public service including serving as an Internal Auditor in the Ministries of Education, Ministry of Finance and the Ministry of Roads and Public Works up to 2004. In 2005 he joined the Finance Officer's cadre where he served in the former Ministry of Justice, National Cohesion and Constitutional Affairs, Office of the Attorney General and Office of the Registrar of Political Parties.

He holds a master's degree in Business Administration, Finance from Moi University, and a bachelor's degree in Business Management from the University of Eastern Africa- Baraton and a Section Three Certificate of the Certified Public Accountants (KASNEB). He has attended various senior management training courses in corporate governance, strategic management and leadership programme and advanced public financial management.

Mr. Stephen N. Gwandaru (Served up to 25 November 2018)

Stephen N. Gwandaru was appointed as a member of the Board of Trustees of Water Sector Trust Fund in November 2015. He is a marketing specialist and holds a Bachelor of Arts degree in Economics and Business from Kenyatta University. For the last 20 years he has worked with British American Tobacco (BAT) as a Country Manager in Ethiopia.



Mr. Gwandaru was once a member of the Constituency Development Fund (CDF) Board, Kiambaa Constituency, and has also served in various local and international schools as a board member.



Mr. Adan Omar Enow (Served up to 25 November 2018)

Adan Omar Enow was appointed as a member of the Board of Trustees of Water Sector Trust Fund in November 2015. He is a management professional with over eight years' senior management experience at different boards and the education sector. He holds a Master of Business Administration (Strategic Management) from Kenyatta University and Doctor of Philosophy degree in Leadership and Governance from Kisii University. He thrives in formulating policies, managing daily operations, and planning the use of materials and human resources which are diverse and general in nature to be classified in any one functional area of management or administration, such as personnel, purchasing, and administrative services.

Mr. Enow has previously served as member or chairman of several boards including National Sports Fund and Kenya Rural Roads Authority, Wajir Constituency. Additionally, he possesses excellent leadership / administrative qualities which develop and empower staff to achieve goals coupled with being a logical problem solver who uses tact to evaluate performance and drive high proficiency.

Mr. Joel Onsare Gesuka (Served up to 25 November 2018)

Joel Onsare Gesuka was appointed as a member of the board of trustees of Water Services Trust Fund in November 2015. He is a specialist in marketing and accounts and holds a Bachelor's degree of Commerce from the University of Jabalpur, India. He also possesses a Postgraduate Diploma in Marketing Management from the University of New Delhi. He has attended performance management trainings- key areas:- Strategic Planning and Management, design and implementation of performance contract, implementation of Vision 2030, performance appraisal systems and workplans, citizen service charters, gender mainstreaming, resolution and public complaints.

Mr. Gesuka is a career public servant having served as an accountant in different government institutions for the last 21 years.



Mr. Joseph Kotoine Nkaiwatei (Served up to 25 November 2018)

Joseph Kotoine Nkaiwatei was appointed as a member of the Board of Trustees of Water Sector Trust Fund in November 2015. He has over 15 years' experience in the development sector, mainly in the Education, Water and Sanitation, Livelihoods and Economic development focused programmes across the Country. Mr. Nkaiwatei worked with major Development focused organizations in Kenya, which include GTZ, Netherlands Development Organisation (SNV), Concern Worldwide, Catharina Foundation, Action Aid International, Kenya Community Development Foundation (KCDF). He is currently the Chief Executive Officer (CEO) for Purko Development Trust (PDT) an Agronomy -focused ranch based in Narok County.

Mr. Nkaiwatei's experience in the development sector spans experiences in Organizational Development, Governance, Capacity development and Management. Joseph is an ardent supporter of sustainable development of institutions, projects and programmes. He holds a Bachelor of Arts degree in Political Science and Sociology, and a Master's degree in Project Planning and Management, both awarded by the University of Nairobi.

Ms. Sheila Murugi Mugo (Served up to 25 November 2018)

Ms. Sheila Mugo is a lawyer by profession and an Advocate of the High Court of Kenya with over 15 years' experience and a Masters in Women's Law.

She holds a bachelor's degree in law (LLB) from the University of Nairobi and a postgraduate diploma in law from Kenya School of Law. She also has qualifications in humanitarian studies and mediation.



Ms. Rose N. Kinuthia (Served up to 25 November 2018)

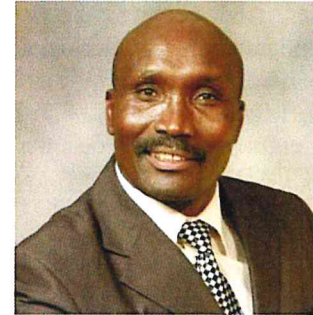
Rose N. Kinuthia was appointed as a member of the board of trustees of Water Sector Trust Fund in November 2015. She is professionally an accountant and is currently pursuing bachelor's degree in Commerce (Accounts option). She also holds Diploma in Business Administration and Accounting from the Institute of Commercial Management United Kingdom.



Ms. Kinuthia brought to Water Sector Trust Fund a wealth of experience in Accounting and Administration having worked as Executive Secretary with Mediscope Health Care Ltd and currently as a Business Administrator, Mediflon Enterprises Kenya Limited.

Eng. Onesmus Kipkirui Maritim (Served up to 25 November 2018)

Eng. Onesmus Kipkirui Maritim was appointed as a member of the Board of Trustees of Water Sector Trust Fund in November 2015. He is an Agricultural Engineering specialist having pursued Bachelor of Science in Agricultural Engineering from the University of Nairobi, with major in Structural and Water Engineering. Eng. Maritim has a Masters of Divinity (Mission s Studies-Social Anthropology Emphasis) from the Africa Theological University, formerly Nairobi Evangelical Graduate School of Theology (NEGST). Currently, he is the Executive Director of Oaks Africa Foundation. As an Executive Director, he coordinates, in consultation with the Board of Directors, all activities of the Foundation as a Missionary Engineer.



Eng. Maritim has a wealth of experience in Water Sector reforms, having served as a Chairman of a Water Service Provider under Lake Victoria South Water Services Board. He has a wealth of experience in corporate governance and engineering services to Water Sector Trust Fund having worked as an engineer for various companies for the last 35 years. The companies include Chemosit Water and Sanitation Company, Kenya Veterinary Production Institute, Agricultural Development Corporation, National Cereals and Produce Board and James Finlay Company Ltd. He has also served as a director for various institutions. He is a Professional Member of Engineers Board of Kenya (EBK).



Ms. Rose Muguchu – Trustee (Served from 07 February 2019)

Ms. Muguchu is a passionate, enthusiastic and experienced teacher with 30 years of experience in the profession, and with a proven record of success in all the schools that she has been posted. She is an educator who is able to convey ideas clearly, building trust and motivation on both an individual and group basis. As a teacher, she is learner-centred, an innovative teaching professional with a genuine interest in students' cognitive and social growth.

In her 30 years' experience as a teacher, Ms. Muguchu has been a positive role model who has made worthwhile contributions within the communities she has worked in.

Ms. Muguchu is well rounded with exceptional communication, interpersonal, organisational and problem-solving skills. Her language proficiency is in both English and Kiswahili.

Ms. Ubah Abdi Ibrahim Gedi – Trustee (Served from 07 February 2019)

Ms. Abdi has more than 10 years' experience in senior management at different non-governmental boards such as Maendeleo Ya Wanawake and Centre for Advocacy and Development of Muslim Women (CEADEMUW). She has associated herself with National Muslim Council of Kenya as a Chairperson.

Ms. Abdi holds a Degree of Bachelor of Arts in Gender, Women and Development Studies from Egerton University and a Diploma in Social Work and Community Development from the Regional Institute of Professional Studies. She is also currently undertaking a master's degree in Gender, Women and Development Studies at Egerton University, and Degree in Leadership and Governance at the University of Nairobi.



Ms. Abdi bring to the Board significant leadership skills with a deep understanding of clerical works, leadership skills, among others. She has served as the Chairlady of Maendeleo Ya Wanawake (Mandera Chapter) in Mandera County. She has also worked as an Executive Director at Centre for Advocacy and Development of Muslim Women (CEADEMUW).



Mr. Mwanja Musau – Trustee (Served from 07 February 2019)

Mr. Musau is a highly motivated and accomplished entrepreneur with over 40 years' experience in business leadership. He is experienced in all aspects of business formation, operation, finance and management, having worked as a managing director of Kenya Toner and Ink Suppliers Ltd, Sikim Estate Ltd, Potaya Holdings Ltd, Transforms Trading Company, Chakula Safi Ltd, Blue Cloud Computers (U.A.E), Cintron Enterprises and World Documentation Ltd.

Mr. Musau is a fast learner who understands complex concepts and works efficiently with teams to identify and solve problems. Additionally, he is a firm decision maker who is able to turn ideas into logical strategies and implement systems that optimise productivity with the objective of increasing profitability.

Mr. Musau is proficient in both English and Kiswahili languages.

Eng. Matthew Tuitoek – Trustee (Served from 07 February 2019)

Eng. Tuitoek holds a Bachelor of Science in Agricultural Engineering from the University of Nairobi. He is a businessman and investor in both service and hospitality industry with over 15 years' experience.

Eng. Tuitoek has served in several boards of education, health and business sectors as Chairman and member at different times. With the promulgation of the new constitution, he had the opportunity of being elected to serve as the first Deputy Governor of Baringo County.



Ms. Joyce Lay – Trustee (Served from 07 February 2019)



Mrs. Lay is a confident, articulate, and highly skilled administrator with over 15 years' experience, and a record of working to very high standards both in the calling of public service, as well as private business. As a team leader, she ensures that compliance to the best practise and unimpeachable moral standards are an integral part of successful projects under her administration.

Mrs. Lay has repeatedly and consistently demonstrated a good grasp of the Kenyan socio-political and economic landscape and a thorough knowledge of the country's development opportunities and challenges.

Mrs. Lay has mastered the ability to identify partners and clients' needs and propose appropriate solutions as well as establish and maintain effective relationships with outside collaborators and other contacts.

Mrs. Lay has excellent communication skills, both oral and written, and a proven ability to lucidly communicate complex concepts, and to prepare concise yet comprehensive written reports. Her language proficiency is in English, Kiswahili and Taita.

Dr. Dominic Biwott - Trustee (Served from 07 February 2019)

Dr. Biwott is a skilled strategist who transforms strategic plans into workable solutions and benchmarks performance against key operational targets / goals. He is a proactive self-starter with track record of initiative, personal responsibility, and strong work ethics. Being the pioneer and current Chief Executive Officer of the North Rift Economic Bloc, he brings on board over 10 years' valuable experience in leadership and governance having held several leadership positions in the country.



Dr. Biwott was the Deputy Governor of Nandi County for five years (2013-2017), in which he played the following key roles including being a pioneer in the successful marketing and export of horticultural produce from North Rift Region through Eldoret International Airport. He also helped attract KSh.11B worth of Investments, and chaired the Steering Committee of Nandi Investment Conference and Exhibition (NICE), making Nandi County to be an ideal location for both local and international investors.

In his position as the Deputy Governor of Nandi County, Dr. Biwott also spearheaded compliance initiatives, critically reviewed policies, ensuring relevance and subsequently implementing whilst adhering to regulatory requirements. He mediated peace between warring communities in the Nandi-Kisumu Counties border – Kibigori Border that had been a highly volatile area over time. In his position, he also identified and applied for a grant of KShs. 38M by USAID. The county received the grant. Dr. Biwott attended Egerton University where he graduated with a Bachelor of Science in Horticulture in 2007. In 2012, he graduated with a Master of Business Administration (Strategic Management) degree from Catholic University of Eastern Africa (CUEA). One year later he enrolled for his Doctorate Degree in Moi University, and graduated in 2017 with a PhD in Development Studies.

Dr. Biwott has attended several high-level trainings including training on Modern Agri Economy Management for Developing Countries Course in China in 2016, Saemaoul Movement for Counties in Kenya (New Village Movement) Course in Korea in 2013, Balanced Scorecard Training - Strategic Leadership Centre International, in Nairobi in 2013 and training on Developing Incorruptible Leaders Course at Egerton University in 2006.

Dr. Biwott is a member of the Kenya Institute of Management.



Ms. Halima Ali – Company Secretary (Served from 07 February 2019)

Ms. Halima Ali joined the Fund as Corporation Secretary and Legal Manager 2018. She is an advocate of the High Court with Bachelor of Law Degree from University of Nairobi and LL.M in International Finance and Regulations from Strathmore University. She is currently undertaking her second Master in Natural Resources and Renewable Energy in Queen Mary University of London under the commonwealth scholarship award 2019/2020 with effect from 1st October 2019.

Halima is also an associate member of Chartered Institute of Arbitrators, a certified mediator and CPS (K) holder from KASNEB. She also sits at the young Lawyers LSK Committee where she advocates for welfare of young lawyers and youth in the country.

Halima has been the Managing Partner of HH Associates Advocates and has worked with other law firms including Meritad Law Africa, Bulle & Company Advocates, Swaleh and Company Advocates under the department of Commercial and Conveyancing.

MANAGEMENT TEAM



Chief Executive Officer

Mr. Ismail Fahmy M. Shaiye

Mr. Ismail Fahmy M. Shaiye – Chief Executive Officer

BA (Global Studies –Environmental Governance), Master’s in International Environmental Law and MSc (Natural Resource Management)

Mr. Ismail Shaiye was appointed the Chief Executive Officer of Water Sector Trust Fund in November 2014. He holds a master’s degree in International Environmental Law (Vermont Law School), a Master of Science Degree in Natural Resource Management and a Bachelor of Arts Degree in Global Studies (Environmental Governance) from the University of Minnesota. He has extensive experience in the application and compliance of Multilateral Environmental Agreements (MEAs) and development.



Chief Manager, Investments & Programmes

Mr. Willis Okello Ombai, BSc (Forestry), MA (Project Planning & Management)



Chief Manager, Internal Audit & Risk Management

Mr. Edwin Korir, B.Ed. (Arts), MBA, CPA (K)



Acting Chief Manager, Finance

Mr. Samwel Gitau Mbugua, B. Com (Accounting), MBA, CPA (K)



Acting Manager, Human Resources and Administration

Mr. Paul Atwa, BA (HR), Higher Dip. HR, MBA(On-going)



Manager, ICT & Corporate Affairs

Mr. Bernard Njenga, B. Com (Business Information Systems), MBA, Dip (Comp)



Manager, Human Resources & Administration (served up to 20 July 2018)

Mr. Ronald Kimaiyo, B.Ed. (Arts), MBA, Higher Dip. HR

MANAGEMENT TEAM (continued)



Manager, Urban Investments

Mr. Thomas Nyangau BSc. Eng,
MBA Strategy



**Manager, Water Resources and
Climate Change Investments**

Eng. Rose Nyikuri, BEng (Civil),
MSc (WREM), R. Eng., MIEK



Manager, Rural Investments

Ms. Priscilla Kinyari, BSc Eng.
(Agricultural), MSc
(Environmental and Management)



**Manager, Research, Planning
and M&E**

Mr. Isaac Kega, BA (Econ),
MEcon, PMP, MESK



**Manager, Results-Based
Financing**

Mr. Fidelis Tamangani, BSc
Natural Resources Management,
MBA



**Manager, Partnership
Development & Resource
Mobilisation**

Mrs. Ruth Nganga, BA (Theology),
PGC, Ed



**Manager, Legal Affairs &
Corporation Secretary**

Mrs. Halima Ali Abdullahi
Bachelor of Law (LLB), LLM,
Certified Mediator, Associate
Member of CIARB, CPS

CHAIRMAN'S STATEMENT AND REPORT: THE ANNUAL REPORT FY 2018/2019

It gives me great pleasure and honour to present the Annual Report and Financial Statements for the Water Sector Trust Fund (WSTF) for the Twelve Months ended 30th June 2019.

In the year 2019, WaterFund (the Fund) marked 15 Years since its establishment in 2004 under Section 83 of the Water Act 2002. The Trust Deed was nested on rapid, proactive and innovative measures to enhance access to Water and Sanitation Services in the marginalised and underserved areas of Kenya.

Significant progress has been achieved in enhancing access to Water and Sanitation Services with the Fund reaching out to more than 5 million people with improved access to this critical resource and service within our Mandate (enshrined in the *Water Act 2016*).

Invaluable lessons have been learned along the way over the years. The Fund is proud to have been part of the Water and Sanitation Sector Reform journey from the implementation and execution of the Water Act 2002. As a Fund, WE have adapted and reformed numerous times in the past 15 Years when we were first established simply as a *Financing Mechanism* in a dynamic Sector. Our agility, dynamism and innovation-centred institutional-culture have emerged as pacesetters and critical success factors.

We are excited at the prospects and opportunities emerging from the implementation of the Water Act (2016) which is a perfect springboard for WaterFund to achieve her vision of being an institution of choice in financing the improvement of access to Water and Sanitation for the underserved in all the 47 Counties of Kenya.

Whereas significant strides on access to Water and Sanitation Services have been achieved in the country, formidable challenges still exist. Suffice to say, over 20 million Kenyans do not have adequate access to Water and Sanitation Services; available water resources per capita remains low; Water Service Providers (WSPs) still grapple with operational, governance and financing challenges; unsustainable Water Resource Management Approaches; and Information Management to support decision-making is largely inadequate.

Corporate Strategy

Following the Launch of Medium Term Plan III (MTP III: 2018-2022) by the National Government in November, 2018 in line with the Vision 2030 Development Plan, the Ministry of Water and Sanitation developed a Strategic Plan 2018-2022 which in effect provided the Development Framework for the Water Sector Institutions to Review their Strategies in order to realize the aspirations of the Social, Political and Economic Pillars as projected in the Vision 2030 and the Sustainable Development Goals (SDGs).

The Top Management reviewed the Performance of WaterFund in the Second Year on implementation of the Strategic Plan 2017-2022 and noted a general underperformance on the achievement of most of the Key Performance Indicators (KPIs). Most of the Assumptions and Risks were realised resulting in dismal performance by the Fund's Implementing Partners; Low Funds Absorption; inadequate County Governments' Support and Non-Realisation of some anticipated Funding Streams, for instance, the Water Levy. Planned Institutional Reforms were also not realised resulting in constrained Staffing Levels that did not grow in tandem with the increased Funding Levels.

Consequently, the Management has submitted a Proposal to the WaterFund Board of Trustees for the Review of the Corporate Objectives following this reality check. This Strategic Plan Review is ongoing and is anticipated to be completed in the FY 2019/2020, following the mid-term Review.

Water Sector Reforms: Water Act 2016

The operationalization of the Water Act 2016 through a Gazette Notice of 21st April 2017 provided a Framework for the Transformation of the Water Sector. The Act established the Fund as a *Sector Financing Institution*. The intentions of the Water Act 2016 were to be implemented through various Strategies under Water Sector Reforms. Among the Achievements during the Period under Review include but are not limited to: -

CHAIRMAN'S STATEMENT AND REPORT: THE ANNUAL REPORT FY 2018/2019 (continued)

- ♣ Approval of WaterFund's Establishment Report by the Ministry of Water and Sanitation. This provides for the initiation of the Fund's *Sustainable Financing Mechanisms* through *Seed Funding* of Kshs. 6 Billion from the Government through the Parent Ministry which may be phased as Kshs. 1 Billion Per Year. The Approval equally provides for the Review of WaterFund's Organogram (Organization Structure) taking into consideration the need for increased capacity to implement the expanded Mandate of the Fund.
- ♣ Review of, and the Operationalization of the Human Resources Management Instruments and Tools. The same shall be subjected for Review and Approvals of WaterFund's Board of Trustees in concurrence with the National Government through the established Constitutional Commissions and Policies.
- ♣ Establishment of *Climate Change Investment Programme* as envisioned in the Water Act 2016. This has been integrated into the Water Resources Management Programme, where the available Members of Staff have been re-designated to include Climate Change issues as part of our Mandate.
- ♣ Review of the Water Act (2016): During the Year under Review, the Sector embarked on the review of the Water Act 2016 to further enhance service delivery. Specifically, the WaterFund Board of Trustees has proposed amendments to: -
 - i. Address the issue of Operationalization of the Water Levy;
 - ii. Further Clarify the Fund's role in the Implementation of the Equalization Fund's Programmes across the country;
 - iii. Provide for a strengthened Legal Framework to support the Fund's full establishment as the Water and Sanitation Sector Financing Institution; and
 - iv. Ensure that the Water Services Rules and other Subsidiary Regulations address the needs of the underserved and marginalized in Kenya.

The Fund has made its submissions to the relevant Authorities, and the review process is expected to be completed in the Next Financial Year: 2019/ 2020

Transition Strategy

During the period under review, WaterFund continued to implement the *Transition Strategy* in line with the provisions of the Water Act (2016). Throughout the period under review, the implementation highlights include: -

- ♣ Establishment of Policies for Sustainable Financing Models for the Fund through *Water Levy, Endowment Fund and Revolving Fund*.
- ♣ Unbundling of the Fund's Establishment Report through a Reforms Consultancy spearheaded by the Ministry of Water and Sanitation.
- ♣ Revision of the Fund's Organogram to address Internal Capacity challenges arising from the expanded mandate. The same shall be approved for Implementation by the Board of Trustees considering institutional needs besides other underlying factors.
- ♣ Implementation of the Investment Policy that takes into account the expanded Mandate; and prioritisation as defined in the Water Act 2016.
- ♣ Development of New Human Resources Management Instruments and Tools to align the Fund's Functional Structure and Staffing to the requirements of the Water Act 2016.
- ♣ Deployment of a Corporate Branding Strategy.
- ♣ Embarked on the process of identification of a Consultant to support and guide the Fund in the Development of a Research Financing Framework.

The Official Launching Ceremony of Water Sector Trust Fund in line with the New and Expanded Mandate is to be undertaken during the FY 2019/2020. This will entail the Official Handover of *WaterFund Establishment Instruments* to the Board of Trustees by the Cabinet Secretary, Ministry of Water and Sanitation.

CHAIRMAN'S STATEMENT AND REPORT: THE ANNUAL REPORT FY 2018/2019 (continued)

Performance Contract

As a Government Parastatal (State Corporation), the Board of Trustees led by the Chairman shall Sign a Commitment to achieve WaterFund's Mandate in the form of a Performance Contract. This is then delegated and cascaded to the Management and ALL Members of Staff for full implementation.

During the period under review, the Fund implemented the *Performance Contract 2018/2019* which was prepared in accordance with the *15th Cycle Guidelines (2018/ 2019)*. The Fund was evaluated by the Performance Management and Co-ordination Office in the Office of the President on its Performance Contract Targets for FY 2017/2018 – where the Fund garnered a *Composite Score of 2.83, rated as Very Good*.

Investment Policy

During the Year under review, the Fund implemented the Investment Policy, which established the responsibilities of, and guidelines for the WSTF's Board of Trustees and Management on investment activities and goals. It defined parameters within which Funds are managed. However, Policy Changes at National and County levels necessitate the review of the Investment Policy; which will be reviewed during the FY2019/2020.

Research and Innovation

Section 114 (d) of the Water Act 2016, Mandates WaterFund to undertake Co-ordinated and Innovative Research Activities in areas of Water Services, Water Resources Management, Sewerage and Sanitation; that supports Financing, Implementation, Operation and Maintenance of Effective and Sustainable Pro-poor Services, Water Resources Management, Sewerage and Sanitation Services for enhanced *economic growth*.

In this regard, the Fund is in the process of un-packaging this Research Mandate through development and documentation of a *Comprehensive Research Innovation Framework* that will guide and support research within the Fund. The Framework will provide the process that will guide WaterFund to enrich its research capability through: -

- ♣ Engagement with Key Research Partners within and outside the Country;
- ♣ The incubation of research ideas emanating from the various research outcomes; and
- ♣ Testing, Translating and Up-scaling of Research Results.

During the year under review, the Procurement of a Consultant to guide the fund in the *Development of a Research Framework* was issued. However, following the Evaluation of the Bid Documents, NO Responsive Bidder was identified. As a result, the Management has proposed to undertake a new procurement process in line with the Provisions of Public Procurement and Disposal Act (2015).

County Engagement Strategy

WaterFund is developing a *County Engagement Strategy (CES)* to guide and strengthen its relationship with County Governments. This is premised on the Constitutional Mandate of Water Service provision by the County Governments and the Fund's unique Mandate of Providing Conditional and Unconditional Grants to Counties and assisting in financing the development and management of water services in marginalized areas or any area considered by the Board of Trustees to be underserved or unreachable.

During the period under review, the development of the CES was finalized and will be submitted for the formal Board Review and Approval during the FY 2019/2020.

CHAIRMAN'S STATEMENT AND REPORT: THE ANNUAL REPORT FY 2018/2019 (continued)

ISO Certification

Water Sector Trust Fund (WaterFund) was *Re-Certified under ISO 9001:2008* in June 2015 by the Kenya Bureau of Standards (KEBS). In line with the Re-Certification Contract, the Fund continuously complied with the requirements of the Standards and greatly improved its Quality Management System, hence satisfying Customers and Partners.

In September 2015, ISO 9001:2008 was revised to ISO 9001:2015 and a Three-Year Transition Period was granted to institutions under ISO 9001:2008 Certification. The Fund successfully transited from ISO 9001:2008 to ISO 9001:2015 in FY2017/2018. In a nutshell, WaterFund is currently implementing the ISO 9001:2015 Standards.

During the FY 2018/2019, the Fund successfully underwent an Independent Surveillance Audit undertaken by the Kenya Bureau of Standards and retained the Certification of the Fund to ISO 9001: 2015 in June 2019.

Risk Management Framework

WaterFund continues to implement the *Risk Management Framework* Formulated and Approved during the 2017/2018 financial year. Its implementation in Operational and Investment Risk Management Processes has resulted in enhanced Systems. This has facilitated the identification of potential threats whilst defining strategies for eliminating or minimising the impact of these risks including mechanisms to effectively Monitor and Evaluate the Strategy.

Thank You.



Mr. Patrick O. Kokonya
Chairman
Water Sector Trust Fund (WSTF)

CHIEF EXECUTIVE OFFICER'S STATEMENT

On behalf of the management of Water Sector Trust Fund (WSTF), it gives me great pleasure to present to you our annual report and financial statements for the year ended 30 June 2019.

Water Sector Trust Fund is funded by the Government of Kenya and Development Partners. WaterFund therefore places great value on developing and nurturing partnerships as part of its resource mobilization activities.

During the year, the WaterFund through engagement with its partners and other stakeholders culminated in new programmes that support achieving its mandate as follows;

a) Climate Proofed Infrastructure for Improved Water Supply and Sanitation in Arid and Semi-Arid Lands (ASALs)

This programme is funded by the European Union and aims to end drought emergencies and increase resilience of the most drought prone regions in the country. The programme will focus on eight (8) ASAL Counties namely Kilifi, Kitui, Turkana, Samburu, West Pokot, Taita Taveta, Mandera, and Baringo. Total funding through WSTF is KShs. 1.8 Billion, while a further KShs.200 Million will be channelled through Netherlands Development Organization (SNV) to facilitate Public Private Community Partnerships towards better service delivery.

Under the EU funded programme, WSTF will finance larger storage projects to ensure availability of water resource throughout the drought period in target areas. Sanitation and water resources management projects will also be financed.

b) Water and Livelihoods Programme in Refugee, Host and other Vulnerable Communities of Kenya

This programme is funded by DANIDA and is an addendum to the Green Growth and Employment Programme. The Programme, while following the objectives of the GGEP seeks to prioritize poor and underserved refugees and host community's hotspot areas, recognizing that Kenya continually receives large numbers of refugees from neighbouring conflict areas. The additional support of KShs. 535 million through WSTF, will be directed towards projects for the refugees and host communities in Turkana West.

Other collaborative MOUs signed in the period include:

- i) Kenya Water Institute (KEWI): The MOU with KEWI is aimed at collaboration in technical issues around data collection and research, knowledge exchange, student placement and apprenticeship
- ii) The Kenya Institute for Public Policy Research and Analysis (KIPPRA): aimed at collaboration in research and innovation
- iii) Kenya Water and Sanitation Civil Society Network (KEWASNET): The MOU aims at enhancing monitoring, advocacy, governance and participation in project implementation
- iv) Water Integrity Network (WIN): aims at enhancing the Risk Management at institutional and programming levels

Partnership Meetings

During the financial year 2018/2019, the Water Sector Trust Fund Establishment report, pursuant to the Water Act 2016, was approved by the Ministry of Water and Sanitation and submitted for printing. The report details new funding strategies including a one time or phased seed funding to WSTF of at least KES 6 Billion to ensure sustainability and bridge the financing gap.

The Fund has been participating in ongoing discussions at Sector level and spearheaded by the Ministry of Water and Sanitation towards operationalization of the Water Levy as indicated in the Water Act 2016. The draft Water Act 2016 indicates WSTF as the recipient of the Water Levy. This is positive progress towards financial sustainability for WSTF's programmes.

The Fund developed and submitted several proposals for funding towards water supply, sanitation and water resources management, which are at various stages of follow-up. Extensive negotiations for funding from the German Development Bank (KfW) were undertaken and neared completion by the end of the financial year. Negotiations also reached an advanced stage for funding towards Decentralised Sanitation by the African Development Bank and the Gates Foundation. A new MOU with Kenya markets Trust was signed for continued technical and financial collaboration in the areas of financial management at utility level, service delivery models, water governance and resource mobilization.

CHIEF EXECUTIVE OFFICER'S STATEMENT (Continued)

Partnership Activities

The Fund continued to develop and nurture partnerships for increased collaboration in service provision to the underserved in water and sanitation. During the period, the Fund held three (3) steering meetings to review progress in programme implementation and address pertinent issues to ensure efficiency. The Fund also held a meeting between Development Partners and the newly appointed Board of Trustees. The meeting was introductory and took stock of key areas of focus for the Board and Partners, key among them the need for accountability and transparency in ensuring good performance and effective partnerships. Other bilateral and technical meetings were also for the various ongoing partnerships and programmes at the Fund.

The Fund held its Annual Joint Field Visit in which Partners from the Ministry of Water and Sanitation, Government of Sweden and the World Bank to the two (2) Counties of Nyeri and Embu. The team visited two Result Based Financing sewerage projects funded by the Government of Sweden through the World Bank under Global Partnerships for Output Based Aid. The projects were at an advanced stage nearing metering stage.

The Fund continues to be recognized locally and globally as an authority in water and sanitation issues. To that end, WSTF during the period participated in several knowledge sharing, problem solving and networking forums relating to Water, Sanitation, Climate Change and Green Growth among others. It is noteworthy that the Fund is globally sought after to lend its knowledge on aspects of financing and service delivery models in these and other areas.

BUSINESS PERFORMANCE

Revenue

Water Sector Trust Fund earned revenues amounting to KShs. 1,047 million from the development partners, the Government of Kenya and other revenues from exchange transactions. The Government of Kenya contributed KShs. 580 million, development partners contributed KShs. 468 million while revenues from exchange transactions amounted to KShs. 78 million.

The Government of Kenya support to WaterFund experienced an increase of 23% from the previous year. The support from the development partners made significant impact in the performance that made Water Sector Trust Fund earn funds amounting to KShs 468 million representing a decrease of 62%. WaterFund remained liquid throughout the year experiencing high liquidity towards the end of the financial year due to increased support from the development partners and the government. WaterFund is projecting increased support from the development partners as well as the GOK.

Cash flow

The cash and cash equivalents increased from KShs. 2,090 million as at 30 June 2018 to KShs. 2,199 million as at 30 June 2019. Towards the end of the financial year, there was significant cash inflow in form of funding of projects from donors.

OPERATIONAL PERFORMANCE

WaterFund's core operating activity has been the financing support to projects for improved access to water and sanitation and investments in water resources. The Government of Kenya has supported WaterFund in the engagement of new partners and its support in honouring the counterpart funding.

During the year, WaterFund earned revenue of KShs. 1,048 million from GOK, Government of Sweden, European Union (EU), Kreditanstalt fuer Wiederaufbau (KfW) (German Government Bank), International Fund for Agricultural Development (IFAD), Government of Finland, Government of Denmark and the World Bank for water, sanitation and water resources management projects. The funds received from the Government of Kenya represented support to operations and development to the rural and urban investments.

CHIEF EXECUTIVE OFFICER'S STATEMENT (continued)

The Urban Investments

The Urban investments programme is a funding mechanism established in the year 2007 to finance extension of water and sanitation services in urban low-income areas of Kenya. The financing of the extension of the water services is done through two major programmes namely; urban project concept (UPC) and up-scaling basic sanitation for the urban poor (UBSUP). UPC is funded by KfW and the Government of Kenya (GoK) while the UBSUP is funded by KfW, the Bill and Melinda Gates Foundation (BMGF) and GoK.

The UPC investments focuses on the extension of water supply and improvement of sanitation situation in public places while UBSUP investments targets household and plot level sanitation based on the principle of complete sanitation value chain. To date, the investments programme has financed 330 projects including 278 UPC projects and 52 UBSUP projects costing a total of Kshs. 3.57 billion and benefiting an estimated population of 1.85 million people.

During the financial year 2018/2019, a total of 13 Household Sanitation projects continued to be financed at a cost of Kshs 55.10 million for this financial year. The Urban investments continued to finance the 7th call projects which had not been completed in the previous years. These included 2 water projects (Barkowino and Mandera Bula Garai / Bula Arabia and 1 public sanitation (Garissa) projects at a total cost of Kshs 13,367,091. Additional 10 UPC projects targeting 29,610 people were supposed to be implemented at a cost of Kshs. 127,190,493 but the donor requested that the funds to be re-assigned to the UBSUP projects.

The Results Based Financing (RBF) program provides financial incentives to water services providers (WSPs) to invest in rehabilitation and expansion of water and sanitation infrastructure. The objective of the program is to improve the operating efficiency and financial performance of WSPs, and to extend access to unserved consumers. The WSPs projects are pre-financed with commercial loans from local banks, on market terms, for construction of water supply and sanitation services infrastructure. Once the projects are complete and pre-agreed targets set for the project have been achieved, the WSPs will be eligible for up to 60 percent subsidy of the commercial loans borrowed. The subsidies are disbursed towards partial loan repayment.

The RBF program is supported by the World Bank-Output Based Aid (OBA) program for US\$11.835 million (approximately Kshs 1.18 billion) with funds from the Swedish International Development Agency (SIDA) and the German Development Bank (KfW) supporting Aid on Delivery (AoD) program for 1.36 million Euros.

Since inception of the program in December 2014, a total of 12 WSP have accessed technical assistance funding amounting to Kshs. 58 million for the development of bankable proposals and projects supervision by June 30, 2019. Out of the 12 projects, 10 viable projects have a loan portfolio valued at Kshs. 1.307 billion. The loans are disbursed through four commercial banks namely Sidian bank (Kshs. 224 million), Co-op bank (Kshs. 915 million), Family bank (Kshs. 88 million) and Housing Finance Company (Kshs. 80 million).

The program has also disbursed subsidies for completed and on-going projects worth Kshs. 197 million as at June 30, 2019. Four out of the ten financed projects have been completed and have accessed the full RBF subsidies valued Kshs. 140 million. The on-going six projects have also received partial advance subsidy disbursements totalling Kshs. 57 million. The six projects are expected to be fully completed by December 31, 2019 and will access additional subsidies for Kshs. 796 million.

The RBF program has to date benefited a total of 15,003 low income households or 73,733 people with access to clean water. By December 2019, the projects are expected to have reached out to 120,000 people or 24,000 households accessing clean water supply and sanitation services.

CHIEF EXECUTIVE OFFICER'S STATEMENT (continued)

Rural Investment

The rural investment programme's objective is to finance water and sanitation projects in the underserved rural communities across Kenya. The key implementers are Rural Water Service Providers (WSPs), Water Users Associations (WUAs) and Community Based Organizations (CBOs) who are involved in the preparation, planning, implementation operations water and sanitation projects. Provision of water and sanitation services is a devolved function, with WSTF working closely with the County Governments in identifying target projects, underserved areas, provide co-financing to projects, oversight and coordination of activities. In FY 2018-2019, the rural investments department implemented many activities under the following programmes; EU-SHARE programme, Joint 6 programme, Green Growth and Employment.

Green Growth and Employment Programme

WSTF under the kind support of the Governments of Kenya and Denmark through DANIDA is implementing the Green Growth and Employment Thematic Programme (GGEP). The Programme implementation period is 2016-2020. The programme objective is to enhance water resources management and investments in selected counties for improved and sustained access by communities and households to water and sanitation for their domestic and productive needs. The programme targets eight ASAL counties namely: Garissa, Isiolo, Lamu, Mandera, Marsabit, Tana River, Turkana and Wajir.

The programme has 15 approved water and sanitation projects at a total cost of Kshs. 367,828,364 to reach a target population of 78,742 people. Out of the 15 projects, only 8 were financed during the reporting period. Kshs 52,121,478 was disbursed to those projects to undertake preliminary activities in Garissa, Lamu, Mandera and Turkana Counties. The population reached during this financial year was 13,000 households under the Drought and Emergency Response Programme (DERP) that was financed using these monies.

Under the water resource management output, 21 projects have been financed at a total cost of Kshs 77,863,160 and an additional Kshs 9,955,596 disbursed to Water Resource Authority (WRA) for technical support to WRUAs. Kshs 51,820,860 has been disbursed to the 21 projects as follows: 12 No. Level 1, 5 No. Level 2, 3 No. Level 3 and 1 No. Conservancy. The projects have improved water resource management planning in a total coverage area of 13,835km².

Joint Six Programme (J6P)

The Joint Six Programme (J6P) "Support to Equitable Access to Quality Water, Basic Sanitation and Enhanced Water Resources Management in Rural Kenya" is based upon collaboration between the Water Sector Trust Fund (WSTF) and the two Development Partners (DPs); the Government of Finland (GOF), the Government of Sweden (GOS) and the Government of Kenya (GOK). The programme implementation period is from June, 2014 to June, 2020. The target counties are Laikipia, Kwale, Migori, Nandi, Narok and Tharaka Nithi.

The programme approved 15 water projects at a total cost of Kshs 477,736,674. Kshs 148,833,916 were disbursed to those projects to undertake various ear marked activities. 1 institutional facility and 9 CLTS projects were financed at a total cost of Kshs 2,576,332 and Kshs 1,930,674 was disbursed to implement the various stages in CLTS and construction of toilets in the public primary school. These 25 projects increased water and sanitation access to 130,747 people. Under the water resource management output, a total of Kshs 21,769,441.80 was disbursed against a total cost of Kshs 40.7million as total project cost. An area coverage of 1,400km² protected to improve integrated water resource management.

Water Resources & Climate Change Investments (WRCCI)

The Water Resources & Climate Change Investments (WRCCI) program provides financial support for Water Resources Users Associations (WRUAs) and Community Forest Associations (CFAs) for catchment conservation, protection of the water resources, increased forest cover and improved forest management.

The objectives of the programme are: -

- To improve the quantity and quality of water resources to enhance livelihoods;
- To improve the ability of the catchment and riparian areas to provide hydrological services;
- To improve the governance of the water resources by promoting stakeholder participation in Water Resource Management (WRM);

CHIEF EXECUTIVE OFFICER'S STATEMENT (continued)

- **Water Resources & Climate Change Investments (WRCCI)** To improve compliance to water and environmental regulations;
- To develop well governed and self-reliant WRUAs & CFAs.

The WRCCI is supported by the International Fund for Agricultural Development (IFAD) – Upper Tana Natural Resource management Project (UTaNRMP); Government of Sweden (GoS)/ Government of Finland (GoF) popularly known as J6P (joint six programme), Danish International Development Agency (DANIDA) through the Green Growth Employment Programme (GGEP). The beneficiary counties are 19 No. namely Embu, Meru, Murang'a, Kirinyaga, Tharaka Nithi, Nyeri, Nandi, Kwale, Narok, Laikipia, Migori, Tana River, Garissa, Lamu, Marsabit, Wajir, Isiolo, Mandera and Turkana.

In the FY 2018/2019; 45No. Projects were supported under the IFAD UTaNRMP at a cost of Kshs.57, 632,277; 7No. projects under J6P at a cost of Kshs.21, 800,000 and 8 No. projects under GGEP at a cost of Kshs. 27,229,340. Cumulatively, Kshs.106, 661,617 was disbursed towards the support of the 60 No Water Resource Management. projects. 2 No. Programmes, namely UTaNRMP and J6P had capacity building workshops undertaken. The total Catchment area conserved in the period is 4500km².

Climate proofed infrastructure Programme- EU CPIRA

A total amount of Kshs. 648 million was received from the European Union on January 3, 2018 in the Financial Year 2017/18. These funds were returned to the Central Bank of Kenya on 19th June 2019 as part of the Funds regularisation process. Cumulative interest earned on the EU funds received is Kshs 24.5 million. The interest earned during this financial year amounted to Kshs 16.3 million. The expenditures incurred under the programme during the year totalling to Kshs 10,703,510.00 were charged to WSTF's Operational account as Counterpart Contribution.

Some of the key activities undertaken were;

1. Sensitization and planning workshop with County Executive Committee Members for the Eight (8) Counties was held in Nairobi to kick-start the programme.
2. The launch of EU CPIRA Programme and signing of Eight (8) MOUs between the County Governors and WSTF was held on 22nd May 2019.
3. Support and participation in the 6th Devolution conference held from 4th to 8th March 2019 in Kirinyaga County; and
4. County engagement meetings were held in the Eight Counties with water resources, water and sanitation services stakeholders to ensure their involvement throughout the programme implementation

MTAP II - EU SHARE

European Union initiative (Support to Horn of Africa Resilience – SHARE) provided financial support of Kshs 690 million to WSTF channeled through DANIDA as a separate part of MTAP. This was a 4-year Programme starting from June 2015 to December 2018, an extension was granted up to May 2019 to enable smooth closure of the Programme. Cumulatively, 53 water and 102 sanitation projects targeting 180,000 people with improved water services and 8,500 people with improved sanitation services have been supported. A total of 48 water projects and 101 sanitation projects have been completed benefitting 154,944 people (1461, 994 - water, 7,950 - sanitation). In addition, 503,760 livestock are benefitting through developed cattle troughs and water pans from 53 water projects supported under this Programme.

Under the Programme, WSTF has received ksh.590 million to support in implementation of water and sanitation projects falling under the six target counties of *Garissa, Isiolo, Lamu, Marsabit, Tana River and Wajir*. By the end of FY2018/2019, Kshs 584 million had been disbursed to support in physical implementation of projects and soft components comprising of county capacity, training of implementing agents and WSTF capacity support.

CHIEF EXECUTIVE OFFICER'S STATEMENT (continued)

Employees

Water Sector Trust Fund values and invests heavily in human capital for realisation of our key strategic objectives and mandate. As our stakeholders increase their expectations, it is imperative to ensure adequate, high calibre and motivated human resource capacity is available to provide services.

During the year under review, WSTF reviewed its organizational structure, grading structure, Human Resource Policy Manual, staff establishment and developed Career guidelines to enable it achieve its expanded mandate .The Fund's reviewed establishment has resulted in the growth of staff numbers from sixty one (61) to seventy three (73) for increased efficiency and effectiveness to achieve the strategic objectives and expanded mandate of the Fund as per the Water Act 2016 the, strategic plan and in compliance with Public Service Commission Human Resource guidelines. Among the 12 staff on-boarded during the financial year, programme based constitute 80% while the support staff constitute 20%.

Through committed team efforts by the previous and present Board with the management and members of staff, WaterFund attained an overall performance contractual rating of "Very Good" as at end of the financial year. In the same period, staff satisfaction index which measures staff perceptions improved from 79% in the previous year to 81% in the year 2017/2018.

WaterFund builds strong teams to achieve its objectives and improve staff morale, communication and working relationship. WaterFund has continued implementation of the national values and rewarding of the best staff on a quarterly basis that has played a pivotal role in the following categories; Best Staff, Driver, Management and Investment staff. In addition, there was increased budgetary allocation to training that enabled continuous staff development and capacity building for efficiency and good corporate governance. The organisation has trained several staff on leadership, corporate governance and other professional development courses and soft skills.


WaterFund also embarked on enhanced staff sensitizations awareness campaigns on security, HIV/AIDS, and gender & disability. Evaluation of HIV/AIDS performance as NO.1 in the country in the year 2018/2019.

In the year under review, WaterFund organised for an all staff team building activity for three days at Reef Beach Hotel in Mombasa County with an objective of enhancing team as well as breaking communication barriers amongst the staff.

WaterFund is committed to realising the objectives of the Constitution 2010 through implementation of its initiatives. WaterFund in the year under review achieved 5.7% of disability mainstreaming and regional balance for the disadvantaged tribes.

Conclusion

We appreciate the unrelenting support from the Board of Trustees, management, staff, development partners, implementing partners and all the key stakeholders. We look forward to the continued partnerships and cooperation in areas of mutual interest.


Mr. Ismail Fahmy M. Shaiye
Chief Executive Officer
Water Sector Trust Fund (WSTF)

STATEMENT OF CORPORATE GOVERNANCE

THE BOARD

Water Sector Trust Fund is established under Section 113 of the Water Act, 2016 as a Trust Fund mandated to provide financing access to water and sanitation in underserved areas. The Fund is committed to ensuring compliance with the provisions of Water Act, 2016, among other regulatory and supervisory corporate governance requirements. Essential to the establishment of a corporate governance framework in the Fund is a formal governance structure with the Board of Trustees at its apex. The operations of the Fund are governed by a Trust Deed dated 26th April, 2004, expected to be replaced by a new Trust Deed as provided for under the Water Act, 2016. The structure is designed to ensure an informed decision-making process based on accurate reporting to the Board.

THE BOARD OF TRUSTEES

While the Trust Deed of 2004 provides that the Board of Trustees shall be made up of nine Trustees, including the Chairman, all appointed by the Cabinet Secretary, Ministry of Water and Irrigation, The Water Act, 2016 provides that the Board shall consist of a chairperson and six other members identified for appointment through a competitive process. The Board of Trustees is responsible for the long-term strategic direction of the Fund and recruitment of the Chief Executive Officer and senior management. The Board of Trustees exercises leadership, enterprise, integrity and judgment in directing the Fund.

The Trustees are provided with full, appropriate and timely information that enables them to maintain full and effective control over the strategic, financial, operational and compliance issues. The day-to-day running of the operations of WaterFund is delegated to the CEO but the Board of Trustees is responsible for establishing and maintaining WaterFund's system of internal controls for the realization of its mandate of providing financial support for improved access to water service, water resources and sanitation in areas without adequate services.

All members of the Board of Trustees have been taken through a comprehensive induction programme, inducted on the new Water Act, 2016 and are adequately trained on their roles as Board members. The Trustees are professional, committed and guided by the mission, vision and core values of the WaterFund in execution of their duties. At the end of each financial year, the Board, its Committees, individual Trustees and the CEO are evaluated by an independent body against targets agreed to at the beginning of the year.

BOARD MEETINGS

The Board of Trustees meets quarterly or as required in order to monitor the implementation of the WaterFund's Strategic Plan and achievement of the targets in the Performance Contract signed with the Government. The Board of Trustees also plays an oversight role over all other financial and operational issues. The Trustees held three full Board and three Special Board meetings during the Financial Year 2018/2019.

In ensuring that corporate governance and integrity is enhanced in between the governance of WaterFund, the Board of Trustees has established three Substantive and one ad hoc Committees namely: -

i) Investment & Monitoring Committee

This Committee was established to guide the Board of Trustees in making prudent investment decisions aimed at financing viable water and sanitation projects and provide organizational guidance on the monitoring and evaluation of funded projects. The Committee held two meetings during the financial year. The trustees who served on this committee during the year under review were:

| S/No. | Name | Position in committee |
|-------|-------------------------------|--|
| 1 | Mr. Joseph Kotoine Nkaiwuatei | Chairman (served up to 25 November 2018) |
| 2 | Mr. Onesmus Maritim | Member (served up to 25 November 2018) |
| 3 | Mr. Adan Omar Enow | Member (served up to 25 November 2018) |
| 4 | Ms. Sheila Mugo | Member (served up to 25 November 2018) |
| 5 | Mr. Mathew Tuitook | Chairperson (served from 07 February 2019) |
| 6 | Ms. Joyce Lay | Member (served from 07 February 2019) |
| 7 | Dr. Dominic Biwott | Member (served from 07 February 2019) |
| 8 | Mr. Joel Onchwati | Member (served from 07 February 2019) |
| 9 | Mr. Chrisologus Makokha | Member (served from 07 February 2019) |

STATEMENT OF CORPORATE GOVERNANCE (continued)

ii) Finance & General Purposes Committee

This Committee was established to advise the Board of Trustees in matters relating to Finance, Resource Mobilization, Human Resources Management, ICT and Corporate Communication, and Procurement. The Committee held two Meetings during the year. The members who served on this Committee during the year under review were:

| S/No. | Name | Position in committee |
|-------|------------------------------|---|
| 1 | Mr. Stephen Njoroge Gwandaru | Chairperson (served up to 25 November 2018) |
| 2 | Mr. Joel Gesuka | Member (served up to 25 November 2018) |
| 3 | Mr. Adan Enow | Member (served up to 25 November 2018) |
| 4 | Ms. Ubah Ibrahim | Chairperson (served from 07 February 2019) |
| 5 | Ms. Joyce Lay | Member (served from 07 February 2019) |
| 6 | Ms. Rose Muguchu | Member (served from 07 February 2019) |
| 7 | Mr. Joel Onchwati | Member (served from 07 February 2019) |
| 8 | Mr. Chrisologus Makokha | Member (served from 07 February 2019) |
| 9 | Mr. Ismail Fahmy Shaiye | Member |

iii) Audit and Risk Committee

This Committee was established to advise the Board of Trustees on institutional risk management and compliance. The Committee held three committee meetings and two special committee meetings during the year. The Committee also met WaterFund's external auditors PricewaterhouseCoopers to deliberate on risk management issues. The members of this Committee during the year under review were:

| S/No. | Name | Position in committee |
|-------|-------------------------|---|
| 1 | Ms. Sheila Mugo | Chairperson (served up to 25 November 2018) |
| 2 | Mr. Onesmus Maritim | Member (served up to 25 November 2018) |
| 3 | Mr. Joel Gesuka | Member (served up to 25 November 2018) |
| 4 | Mr. Stephen Gwandaru | Member (served up to 25 November 2018) |
| 5 | Mr. Mwanja Musau | Chairperson (served from 07 February 2019) |
| 6 | Ms. Rose Muguchu | Member (served from 07 February 2019) |
| 7 | Dr. Dominic Biwott | Member (served from 07 February 2019) |
| 8 | Mr. Joel Onchwati | Member (served from 07 February 2019) |
| 9 | Mr. Chrisologus Makokha | Member (served from 07 February 2019) |

COMMUNICATION WITH STAKEHOLDERS

WaterFund is committed to ensuring that all its stakeholders are provided with full and timely information about its programmes and performance. This is usually done through quarterly Steering Committee meetings and the Annual Stakeholders Conference.

STATEMENT OF COMPLIANCE

The Board of Trustees confirms that Water Sector Trust Fund has throughout the FY2018/2019 complied with all statutory and regulatory requirements and that the Fund has been managed in accordance with the principles of good corporate governance.

With regard to compliance with Mwongozo, the WaterFund conducted an annual board evaluation during the year.

Legal and governance audits are scheduled to be conducted in the FY 2019/2020.

STATEMENT OF CORPORATE GOVERNANCE (continued)

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

The Trustees are responsible for reviewing the effectiveness of WaterFund's system of internal control which is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorized use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

Standing Instructions

WaterFund has a Code of Conduct Ethics and Service Charter that is applicable to all employees. These have a number of standing instructions to employees of WaterFund designed to enhance internal control. WaterFund has also designed a set of standing instructions to be followed in the financing of projects in each investment.

Organization Structure

A clear organizational structure exists, detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements. Training plans are prepared and implemented to ensure that staff develop and maintain the required skills to fulfil their responsibilities, and that WaterFund can meet its future management requirements.

Strategic Plan

The business of WaterFund is determined by the Strategic Plan. The Strategic Plan sets out the objectives of WaterFund, and the annual targets to be met to attain those objectives. The Strategic Plan is evaluated annually to assess the achievement of those objectives. The Board on an annual basis approves the work plan supported by the financial plan for the year. Progress against the plan is monitored on a quarterly basis.

Internal Control Framework

WaterFund continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. Business processes and controls are reviewed on an ongoing basis. A risk-based audit plan, which provides assurance over key business processes and operational and financial risks facing WaterFund, is approved by the Audit and Risk Committee.

The Audit and Risk Committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Board. Where weaknesses are identified, the Committee ensures that management takes appropriate action. No significant failings or weaknesses were identified during current financial year.

Risk Management

WaterFund has in place a risk management framework which guides the Fund in identifying, assessing and managing the risks. The Fund has developed a risk register which documents and prescribes mitigating measures of all the risks both external and internal facing the Fund. The risk management framework and register are regularly reviewed to incorporate any emerging issues in the operating environment. The risk management is coordinated by the head of internal audit assisted with a management team drawn from the various department/sections. This team reviews all the risks in WaterFund and updates the risk register and ensures that all new and emerging risks are appropriately evaluated, and any further actions identified. The identified risks are reported to the Audit and Risk Committee to assist the Board in the management of risks.

During the period under review, the Fund partnered with Water Integrity Network (WIN) based in Germany to review the Risk Management Policy and Framework. Upon review and approval, a road map of implementation of various activities to enhance risk management has been developed.

STATEMENT OF CORPORATE GOVERNANCE (continued)

Management Team

The management team headed by the Chief Executive Officer implements the Board decisions and policies through action plans. The team meets regularly to review these action plans to ensure that the Board's objectives are achieved effectively and efficiently.

Auditor

WaterFund is audited by the Auditor-General. The Auditor-General has however delegated this function to an independent auditor (PricewaterhouseCoopers CPA) as per Sections 23 of the Public Audit Act, 2015.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Corporate Affairs Unit of the Water Sector Trust Fund (WaterFund) provides a framework for the Fund to have a coordinated plan for communicating its mandate among its internal and external stakeholders.

The unit's primary aim is to maximise the WaterFund's visibility and publicity among its target audiences through various communication mediums, with the aim of enhancing the WaterFund's corporate image as the lead agency in provision of financial support for improved access to water and sanitation in underserved areas.

The unit undertook several Corporate Social Responsibility (CSR) activities to this effect. In the FY2018/2019, the activities included:

1. Support to Tatu Kenga's Education
2. Support and participation in the Kakamega Forest Marathon in November 2018
3. Presidential Directive on increasing forest cover in Kenya

1. Support to Tatu Kenga's Education

Tatu Kenga came to the limelight in the year 2008 when the then Minister for Water and Irrigation, Hon. Charity Ngilu, was on an official visit to Mombasa to assess water projects and challenges facing various communities. It was dusk when the Minister's entourage met with a small 6-year-old girl carrying a 10-litre jerry can of water on her head, walking all alone in the dark. The Minister was moved by the plight of the young girl.

Given the mandate of WaterFund, and after consultation with the Ministry, WaterFund agreed to adopt Tatu as the face of WaterFund. As part of the Fund's Corporate Social Responsibility, WaterFund took up Tatu's education, signifying giving back to the community through this little girl who had rightly depicted the plight of women, girls and water-underserved areas in Kenya.

Tatu undertook her primary school education at Mwijo Primary School located in Mwanaminga village, Kilifi County. In the year 2018, Tatu sat for her Kenya Certificate of Primary Education. In line with the Presidential directive of 100% transition to Secondary schools for all Primary school pupils, Tatu was admitted to Mazeras Memorial Girls' School, a girls boarding secondary school located in Mazeras town.

The Corporate Affairs unit travelled to Kilifi County in January 2019 to ensure that Tatu reports to secondary school, paid her annual school fees and took care of her school reporting needs. The unit makes follow up visits to her in school and to the family regularly during the year.

2. Support and Participation in the Kakamega Forest Marathon

The Kakamega Forest Marathon is an annual event that is a brainchild of the Kakamega Forest Heritage Foundation, a charitable organisation founded in 2014 by a group of professionals that hail from the Kakamega forest ecosystem.

The WaterFund Board of Trustees approved Kshs 2 Million sponsorship for the event held in November 2018. The funds went towards supporting and improving the restoration and conservation efforts (tree planting) of the Kakamega

STATEMENT OF CORPORATE GOVERNANCE (continued)

Forest. This formed part of WaterFund's contribution towards the Presidential directive on increasing Forest Cover in Kenya. Kindly see related point below on presidential directive on increasing forest cover in Kenya.

3. Presidential Directive on Increasing Forest Cover in Kenya

Progress / achievements for 10% CSR budget towards tree planting activities

WaterFund has endeavoured to set aside some of the CSR budget towards tree-planting activities in Kenya as per the presidential directive on increasing forest cover in Kenya.

The county chosen was Kakamega County, with the specific planting site being Kakamega Forest. The target was to plant 3,000 seedlings covering an area of 3 Hectares. All the 3,000 seedlings for this exercise were indigenous seedlings, and their survival rate will be determined during the next tree planting exercise.

Brief highlights of the tree planting activities during the Kakamega Forest Marathon

The tree-planting exercise was planned in collaboration with Kakamega Forest Heritage Association. The tree planting was part of the preparatory activities for Kakamega Forest Marathon where the WaterFund participated as a sponsor and had a corporate running team. This helped to raise awareness of the reforestation of the Kakamega Forest, and conservation of our forest cover in general.

WaterFund took into cognisance the importance of environmental protection and sustainability in choosing this CSR activity. It was also part of the presidential directive to increase forest cover in Kenya by 10% by the year 2022, to have tree planting activities set aside as a CSR activity. WaterFund's support of Kshs. 2 Million went towards the following activities:

1. Establishment of tree nurseries to provide tree seedlings for schools, churches and private individuals wishing to plant trees in their own land; and
2. In partnership with the Foundation and Kenya Forest Service, adopt 3 hectares of forestland that will see over 3,000 indigenous tree seedlings planted over a period of 8 months

REPORT OF THE TRUSTEES

The Trustees submit their report together with the audited financial statements for the year ended 30 June 2019.

REGISTRATION

The Water Sector Trust Fund (WSTF) is a state corporation established under the Water Act, 2016, Section 113 (1) with a mandate to assist in financing the provision of water services to areas of Kenya which are without adequate water services. WSTF operates under the Ministry of Water and Irrigation and is guided by the Trust Deed of 26 April 2004.

PRINCIPAL ACTIVITIES

The WSTF is a basket fund through which the Government of Kenya, through appropriations by Parliament, development partners and other funds, channels financial assistance towards the implementation of water, sanitation and water resources projects throughout the country with special emphasis on the poor, marginalized communities and working with the County Governments in delivering these services.

RESULTS

| | KShs |
|-----------------------------|---------------------------|
| Income | 1,125,492,774 |
| Expenditure | <u>(915,273,164)</u> |
| Surplus for the year | <u>210,219,610</u> |

TRUSTEES

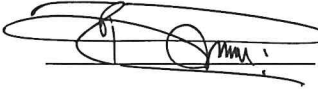
The changes in the Board of Trustees during the financial year are shown below:

| | |
|-------------------------------|---|
| Mr. Patrick O. Kokonya | - Board Chairman (Served from 07 February 2019) |
| Mr. Mwanja Musau | - Member (served from 07 February 2019) |
| Mr. Matthew Tuitoek | - Member (served from 07 February 2019) |
| Ms. Joyce Lay | - Member (served from 07 February 2019) |
| Dr. Dominic Biwott | - Member (served from 07 February 2019) |
| Ms. Rose Muguchu | - Member (served from 07 February 2019) |
| Ms. Ubah Abdi Ibrahim Gedi | - Member (served from 07 February 2019) |
| Mr. Stephen N. Gwandaru | - Member (served up to 25 November 2018) |
| Mr. Adan Omar Enow | - Member (served up to 25 November 2018) |
| Mr. Joel Onsare Gasuka | - Member (served up to 25 November 2018) |
| Mr. Joseph Kotoine Nkaiwuatei | - Member (served up to 25 November 2018) |
| Eng. Onesmus kipkirui Maritim | - Member (served up to 25 November 2018) |
| Ms. Rose N. Kinuthia | - Member (served up to 25 November 2018) |
| Ms. Sheila Murugi Mugo | - Member (served up to 25 November 2018) |

AUDITOR

The Auditor General is responsible for the statutory audit of WaterFund's books of account. In accordance with Sections 23 of the Public Audit Act, 2015 which empowers the Auditor General to outsource other auditors to carry out the audit on his behalf, PricewaterhouseCoopers CPA (PwC) were appointed as the auditors of WaterFund to conduct the statutory audit for the year ended 30 June 2019.

FOR AND ON BEHALF OF THE BOARD OF TRUSTEES



2019

Mr. Patrick O. Kokonya
Chairman, Board of Trustees

STATEMENT OF TRUSTEES' RESPONSIBILITIES

Section 81 of the Public Finance Management (PFM) Act, 2012, Section 14 of the State Corporations Act, and the Water Services Trust Deed, require the trustees to prepare financial statements for each financial year which give a true and fair view of the financial position of the WaterFund at the end of the financial year and its financial performance for the year then ended. The trustees are responsible for ensuring that WaterFund keeps proper accounting records that are sufficient to show and explain the transactions of WaterFund; disclose with reasonable accuracy at any time the financial position of WaterFund; and that enables them to prepare financial statements of WaterFund that comply with prescribed financial reporting standards and the requirements of the Section 81 of the Public Finance Management Act and Section 14 of the State Corporations Act. They are also responsible for safeguarding the assets of WaterFund and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

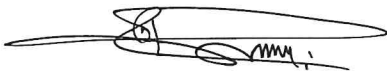
The trustees accept responsibility for the preparation and presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS) and in the manner required by the PFM Act, the State Corporations Act and the Water Services Trust Deed. They also accept responsibility for:

- i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii. Selecting suitable accounting policies and then apply them consistently; and
- iii. Making judgements and accounting estimates that are reasonable in the circumstances.

Having made an assessment of WaterFund's ability to continue as a going concern, the trustees are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon WaterFund's ability to continue as a going concern.

The Trustees acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the Board of Trustees on 29 November 2019 and signed on its behalf by:



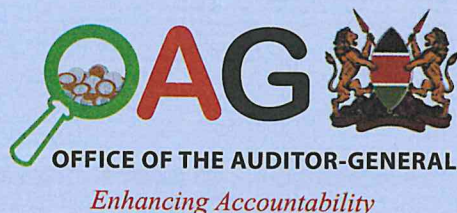
Mr. Patrick O. Kokonya
Chairman, Board of Trustees



Mr. Ismail Fahmy M. Shaiye
Chief Executive Officer

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON WATER SECTOR TRUST FUND FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Water Sector Trust Fund set out on pages 37 to 64, which comprise the statement of financial position as at 30 June, 2019, 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, have been audited on my behalf by PricewaterhouseCoopers, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Water Sector Trust Fund as at 30 June, 2019, and of its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2015 and The Water Act, 2016.

Basis for Opinion

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

Emphasis of Matter

Unsupported Expenditure

The statement of financial performance reflects project expenses of Kshs.571,050,171, which as disclosed under Note 10 to the financial statements, includes Ksh.5,424,187 (2018: Ksh.16,848,188) relating to expenditures that have outstanding audit queries arising from the audit of Project implementing

organizations. Although Management has indicated that the issue is being dealt with legally and administratively, the outcome of the process has not been disclosed.

My opinion in respect of this matter is not modified.

Key Audit Matters

Key audit matters are those matters which, 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 period under review.

Other Matter

Delayed Funding and Project Implementation

The statement of comparison of budget and actual amounts reflects a final budgeted total revenue of Ksh.2,062,287,856 against actual received revenue of Kshs.1,125,492,774 resulting in a revenue deficit of Kshs.936,795,082 or 45% of the budgeted revenue. The deficit was caused mainly by delay in remitting budgeted funds by both the Development Partners and Government of Kenya.

Further, the Statement of Comparison of Budget and Actual amounts reflects actual project expenses of Kshs.571,050,171 against the budgeted expenditure of Kshs.1,680,717,504 resulting in an under-expenditure of Kshs.1,109,667,333 or 66% of the Budgeted expenditure.

The delayed funding and implementation of the Fund's projects behind schedule may lead to cost overruns and non-provision of services to the intended beneficiaries.

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, I confirm that, nothing 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

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 on 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 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, I confirm that, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance Section of my report, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

IT Control Deficiencies

Although Management had implemented two systems to aid in project management and monitoring, the systems were not fully utilized and had become redundant since implementation. The Fund may, therefore, not have derived value from the investment made in the system.

Further, incidences of shared passwords, lack of enforcement of key password parameters on the application and database as well as lack of audit logs and global auditing parameters at the database level were noted. In addition, continuous monitoring of super user activities and administrator accounts on the application, database and operating system level was also lacking.

The above weaknesses may lead to undetected unauthorized access and activities and potential abuse of the privileged access with possible negative impact on business operations, financial loss or reputational damage.

In the circumstances, it was not possible to confirm that internal controls, risk management and governance were effective.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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 those Charged with Governance

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 Fund's ability to continue sustaining services, disclosing as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either is aware of any intention to terminate the Fund.

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

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

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of Management's systems for monitoring 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 Fund'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 Fund's ability to continue sustaining its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease sustaining its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund 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.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

29 September, 2020

STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30 June 2019

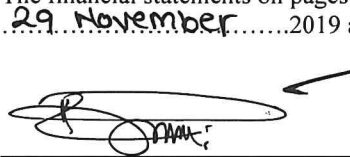
| | Notes | 2019 KShs | 2018 KShs |
|---|-------|----------------------|------------------------|
| REVENUE | | | |
| Revenue from non-exchange transactions | | | |
| Government of Kenya grants | 4 | 579,856,000 | 473,344,800 |
| Restricted donor funds | 5 | 468,127,153 | 1,229,423,656 |
| | | 1,047,983,153 | 1,702,768,456 |
| Revenue from exchange transactions | | | |
| Miscellaneous income | 6 | 25,417,314 | 36,095,808 |
| Finance income | 7 | 52,092,307 | 44,623,676 |
| | | 77,509,621 | 80,719,484 |
| Total revenue | | 1,125,492,774 | 1,783,487,940 |
| EXPENDITURE | | | |
| Staff costs | 8 | (190,491,648) | (167,109,219) |
| Remuneration of trustees | 9 (a) | (22,509,915) | (33,906,318) |
| Repairs and maintenance | 9 (b) | (188,105) | (230,140) |
| Depreciation and amortization expense | 9 (c) | (15,543,690) | (16,221,865) |
| General expenses | 9 (d) | (115,489,635) | (109,742,292) |
| Project expenses | 10 | (571,050,171) | (1,396,931,251) |
| Total expenditure | | (915,273,164) | (1,724,141,085) |
| Surplus for the year | | 210,219,610 | 59,346,855 |

The notes set out on pages 42 to 64 form an integral part of these financial statements.

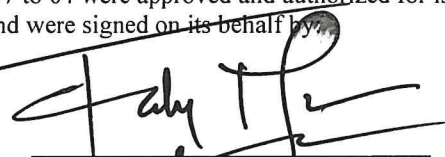
STATEMENT OF FINANCIAL POSITION
As at 30 June 2019

| | Notes | 2019 KShs | 2018 KShs |
|--|-------|-----------------------------|-----------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 15 | 2,198,599,900 | 2,090,107,152 |
| Receivables from non-exchange transactions | 14 | 335,321,885 | 189,926,983 |
| Inventories | 13 | 480,850 | 158,937 |
| | | <u>2,534,402,635</u> | <u>2,280,193,072</u> |
| Non - current assets | | | |
| Property and equipment | 11 | 13,106,406 | 18,419,782 |
| Intangible assets | 12 | 3,581,254 | 5,234,140 |
| | | <u>16,687,660</u> | <u>23,653,922</u> |
| TOTAL ASSETS | | <u>2,551,090,295</u> | <u>2,303,846,994</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Deferred income from capital grants | 18 | 5,580,000 | 259,898,426 |
| Staff gratuity | 19 | 25,372,080 | 26,484,764 |
| Trade and other payables | 20 | 69,179,978 | 66,323,928 |
| | | <u>100,132,058</u> | <u>352,707,118</u> |
| Non-current liabilities | | | |
| Deferred income from capital grants | 18 | 259,230,217 | 4,796,513 |
| Staff gratuity | 19 | 6,225,434 | 8,001,978 |
| | | <u>265,455,651</u> | <u>12,798,491</u> |
| Net assets | | | |
| Accumulated surplus | 16 | 756,222,001 | 546,002,391 |
| Unexpended grants | 17 | 1,429,280,585 | 1,392,338,994 |
| TOTAL NET ASSETS AND LIABILITIES | | <u>2,551,090,295</u> | <u>2,303,846,994</u> |

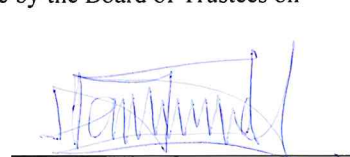
The financial statements on pages 37 to 64 were approved and authorized for issue by the Board of Trustees on 29 November.....2019 and were signed on its behalf by



Mr. Patrick O. Kokonya
 Chairman Board of Trustees



Mr. Ismail Fahmy M. Shaiye
 Chief Executive Officer



Mr. Samwel Gitau Mbugua
 Ag. Chief Manager, Finance
 ICPAK Member No. 2868

STATEMENT OF CHANGES IN NET ASSETS
For the year ended 30 June 2019

| | Revenue reserves KShs | Unexpended grants KShs | Total KShs |
|--|-----------------------------|------------------------------|----------------------|
| As at 1 July 2017 | 486,655,536 | 880,066,187 | 1,366,721,723 |
| Surplus for the year | 59,346,855 | - | 59,346,855 |
| Funds received from development partners | - | 1,741,696,463 | 1,741,696,463 |
| GoK Counterpart funding | - | 71,000,000 | 71,000,000 |
| Total project Expenditure | - | (1,300,423,656) | (1,300,423,656) |
| | | - | - |
| As at 30 June 2018 | 546,002,391 | 1,392,338,994 | 1,938,341,385 |
| | | - | - |
| At 1 July 2018 | 546,002,391 | 1,392,338,994 | 1,938,341,385 |
| Surplus for the year | 210,219,610 | - | 210,219,610 |
| Prior period adjustment-KfW audit | - | 12,028,400 | 12,028,400 |
| Funds received from development partners | - | 493,040,344 | 493,040,344 |
| GoK Counterpart funding | - | 100,000,000 | 100,000,000 |
| Total project Expenditure | - | (568,127,153) | 68,127,153 |
| | | - | - |
| As at 30 June 2019 | 756,222,001 | 1,429,280,585 | 2,185,502,586 |

The notes set out on pages 42 to 64 form an integral part of these financial statements

STATEMENT OF CASH FLOWS
For the year ended 30 June 2019

| | Notes | 2019 Kshs | 2018 Kshs |
|--|-------|----------------------|------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Government grants | 4 | 579,856,000 | 473,344,800 |
| Restricted revenue from development partners | 5 | 468,127,153 | 1,229,423,656 |
| Miscellaneous income | 6 | 25,417,314 | 36,095,808 |
| Finance income | 7 | 52,092,307 | 44,623,676 |
| Total Receipts | | 1,125,492,774 | 1,783,487,940 |
| Payments | | | |
| Employee costs | 8 | (190,491,648) | (167,109,219) |
| Remuneration of Directors | 9 (a) | (22,509,915) | (33,906,318) |
| Repairs and maintenance | 9 (b) | (188,105) | (230,140) |
| Depreciation and amortization expense | 9 (c) | (15,543,690) | (16,221,865) |
| General expenses | 9(d) | (115,489,635) | (109,742,292) |
| Project expenses | 10 | (571,050,171) | (1,396,931,251) |
| Total Payments | | (915,273,164) | (1,724,141,085) |
| Net cash flows from operating activities | | 210,219,610 | 59,346,855 |
| Cash flows from investing activities | | | |
| Purchase of property, plant, equipment and intangible assets | | (8,604,000) | (2,872,000) |
| Proceeds from sale of PPE | | 59,056 | - |
| Gain on disposal of assets | | (32,484) | |
| (Increase)/ decrease in receivables from non-exchange transactions | | (145,394,902) | 311,905,198 |
| (Increase)/ decrease in inventories | | (321,913) | 331,711 |
| Increase in unexpended grants | | 36,941,591 | 512,272,806 |
| Decrease in deferred income | | 115,278 | (99,399,988) |
| Decrease in staff gratuity | | (2,889,228) | (3,494,649) |
| Increase in trade and other payables | | 2,856,050 | 11,282,746 |
| Depreciation of property and equipment | | 13,890,804 | 14,555,166 |
| Amortization of intangible assets | | 1,652,886 | 1,666,701 |
| Net cash flows used in investing activities | | (101,726,862) | 746,247,691 |
| Net increase/(decrease) in cash and cash equivalents | | 108,492,748 | 805,594,546 |
| Cash and cash equivalents as at 1 July | | 2,090,107,152 | 1,284,512,606 |
| Cash and cash equivalents as at 30 June | | 2,198,599,900 | 2,090,107,152 |

The notes set out on pages 42 to 64 form an integral part of these financial statements.

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
For the year ended 30 June 2019

| | Original budget | Adjustments | Final Budget | Actual | Performance difference | Notes |
|---|------------------------|------------------------|------------------------|----------------------|------------------------|-------|
| | 2019 KShs | 2019 KShs | 2019 KShs | 2019 KShs | 2019 KShs | |
| REVENUE FROM NON-EXCHANGE TRANSACTIONS | | | | | | |
| Government of Kenya grants | 1,982,826,411 | (1,397,926,411) | 584,900,000 | 579,856,000 | 5,044,000 | (a) |
| Donor funds | 2,308,400,000 | (887,412,144) | 1,420,987,856 | 468,127,153 | 952,860,703 | |
| REVENUE FROM NON-EXCHANGE TRANSACTIONS | | | | | | |
| Miscellaneous income | 65,600,000 | (11,200,000) | 54,400,000 | 25,417,314 | 28,982,686 | |
| Finance income – external investments | 2,000,000 | - | 2,000,000 | 52,092,307 | (50,092,307) | |
| Total Revenue | 4,358,826,411 | (2,296,538,555) | 2,062,287,856 | 1,125,492,774 | 936,795,082 | |
| EXPENSES | | | | | | |
| Administration expenses | (728,716,763) | 347,146,411 | (381,570,352) | (344,222,993) | (37,347,359) | (b) |
| Project expenses | (3,630,109,648) | 1,949,392,144 | (1,680,717,504) | (571,050,171) | (1,109,667,333) | (c) |
| Total expenses | (4,358,826,411) | 2,296,538,555 | (2,062,287,856) | (915,273,164) | (1,147,852,039) | |
| Surplus for the period | - | - | - | 210,219,610 | (210,219,610) | (d) |

a) WSTF had budgeted to finance projects to the tune of KShs. 1,420,987,856 using development partner funds. This target was however not met because not all of the funds anticipated from development partners were received during the year. The actual amounts received from development partners in the year was KShs. 493,040,344. Project funds held at Central Bank of Kenya amounted to KShs. 1,077,277,821 and have been recognized as cash-in-transit. WSTF's policy is to recognize funds from development partners as income when utilized for project expenditure hence funds disbursed at the end of the year were not recognized as expenditure for the year because the projects had not accounted for the use of these funds. They were recognized as receivables. Total project expenditure for the year amounted to KShs. 571,050,171; of this KShs. 2,923,018 was financed directly by the Government of Kenya (GoK) and Kshs. 468,127,153 by the development partners. GoK made a contribution of KShs. 100,000,000 as counterpart funding to the projects.

b) The favourable variance between budget and actual administrative was a result of efficiency in use of resources hence keeping costs lower than budget. WaterFund intends to keep these costs at low levels so as to free more funds for project financing.

c) The variance between budget and actual project expenses is as a result of factors explained in a) above.

d) The surplus for the year is underutilized funds from the Government of Kenya

NOTES TO THE FINANCIAL STATEMENTS

1. LEGAL STATUS AND OBJECTIVES

The Water Sector Trust Fund (WSTF) is a body corporate established under the Water Act, 2016, Section 113 (1) and the object of the Fund as provided by Section 114 of the Act is to *provide conditional and unconditional grants to counties, in addition to equalisation fund and to assist in financing the development and management of water services in marginalised areas or any area which is considered by the Board of Trustees to be underserved including:-*

- a) community level initiatives for the sustainable management of water resources;
- b) development of water services in rural areas considered not to be commercially viable for provision of water services by licensees;
- c) development of water services in the under-served poor urban areas; and
- d) research activities in the area of water resources management and water services, sewerage and sanitation.

As one of the institutions under the Ministry of Water and Sanitation, WSTF is guided by the Trust Deed of 26 April 2004 executed by the Cabinet Secretary. The Trust Deed is currently under review to align it with the Water Act 2016.

The WSTF is a basket fund through which the government, through appropriations by Parliament, development partners and other funds, channels financial assistance towards the implementation of water, sanitation and water resources projects throughout the country with special emphasis on the poor and marginalized communities.

2. ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) and Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act and the Water Services Trust Deed.

The financial statements are prepared on the historical cost basis of accounting. The principal accounting policies adopted remain unchanged from the previous year are as stated below:

Changes in accounting policy and disclosures

i. New and amended standards adopted by the organisation

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 are covered purely under Public Sector combinations as amalgamations.

The standard did not have effect on WSTF's financial statements.

ii. New standards not yet adopted by the organisation

IPSAS 41, Financial Instruments- Applicable: 1st January 2022. The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:

- Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;
- Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and
- Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.

Notes (continued)

2. ACCOUNTING POLICIES (continued)

IPSAS 42: Social Benefits, Applicable: 1st January 2022

The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:

- (a) The nature of such social benefits provided by the entity;
- (b) The key features of the operation of those social benefit schemes; and
- (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.

There are no other IPSASs interpretations that are not yet effective that would be expected to have a material impact on the Fund's financial statement.

iii. Early adoption of standards

The entity did not early-adopt any new or amended standards in year ended 30 June 2019.

Foreign currency translation

(i) Functional and presentation currency

These financial statements are presented in Kenya Shillings (KShs) which is also the functional currency.

(ii) Transactions and balances

Assets and liabilities denominated in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at the end of reporting period. Transactions during the year are translated at the rates ruling on the transaction dates. Gains or losses on translation are dealt with in the surplus or deficit.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the fund and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognized.

- (i) Government grants are recognized as income when there is reasonable assurance that the grants will be received, and the entity is in compliance with the conditions attached to the grants.
- (ii) Grants from donors are recognized as income when there is reasonable assurance that the grants will be received. The grants are recognized as income on a systematic and rational basis over the period necessary to match them with the related costs.
- (iii) Grants related to depreciable assets are recognized as income over the periods and in the proportions in which depreciation on those assets is charged.
- (iv) Other income comprises of funds other than the grants from the development partners and the Government of Kenya. Other income is recognized when there is reasonable assurance that it will be received.

Notes (continued)

2. ACCOUNTING POLICIES (continued)

Funds received for specific purposes (conditional grants) are treated as unexpended grants and credited to the surplus or deficit when the activities for which they were provided for have been undertaken. Specific grant pledges that have not been received but for which expenditure has been incurred, as well as the excess of expenditure over receipts for specific grants are recognized as revenue and included in the financial statements as grants receivable from donors.

Expenditure

Expenditure comprises expenses incurred directly for programme and administrative activities. These are recognized on the accrual basis.

Inventories

Inventories of consumable items are stated at the lower of cost and net realizable value. Cost comprises the purchase price and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs of selling the item.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Property and equipment donated to the fund or purchased using specified donor funds are recognized as deferred income from capital grants. Donated assets are recorded at a reasonable estimate of their fair value to the fund at the date of receipt as determined by the trustees.

Depreciation

Depreciation is calculated on a straight-line basis to write down the cost of each asset to its residual value over its estimated useful life at the following rates:

| | % per Annum |
|-----------------------|-------------|
| Furniture | 20 |
| Motor vehicles | 25 |
| Computer equipment | 30 |
| Equipment | 25 |
| Fittings and fixtures | 20 |

Gains and losses on disposal of items of equipment are determined by comparing the proceeds to their carrying amounts and are included in the statement of financial performance

Intangible assets

All costs attributable to the purchase of computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortization and accumulated impairment losses. Amortization is calculated on a straight-line basis over the estimated useful lives not exceeding a period of 5 years. It is charged to the surplus or deficit under the expenditure line, amortization of intangible assets.

Impairment of tangible and intangible assets

At end of each reporting period, WaterFund reviews the carrying amounts of its financial assets, tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. Any impairment losses are recognized as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount.

Notes (continued)

2. ACCOUNTING POLICIES (continued)

Deferred income

Grants received for the purchase of fixed assets or donated assets are recognized as deferred income and transferred to the surplus or deficit over the expected useful lives of the respective assets. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue in relation to any other income received out of the ordinary course of business.

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 WaterFund. 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.

Taxation

Water Sector Trust Fund is exempt from income tax under the First Schedule, paragraph 10 of the Income Tax Act. As a result, no provision for taxation has been made in these financial statements.

Cash and cash equivalents

For the purposes of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less, and bank overdrafts.

Provisions

Provisions are recognized when WaterFund 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 WaterFund 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

WaterFund 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

WaterFund 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 WaterFund in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.

If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

Notes (continued)

2. ACCOUNTING POLICIES (continued)

Employee benefits

Employee benefits are all forms of consideration given by WaterFund in exchange for the services rendered by all employees. Employee benefits include:

- Short-term employee benefits (such as wages, salaries and paid leave) and non-monetary benefits (such as medical care) for current employees;
 - Post-employment benefits such as gratuity and accrued leave pay.
- i. Short-term employee benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Employee benefits (continued)

- ii. Other post-employment benefits
Employees on three-year employment contracts are entitled to service gratuity at 31% of their annual salary. Service gratuity and outstanding leave days are recognized when they accrue to employees. A provision is made for the estimated liability for services rendered by employees up to end of the reporting period. The estimated monetary liability for employees' accrued leave and service gratuity entitlements at the end of reporting period is recognized as an expense accrual. Service gratuity is paid at the end of the employment contract.

Provisions are also made in respect of outstanding leave days accruing to staff at the end of the year.

Financial Instruments

Financial assets and liabilities are recognized in WaterFund's statement of financial position when WaterFund has become a party to the contractual provisions of the instrument. Specific accounting policies are adopted by WaterFund, key financial instruments outstanding at the end of the reporting period are summarized below.

Financial assets

Receivables

Receivables are initially recognized at fair value and subsequently carried at anticipated realizable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the end of the reporting period. Bad debts are written off when all reasonable steps to recover them have failed.

Payables

Payables are not interest bearing and are stated at their nominal value.

Impairment of financial assets

The Fund assesses at each reporting period end whether there is objective evidence that a financial asset (or group of financial assets) is impaired. Impairment losses are recognized if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, and that those events have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Financial liabilities

After initial recognition, WaterFund measures all financial liabilities other than liabilities held for trading at amortized cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

Notes (continued)

2. ACCOUNTING POLICIES (continued)

De-recognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where WaterFund has transferred substantially all risks and rewards of ownership.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING WATERFUND'S ACCOUNTING POLICIES

In the process of applying WaterFund's accounting policies, management has made estimates and assumptions that affect the WaterFund. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future funding that are believed to be reasonable under the circumstances. The key areas of judgment in applying the Trust's accounting policies are dealt with below:

i. Critical judgments in applying WaterFund's accounting policies

The Trustees makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in section (ii) below.

ii. Key sources of estimation uncertainty

The following are key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Property and equipment

Critical estimates are made by the trustees in determining depreciation rates of property and equipment.

Intangible assets

Critical estimates are made by the trustees in determining amortization rates of intangible assets.

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 30 June 2019.

Changes in accounting policies

There was no change in accounting policies during the year ended 30 June 2019.

Notes (continued)

4. GOVERNMENT OF KENYA GRANTS

The Fund as currently set up, receives grants from the Government of Kenya for two purposes:

- (i) Disbursements to various community water projects (development) throughout Kenya.
- (ii) Operational (recurrent) needs.

During the year, the split for the two functions was as follows:

| | 2019 | 2018 |
|---|--------------------|--------------------|
| | KShs | KShs |
| Development | 414,956,000 | 351,594,000 |
| Recurrent | 164,900,000 | 27,000,000 |
| | <u>579,856,000</u> | <u>378,594,000</u> |
| Government of Kenya – Income recognized from deferred grants | | |
| GoK priority project – Ijara (note 18) | - | 94,750,800 |
| | <u>579,856,000</u> | <u>473,344,800</u> |

5. RESTRICTED DONOR FUNDS

WaterFund received restricted donations from several development partners. The grants are recognized as income on a systematic and rational basis over the period necessary to match them with the related project costs. Details of the donor funds are tabulated below:

| | 2019 | 2018 |
|---|--------------------|----------------------|
| | KShs | KShs |
| Government of Sweden | - | 29,081,309 |
| United Nations International Children Emergency Fund (UNICEF) | 1,744,009 | - |
| European Union | 144,177,607 | 80,322,518 |
| Government of Germany – K/W/BMGF | 73,960,418 | 235,318,950 |
| Government of Finland – GoF | - | 84,669,912 |
| Government of Denmark | 56,967,655 | 201,303,267 |
| International Fund for Agricultural Development - IFAD | 64,800,390 | 173,362,959 |
| World Bank | 40,693,881 | 125,898,689 |
| Sweden/Finland – J6P | 85,783,193 | 299,466,052 |
| Total (Note 17) | <u>468,127,153</u> | <u>1,229,423,656</u> |

Notes (continued)

6. MISCELLANEOUS INCOME

| | 2019 | 2018 |
|---|--------------------------|--------------------------|
| | KShs | KShs |
| Management fee earned on disbursement to some projects* | 19,903,522 | 30,925,425 |
| Deferred income recognized (note 18) | 5,464,723 | 4,649,188 |
| Other income ** | 16,585 | 521,195 |
| Net gain on disposals of assets | 32,484 | - |
| | <u>25,417,314</u> | <u>36,095,808</u> |

*Management fee represents the administration cost recovered as a percentage of funds disbursed to projects as per the respective donor agreements currently at 5% of funds disbursed. Currently only four donor agreements provide for the management fees. Management fee earned from the development partners is as tabulated below:

** Other income relates to fees charged to insurance policy providers for administration of insurance policies held by the staff in which WaterFund deducts and remits the premium to the insurance companies. In 2017/2018 it also included the sale of obsolete inventory.

| | 2019 | 2018 |
|----------------------|--------------------------|--------------------------|
| | KShs | KShs |
| DANIDA – MTAP II | 2,199,717 | 4,069,794 |
| European Union (EU) | 4,484,239 | 4,710,569 |
| Sweden/Finland – J6P | 9,252,025 | 20,917,711 |
| DANIDA - GGEP | 3,967,541 | 1,227,351 |
| | <u>19,903,522</u> | <u>30,925,425</u> |

7. FINANCE INCOME

| | 2019 | 2018 |
|---------------|-------------|-------------|
| | KShs | KShs |
| Bank interest | 52,092,307 | 44,623,676 |

This relates to interest earned on interest bearing current account balances.

8. STAFF COSTS

| | | |
|-------------------------|---------------------------|---------------------------|
| Salaries and wages | 144,018,894 | 128,977,656 |
| Staff gratuity | 28,450,849 | 23,716,841 |
| Staff training expenses | 11,821,355 | 8,947,161 |
| NSSF contribution | 170,200 | 719,800 |
| Other staff expenses | 6,030,350 | 4,747,761 |
| | <u>190,491,648</u> | <u>167,109,219</u> |

Notes (continued)

9. ADMINISTRATION EXPENSES

| | 2019 | 2018 |
|--|-------------------|-------------------|
| | KShs | KShs |
| (a) Remuneration of trustees | | |
| Chairman's Honoraria | 400,000 | 762,667 |
| Trustee emoluments | 6,060,000 | 9,100,000 |
| Other allowances | 16,049,915 | 24,043,651 |
| Total | 22,509,915 | 33,906,318 |
| | | |
| | 2019 | 2018 |
| | KShs | KShs |
| (b) Repairs and maintenance | | |
| Furniture and fittings | 188,105 | 230,140 |
| Total | 188,105 | 230,140 |
| | | |
| | 2019 | 2018 |
| | KShs | KShs |
| (c) Depreciation and amortization expense | | |
| Property, plant and equipment | 13,890,804 | 14,555,166 |
| Intangible assets | 1,652,886 | 1,666,699 |
| Total | 15,543,690 | 16,221,865 |

Notes (continued)

9. ADMINISTRATION EXPENSES (continued)

| | 2019 | 2018 |
|--|--------------------|--------------------|
| | KShs | KShs |
| (d) General expenses | | |
| Communications expenses | 4,711,897 | 3,954,609 |
| Printing and stationery | 1,437,779 | 1,697,785 |
| Resource centre expenses | 237,160 | 340,520 |
| Traveling and accommodation | 12,943,588 | 14,649,484 |
| Motor vehicle expenses | 13,042,604 | 11,977,575 |
| Computer expenses | 3,810,237 | 2,707,107 |
| Consultancy and professional fees | 3,293,740 | 8,910,986 |
| Audit fees | 23,675,555 | 6,668,297 |
| Resource Mobilization expenses | 3,310,217 | 2,913,251 |
| Planning | 4,792,952 | 2,942,071 |
| Advocacy | 10,492,984 | 6,469,939 |
| Office running expenses | 3,853,202 | 4,633,579 |
| Insurance | 12,257,192 | 11,304,418 |
| Office rent & land rates | 19,642,335 | 18,033,420 |
| Bank charges | 344,853 | 255,359 |
| Movement in provision for bad and doubtful debts (note 14) | (2,356,660) | 7,635,029 |
| Kenya Water Week | - | 4,648,863 |
| Total | 115,489,635 | 109,742,292 |

Notes (continued)

10. PROJECT EXPENSES

These are funds utilized in various water and sanitation and water resources projects in various counties. The funds are disbursed to Water Utilities (WUs), Community Based Organisations (CBOs), Community Forest Associations (CFAs), Water Service Providers (WSPs), Water Resources Authority (WRAs) and Water Resources Users Associations (WRUAs) in line with proposals received and approved in accordance with documented processes of funding the rural and urban investments projects.

| | 2019 | 2018 |
|--|--------------------|----------------------|
| | KShs | KShs |
| Rural Programme | | |
| Water and Sanitation | 313,203,025 | 635,677,920 |
| Water Resources | 108,525,821 | 275,029,397 |
| Water Sanitation and Hygiene (WASH) | 1,744,009 | 1,498,700 |
| Note 17 (b) | 423,472,854 | 912,206,017 |
| Water and Sanitation – Direct funding from GOK | - | 94,750,800 |
| Total – Rural Programme | 423,472,854 | 1,006,956,817 |
| Urban Programme | | |
| Water and Sanitation | 48,080,046 | 229,608,477 |
| Up-scaling Basic Sanitation for the Urban Poor (UBSUP)- Bill & Melinda Gates Foundation (BMGF) | 55,880,372 | 32,710,474 |
| OBA (World Bank) | 40,693,881 | 125,898,688 |
| Note 17(a) | 144,654,299 | 388,217,639 |
| Water and Sanitation – Direct funding from GOK | 2,923,018 | 1,756,795 |
| Total – Urban Programme | 147,577,317 | 389,974,434 |
| Total project expenses* | 571,050,171 | 1,396,931,251 |

*Included in the amount of Kshs 571,050,171 above is an amount of Kshs 5,424,187 (2018 - Kshs 16,848,188) that relates to questioned costs arising from the audits of project implementing organizations. These costs are being dealt with legally and administratively.

Project expenditure is funded by development partners and the Government of Kenya funds. The split of funding is as below:

| | 2019 | 2018 |
|---|--------------------|----------------------|
| | KShs | KShs |
| Development partners' funds (notes 5 and 17) | 468,127,153 | 1,229,423,656 |
| Government of Kenya counterpart – urban (note 17 a) | 30,000,000 | 27,000,000 |
| Government of Kenya counterpart – rural (note 17 b) | 70,000,000 | 44,000,000 |
| Water and Sanitation – Direct funding from GOK | 2,923,018 | 96,507,595 |
| | 571,050,171 | 1,396,931,251 |

Notes (continued)

11. PROPERTY AND EQUIPMENT

| | Furniture KShs | Motor Vehicle KShs | Computer Equipment KShs | Office Equipment KShs | Fixtures and Fittings KShs | Total KShs |
|--------------------------------------|-------------------|-----------------------|-------------------------------|-----------------------------|----------------------------------|--------------------|
| COST | | | | | | |
| At 1 July 2017-Not Fully Depreciated | 3,389,506 | 33,958,486 | 9,571,691 | 3,466,768 | 6,949,291 | 57,335,742 |
| At 1 July 2017-Fully depreciated | 2,885,801 | 18,431,673 | 5,765,188 | 1,771,041 | 8,366,234 | 37,219,937 |
| Additions | - | - | 2,036,800 | 835,200 | - | 2,872,000 |
| At 30 June 2018 | 6,275,307 | 52,390,159 | 17,373,679 | 6,073,009 | 15,315,525 | 97,427,679 |
| At 1 July 2018-Not Fully Depreciated | 3,389,506 | 33,958,486 | 11,608,491 | 4,301,968 | 6,949,291 | 60,207,742 |
| At 1 July 2018-Fully depreciated | 2,885,801 | 18,431,673 | 5,765,188 | 1,771,041 | 8,366,234 | 37,219,937 |
| Additions | - | 5,420,000 | 3,084,000 | 100,000 | - | 8,604,000 |
| Disposal | - | - | (132,876) | - | - | (132,876) |
| At 30 June 2019 | 6,275,307 | 57,810,159 | 20,324,803 | 6,173,009 | 15,315,525 | 105,898,803 |
| DEPRECIATION | | | | | | |
| At 1 July 2017 | 4,084,679 | 36,259,179 | 9,757,753 | 3,700,785 | 10,650,335 | 64,452,731 |
| Charge for the year | 674,041 | 8,489,622 | 3,023,175 | 978,468 | 1,389,860 | 14,555,166 |
| At 30 June 2018 | 4,758,720 | 44,748,801 | 12,780,928 | 4,679,253 | 12,040,195 | 79,007,897 |
| At 1 July 2018 | 4,758,720 | 44,748,801 | 12,780,928 | 4,679,253 | 12,040,195 | 79,007,897 |
| Charge for the year | 672,335 | 8,045,520 | 2,969,970 | 813,127 | 1,389,852 | 13,890,804 |
| Disposal | - | - | (106,304) | - | - | (106,304) |
| At 30 June 2019 | 5,431,055 | 52,794,321 | 15,644,594 | 5,492,380 | 13,430,047 | 92,792,397 |
| NET BOOK VALUE | | | | | | |
| At 30 June 2019 | 844,252 | 5,015,838 | 4,680,209 | 680,629 | 1,885,478 | 13,106,406 |
| At 30 June 2018 | 1,516,587 | 7,641,358 | 4,592,751 | 1,393,756 | 3,275,330 | 18,419,782 |

Notes (continued)

12. INTANGIBLE ASSETS

| | SAP Kshs | UPCIS Kshs | Q-PULSE Kshs | PMIS Software Kshs | Total Kshs |
|------------------------------------|------------------|-------------------|-----------------|-----------------------|-------------------|
| COST | | | | | |
| At 1 July 2017-Not fully amortized | 414,364 | - | - | 8,264,427 | 8,678,791 |
| At 1 July 2017-Fully amortized | 3,335,028 | 12,729,739 | 588,312 | - | 16,653,079 |
| At 30 June 2018 | 3,749,392 | 12,729,739 | 588,312 | 8,264,427 | 25,331,870 |
| At 1 July 2018-Not fully amortized | 414,364 | - | - | 8,264,427 | 8,678,791 |
| At 1 July 2018-Fully amortized | 3,335,028 | 12,729,739 | 588,312 | - | 16,653,079 |
| At 30 June 2019 | 3,749,392 | 12,729,739 | 588,312 | 8,264,427 | 25,331,870 |
| AMORTIZATION | | | | | |
| At 1 July 2017 | 3,735,576 | 12,729,739 | 588,312 | 1,377,402 | 18,431,029 |
| Charge for the year | 13,816 | - | - | 1,652,885 | 1,666,701 |
| At 30 June 2018 | 3,749,392 | 12,729,739 | 588,312 | 3,030,287 | 20,097,730 |
| At 1 July 2018 | 3,749,392 | 12,729,739 | 588,312 | 3,030,287 | 20,097,730 |
| Charge for the year | - | - | - | 1,652,886 | 1,652,886 |
| At 30 June 2019 | 3,749,392 | 12,729,739 | 588,312 | 4,683,173 | 21,750,616 |
| CARRYING VALUE | | | | | |
| At 30 June 2019 | - | - | - | 3,581,254 | 3,581,254 |
| At 30 June 2018 | - | - | - | 5,234,140 | 5,234,140 |

Notes (continued)

13. INVENTORIES

| | 2019 | 2018 |
|-------------------|-------------|-------------|
| | KShs | KShs |
| Office stationery | 480,850 | 158,937 |

WaterFund purchased various stationery items. As at the end of the reporting period, the balance of stock at hand is recognised as inventories.

14. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

| | 2019 | 2018 |
|---|---------------------------|---------------------------|
| | KShs | KShs |
| Project receivables – Urban Investments | 44,018,773 | 55,094,383 |
| - Rural Investments | 290,365,460 | 138,697,442 |
| Prepayments | 9,376,167 | 9,259,726 |
| Staff receivables | 4,592,200 | 3,915,458 |
| Other Trade Debtors | 4,829,915 | 3,177,264 |
| Provision for Bad Debts | (17,860,630) | (20,217,290) |
| | <u>335,321,885</u> | <u>189,926,983</u> |

- Urban project receivables relate to unaccounted for disbursements by the Water Service Providers carrying out the implementation of the Urban investments.
- Rural project receivables relate to unaccounted for funds by various partners under the Rural investments. The project disbursements are expected to be accounted for within one year.
- Staff receivables represent funds given to staff as imprest but not accounted for.

Movements on the provision for impairment of receivables are as follows:

| | 2019 | 2018 |
|---------------------------------|--------------------------|--------------------------|
| | KShs | KShs |
| At start of year | 20,217,290 | 12,582,261 |
| Provision in the year | 6,447,015 | 12,972,217 |
| Amounts recovered/accounted for | (8,803,675) | (5,337,188) |
| At end of year | <u>17,860,630</u> | <u>20,217,290</u> |

Notes (continued)

15. CASH AND CASH EQUIVALENTS

| | 2019 KShs | 2018 KShs |
|--|-----------------------------|-----------------------------|
| National Bank of Kenya Limited – Recurrent | 22,434 | 26,407 |
| National Bank of Kenya Limited – OBA | 922,473 | 6,214,954 |
| National Bank of Kenya Limited – OBA II | 72,243,904 | 42,760,374 |
| Kenya Commercial Bank Limited – Recurrent | 148,707,815 | 27,623,369 |
| Short Term Deposits – Kenya Commercial Bank | 275,699,623 | 351,854,805 |
| NIC KFW PHASE Kshs | 187,234,371 | 175,424,871 |
| NIC KFW PHASE EURO | 9,629,670 | 9,675,340 |
| NIC BMGF KShs | 99,350,519 | 156,063,452 |
| NIC BMGF USD | 8,472,099 | 8,296,931 |
| National Bank of Kenya – IFAD | 16,405,636 | 20,043,528 |
| Kenya Commercial Bank-STAFF | 109,177,953 | 50,334,745 |
| NIC Bank Limited-MTAP II | 1,010 | 8,161,240 |
| NIC Bank – EU SHARE | 26,853,621 | 707,882,991 |
| NIC Bank – GGEP | 81,665,768 | 76,250,786 |
| Kenya Commercial Bank Limited – Sweden/Finland (J6P) | 84,690,815 | 264,201,794 |
| Cash on hand* | 244,369 | 119,092 |
| Cash in transit** | 1,077,277,820 | 185,172,473 |
| | <u>2,198,599,900</u> | <u>2,090,107,152</u> |

*Cash on hand includes amounts received from staff after surrender of imprest totalling to KShs 242,369. The balance as at 30 June 2019 represents the amounts that had not yet been deposited in the bank.

** Cash in transit represents funds released by the donors, but at year end were still held in project designated bank accounts at the Central Bank of Kenya. These funds had not reflected in WSTF's account as at 30 June 2019.

16. ACCUMULATED SURPLUS

This is composed of the excess of revenue over expenditure relating to funds that have no conditions attached to them. It forms the pool from which future expenses will be drawn. The movement is shown below:

| | 2019 KShs | 2018 KShs |
|------------------------------------|---------------------------|---------------------------|
| Opening accumulated surplus | 546,002,391 | 486,655,536 |
| Deficit for the year | 210,219,610 | 59,346,855 |
| Closing accumulated surplus | <u>756,222,001</u> | <u>546,002,391</u> |

Notes (continued)

17. UNEXPENDED GRANTS

| | 2019 | 2018 |
|---------------------------------------|-----------------------------|-----------------------------|
| | KShs | KShs |
| Unexpended grants – Urban Investments | 233,639,337 | 287,510,417 |
| Unexpended grants – Rural Investments | 1,195,641,248 | 1,104,828,577 |
| | <u>1,429,280,585</u> | <u>1,392,338,994</u> |

The unexpended grants movement for each investment is presented below:

(a) Unexpended Grants - Urban investments

| | Government of Germany- KfW/BMFG | World Bank | Total |
|--|--|--------------------|--------------------|
| As at 1 July 2017 | 36,830,597 | 37,079,636 | 73,910,233 |
| Funds received from development partners | 412,693,928 | 162,123,895 | 574,817,823 |
| GoK Counterpart funding | 27,000,000 | - | 27,000,000 |
| Total project Expenditure | (262,318,950) | (125,898,689) | (388,217,639) |
| As at 30 June 2018 | 214,205,575 | 73,304,842 | 287,510,417 |
| As at 1 July 2018 | 214,205,575 | 73,304,842 | 287,510,417 |
| Prior period adjustment - KfW Audit | 12,028,400 | | 12,028,400 |
| Funds received from development partners | - | 48,754,819 | 48,754,819 |
| GoK Counterpart funding | 30,000,000 | - | 30,000,000 |
| Total project Expenditure | (103,960,418) | (40,693,881) | (127,405,899) |
| As at 30 June 2019 | 152,273,557 | 81,365,780 | 233,639,337 |
| Donor income recognized in the year (note 5) - Total project expenditure less GoK counterpart funding | | | |
| 2019 | 73,960,418 | 40,693,881 | 114,654,299 |
| 2018 | 235,318,950 | 125,898,689 | 361,217,639 |

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Notes (continued)

(b) UNEXPENDED GRANTS (Rural investments)

| | Government of Sweden | GoK/UNICEF | Government of Finland-GoF | Sweden/Finland - J6P | European Union-EU (Rural) | Government of Denmark | IFAD | Total |
|--|----------------------|-------------------|---------------------------|----------------------|---------------------------|-----------------------|-------------------|----------------------|
| As at 1 July 2017 | 290,464,815 | 20,537,131 | 114,596,789 | - | 190,807,340 | 145,443,572 | 44,306,307 | 806,155,954 |
| Funds received from development partners | - | - | - | 340,959,656 | 648,447,173 | - | 177,471,811 | 1,166,878,640 |
| GoK Counterpart funding | - | - | - | 44,000,000 | - | - | - | 44,000,000 |
| Total project Expenditure (29,081,309) | (29,081,309) | - | (84,669,912) | (343,466,052) | (80,322,518) | (201,303,267) | (173,362,959) | (912,206,017) |
| As at 30 June 2018 | 261,383,506 | 20,537,131 | 29,926,877 | 41,493,604 | 758,931,995 | *(55,859,695) | 48,415,159 | 1,104,828,577 |
| As at 1 July 2018 | 261,383,506 | 20,537,131 | 29,926,877 | 41,493,604 | 758,931,995 | *(55,859,695) | 48,415,159 | 1,104,828,577 |
| Adjustment for money returned to CBK | - | - | - | (648,447,173) | - | - | - | - |
| Funds received from development partners | 171,239,906 | - | - | - | 671,472,355 | 170,000,000 | 80,020,437 | 444,285,525 |
| GoK Counterpart funding | - | - | - | 70,000,000 | - | - | - | 70,000,000 |
| Total project Expenditure | - | (1,744,009) | - | (155,783,193) | (144,177,607) | (56,967,655) | (64,800,390) | (423,472,854) |
| As at 30 June 2019 | 432,623,412 | 18,793,122 | 29,926,877 | *(44,289,589) | 637,779,570 | 57,172,650 | 63,635,206 | 1,195,641,248 |
| Donor income recognized in the year (note 5) - Total project expenditure less GoK counterpart funding | | | | | | | | |
| 2019 | - | 1,744,009 | - | 85,783,193 | 144,177,607 | 56,967,655 | 64,800,390 | 353,472,854 |
| 2018 | 29,081,309 | - | 84,669,912 | 299,466,052 | 80,322,518 | 201,303,267 | 173,362,959 | 868,206,017 |

*** The amount of Kshs 44,289,589 (2018: Kshs 55,859,695) represents amounts recoverable from Government of Sweden and Finland (2018: Government of Denmark) Programmes' bank accounts.

Notes (continued)

18. DEFERRED INCOME FROM CAPITAL GRANTS

| | 2019 | 2018 |
|---|--------------------|--------------------|
| | KShs | KShs |
| As at 1 July | 264,694,939 | 364,094,927 |
| Received during the year | 5,580,000 | - |
| Transfer to income (note 4)- expensed | - | (94,750,800) |
| Transfer to income (note 6) - depreciated | (5,464,723) | (4,649,188) |
| As at 30 June | 264,810,216 | 264,694,939 |
| Current | 5,580,000 | 259,898,426 |
| Non – current | 259,230,216 | 4,796,513 |
| As at 30 June | 264,810,216 | 264,694,939 |

The portion transferred to income represents depreciation charge for 12 months at the year-end on the donated assets during the year and expenditure incurred on GoK priority project (Ijara Water Project) (2018).

19. STAFF GRATUITY

| | 2019 | 2018 |
|------------------------|-------------------|-------------------|
| | KShs | KShs |
| At start of year | 34,486,742 | 37,981,391 |
| Provision for the year | 28,450,848 | 16,160,152 |
| Paid during the year | (31,340,076) | (19,654,801) |
| As at 30 June | 31,597,514 | 34,486,742 |
| Current | 25,372,080 | 26,484,764 |
| Non-current | 6,225,434 | 8,001,978 |
| As at 30 June | 31,597,514 | 34,486,742 |

This refers to the estimated monetary liability for contractual employees' accrued service gratuity entitlement at the end of the reporting period. Gratuity is accrued at the rate of 31% of annual basic salary. The current portion is payable within one year.

Notes (continued)

20. TRADE AND OTHER PAYABLES

| | 2019 | 2018 |
|--------------------------|--------------------------|--------------------------|
| | KShs | KShs |
| Trade payables | 57,115,350 | 56,445,617 |
| Staff leave accrual | 3,920,539 | 2,278,905 |
| Withholding tax payable | 6,416,890 | 5,451,476 |
| Salaries payables - CRMs | 1,727,199 | 2,147,930 |
| | <u>69,179,978</u> | <u>66,323,928</u> |

21. COMMITMENTS

Capital Assets Commitments

The Fund had capital commitments in the current year as follows.

| | 2019 | 2018 |
|----------|-------------|-------------|
| | KShs | KShs |
| Budgeted | 26,100,000 | 5,091,000 |

Project commitments

The Fund had committed to fund projects to the tune of KShs. 3,923 Million (2018: KShs 1,985 Million) for subsequent disbursement requests which become due on the submission of acceptable financial and progress reports. As at the end of reporting period, the projects were at different stages of implementation. This amount is expected to fall due during the next financial year.

The project commitments are as follows:

| | 2019 | 2018 |
|------------------------------|-----------------------------|-----------------------------|
| | KShs | KShs |
| Water and sanitation – Rural | 1,948,016,056 | 926,160,000 |
| Water Resources | 451,092,764 | 400,390,000 |
| Water and sanitation - Urban | 1,524,000,000 | 658,900,000 |
| | <u>3,923,108,820</u> | <u>1,985,450,000</u> |

Notes (continued)

22. OPERATING LEASE ARRANGEMENTS

| | 2019 | 2018 |
|---|-------------|-------------|
| | KShs | KShs |
| Minimum lease payments under operating leases recognized through Statement of financial performance | 19,642,335 | 18,033,421 |

At the end of the reporting period, WaterFund had outstanding commitments under operating leases, payable as follows:

| | 2019 | 2018 |
|--|--------------------------|--------------------------|
| | KShs | KShs |
| Within one year | 21,239,451 | 19,485,735 |
| In the second to fifth years inclusive | 10,149,983 | 31,389,434 |
| | <u>31,389,434</u> | <u>50,875,169</u> |

Operating lease payments represent rentals payable by WaterFund for its office premises. The lease will expire in March 2021.

23. RELATED PARTY TRANSACTIONS

- i) Key management compensation

The remuneration of Trustees and other members of key management during the year were as follows:

| | 2019 | 2018 |
|--|--------------------------|--------------------------|
| | KShs | KShs |
| Salaries and other short-term benefits | 24,324,406 | 23,090,449 |
| Gratuity | 3,013,380 | 6,676,722 |
| NSSF | 11,400 | 11,000 |
| | <u>27,349,186</u> | <u>29,778,171</u> |
| Trustees emoluments | 6,460,000 | 9,100,000 |
| Other emoluments (included in key management compensation above) | 7,002,056 | 6,468,408 |

- ii) WSTF is a State Corporation. Funds received from the Government of Kenya are disclosed under note 4.

24. CONTINGENT LIABILITIES

The claim on WaterFund from ongoing legal cases was as follows:

- i) Rosaita Ngina Mbukua vs WSTF. This is an employment legal claim for unfair termination. The claim sought is Kshs 14,061,998 in terminal dues and/or damages for unfair/unlawful termination and costs to the suit.

However, WaterFund's lawyers estimate that the contingent liability may not exceed Kshs 3,187,667.

Based on the information currently available and legal advice by WaterFund's contracted lawyers, the Trustees believe that the ultimate resolution of these legal proceedings is not expected to result into a material effect on the results of WaterFund's operations, financial position or liquidity.

Notes (continued)

25. FINANCIAL RISK MANAGEMENT POLICIES

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

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in note 2 to the financial statements.

(b) Financial risk management objectives

WaterFund's activities expose it to a variety of financial risks including credit and liquidity risks and the effects of changes in foreign currency. The fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. In the current year the management met and drafted a risk management manual that will guide in the management of the risks affecting the fund.

(c) Credit risk

WaterFund's credit risk is primarily attributable to its liquid funds with financial institutions, staff receivables as well as funds advanced to projects. The credit risk on the liquid funds with financial institutions is low because the counter parties are banks with high credit-ratings. The financial assets are fully performing as the fund continues to enjoy the services secured by these balances. The default rate is low.

The amount that best represents the Fund's maximum exposure to credit as at 30 June is made up as follows:

| | Fully performing KShs | Past due KShs | Impaired KShs | Total KShs |
|-------------------------------------|-----------------------------|---------------------|------------------|----------------------|
| At 30 June 2019 | | | | |
| Cash at bank | 1,121,077,710 | - | - | 1,121,077,710 |
| Project receivables | 316,523,603 | 17,860,630 | - | 334,384,233 |
| Staff receivables | 4,269,524 | 322,676 | - | 4,592,200 |
| Prepayments and other trade debtors | 14,206,082 | - | - | 14,206,082 |
| | <u>1,456,076,919</u> | <u>18,183,306</u> | <u>-</u> | <u>1,474,260,225</u> |
| At 30 June 2018 | | | | |
| Cash at bank | 1,904,815,588 | - | - | 1,904,815,588 |
| Project receivables | 173,915,940 | 20,217,290 | - | 194,133,230 |
| Staff receivables | 3,592,782 | 322,676 | - | 3,915,458 |
| Prepayments and other trade debtors | 12,436,990 | - | - | 12,436,990 |
| | <u>2,094,761,300</u> | <u>20,539,966</u> | <u>-</u> | <u>2,115,301,266</u> |

Notes (continued)

25. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(d) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the trustees, who have built an appropriate liquidity risk management framework for the management of WaterFund's short, medium and long-term funding and liquidity management requirements. The WaterFund manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows and developing a risk management policy manual to guide in risk assessment and management in the fund.

The table below analyses the WaterFund's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at year end to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows as the impact of discounting is not significant.

| | Less than 1 month KShs | Between 1-3months KShs | Over 3 Months KShs | Total KShs |
|--------------------------|---------------------------------------|---------------------------------------|-----------------------------------|-----------------------|
| At 30 June 2019 | | | | |
| Trade payables | 57,115,530 | - | - | 57,115,530 |
| Withholding tax payable | 6,416,890 | - | - | 6,416,890 |
| Salaries payables - CRMs | 1,727,199 | - | - | 1,727,199 |
| Staff leave | - | 3,920,539 | - | 3,920,539 |
| Staff gratuity | - | - | 31,597,514 | 31,597,514 |
| Deferred income | - | - | 264,810,216 | 264,810,216 |
| | <u>65,259,619</u> | <u>3,920,539</u> | <u>296,407,730</u> | <u>365,587,888</u> |
| At 30 June 2018 | | | | |
| Trade payables | 56,445,616 | - | - | 56,445,616 |
| Withholding tax payable | 5,451,476 | - | - | 5,451,476 |
| Salaries payables CRMs | 2,147,930 | - | - | 2,147,930 |
| Staff leave | - | 2,278,905 | - | 2,278,905 |
| Staff gratuity | - | - | 34,486,742 | 34,486,742 |
| Deferred income | - | - | 264,694,939 | 264,694,939 |
| | <u>64,045,022</u> | <u>2,278,905</u> | <u>299,181,681</u> | <u>365,505,608</u> |

(e) Market risk management

WaterFund takes on exposure to market risk, which is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the fund's surplus or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. Monitoring of market risk is done by management in conjunction with the Board of Trustees. Market risk exposures are measured by the use of sensitivity analyses. The market risk exposure for the Fund relates primarily to currency risk.

Currency Risk

The fund undertakes certain transactions denominated in foreign currencies mainly the USD and Euro. This results in exposures to exchange rate fluctuations. The Fund does not hedge its foreign currency risk.

In light of the above, any adverse movements in exchange rates may result in either exchange gain or loss, with the latter having a negative impact on earnings, as the Fund reports its financial performance in Kenya Shillings.

Notes (continued)

25. FINANCIAL RISK MANAGEMENT POLICIES (continued)

The balances held in foreign currency as at the end of the year were as follows:

| Foreign currency Denominated Balances | 2019 | 2018 |
|--|---------------|---------------|
| | EURO | EURO |
| Kenya Commercial Bank - GOF Euro | - | - |
| NIC Bank - KfW Phase II Euro | 82,796 | 82,796 |
| | <u>82,796</u> | <u>82,796</u> |
| | USD | USD |
| NIC Bank – KfW USD | 82,818 | 82,107 |

26. CAPITAL RISK MANAGEMENT

WaterFund manages its funds to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and fund balance.

The capital structure of the WaterFund consists of revenue reserves and the Fund was not geared as at 30 June 2019 and 30 June 2018.

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APPENDICES

Appendix 1 – Inter-entity transfers

The table below shows funds received during the year from the Government of Kenya and Development Partners.

| | | | | |
|----|--------------------|----------------------------|----------------------|---|
| a. | Recurrent Grants | | | |
| | | <u>Bank Statement Date</u> | <u>Amount (Kshs)</u> | |
| | GOK | 05.09.2018 | 14,166,667 | FY 2018/19 |
| | | 06.09.2018 | 14,166,667 | FY 2018/19 |
| | | 03.10.2018 | 14,166,667 | FY 2018/19 |
| | | 02.11.2018 | 13,883,333 | FY 2018/19 |
| | | 03.12.2018 | 13,883,333 | FY 2018/19 |
| | | 24.01.2019 | 13,883,333 | FY 2018/19 |
| | | 12.02.2019 | 13,883,333 | FY 2018/19 |
| | | 05.03.2019 | 13,883,333 | FY 2018/19 |
| | | 04.04.2019 | 4,650,001 | FY 2018/19 |
| | | 17.05.2019 | 14,166,667 | FY 2018/19 |
| | | 04.06.2019 | 17,083,333 | FY 2018/19 |
| | | 27.06.2019 | 17,083,333 | FY 2018/19 |
| | | Total | 164,900,000 | |
| b. | Development Grants | | | |
| | | <u>Bank Statement Date</u> | <u>Amount (Kshs)</u> | |
| | GOK | 03.07.2018 | 36,594,000 | Accrued on 30th June 2018 |
| | GOK | 18.10.2018 | 103,750,000 | |
| | GOK | 28.12.2018 | 103,750,000 | |
| | GOK | 27.06.2019 | 103,750,000 | |
| | GOK | 03.07.2019 | 103,706,000 | Cash in Transit accrued on 30th June 2019 |
| | | Total | 451,550,000 | |
| c. | Direct Payments | | | |
| | | <u>Bank Statement Date</u> | <u>Amount (Kshs)</u> | |
| | NONE | NONE | NONE | |
| d. | Donor Receipts | | | |
| | | <u>Bank Statement Date</u> | <u>Amount (Kshs)</u> | |
| | World Bank | 05.07.2018 | 29,042,490 | Accrued on 30th June 2018 |
| | World Bank | 06.11.2018 | 22,464,247 | |
| | World Bank | 06.02.2019 | 13,199,139 | |
| | World Bank | 09.07.2019 | 13,091,433 | Cash in Transit accrued on 30th June 2019 |
| | | Total | 77,797,309 | |
| | EU SHARE | 12.04.2019 | 51,767,856 | |
| | EU SHARE | 19.06.2019 | 619,704,499 | Cash in Transit accrued on 30th June 2019 |
| | | Total | 671,472,355 | |

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| | <u>Bank Statement Date</u> | <u>Amount (Kshs)</u> | |
|------|----------------------------|----------------------|---|
| IFAD | 15.10.2018 | 391,000 | |
| IFAD | 27.02.2019 | 7,650,000 | |
| IFAD | 15.04.2019 | 36,661,348 | |
| IFAD | 13.06.2019 | 35,318,089 | |
| | Total | 80,020,437 | |
| | | | |
| GGEF | 12.02.2019 | 120,000,000 | |
| | 23.10.2019 | 50,000,000 | Cash in Transit accrued on 30th June 2019 |
| | Total | 170,000,000 | |
| | | | |
| | Total | 1,615,740,101 | |
| | | | |

Appendix 2 – Register of Losses during the year

Section 153 of the PFM (National Government) Regulations, 2015, require the Accounting Officer to maintain a register of all losses incurred by his or her national government entity and attach a list of all losses incurred during that year to the financial statements submitted to the Auditor-General for audit with a copy to the National Treasury.

During the year ended 30 June 2019, there were no losses.

Appendix 3 – Status of implementation of prior audit recommendations

| Ref/ Issue | Finding | Recommendation | Management comments | Responsibility | Status | Timeframe |
|--|---|---|---|---------------------------|--|-----------|
| 3.1.1. Questioned project costs | During the course of rural and urban investments programmes, we identified questioned costs amounting to Kshs 14,383,209 and Kshs 2,464,976 for rural and urban programmes, respectively | WSTF should follow up with the implementing partners for a refund of the questioned costs or justification for costs | Management has contacted the different implementing partners with the findings and is in process of consolidating the supporting documentation for review. Once this is done, any unsupported expenditure will be recovered from each institution with punitive measures instituted in cases where misappropriation is noted | Chief Manager Investments | Open From our review in FY2018/2019, we noted questioned project costs. We noted that some documents were availed for review after the exercise but were found to be inadequate. | 2019/2020 |
| 3.1.2. Failure to post audit adjustments timely | We noted that some adjustments proposed in the prior year's audit had been adjusted for in the signed financial statements but had not been adjusted in the accounting system (SAP). As a result, in the current year we noted variances between the opening trial balances and the prior year signed financial statements. | Management should ensure that all adjustments agreed with the auditors are posted in SAP before finalization of the audit. A post adjustments trial balance should be extracted from the system, cross-referenced with the signed financial statements and signed off by a person of | Management has taken note of the recommendation and in future will ensure that all final adjustments are posted Other adjustments in relation to this finding relates to reserves, impairment losses and unexpended grants. The entries have been posted accordingly | Ag. Chief Manager Finance | Closed We noted that post audit adjustments were posted in SAP in a timely manner. | Resolved |

| Ref/ Issue | Finding | Recommendation | Management comments | Responsibility | Status | Timeframe |
|--|--|---|--|--|---|-----------|
| 3.1.3. Long outstanding project receivable balances | During our review, we noted that there were project receivable balances outstanding for more than one-year totalling to Kshs. 20,217,290 relating to amounts due from project implementing partners. These advances were assessed as doubtful as at 30 June 2018 and provision was created in the financial statements | authority such as the head of finance Management should make a provision for doubtful debts against these amounts and follow up with the concerned implementing partners at project level for subsequent accounting and/or refund of the funds more than project expenditure. If management's follow up reveals that the amounts are not recoverable, a write-off should then be affected, in accordance with the provisions of the PFM Act, 2012. Management may also invite other government agencies like Ethics and Anti-Corruption Commission (EACC) and Directorate of Criminal Investigations (DCI) to investigate cases of suspected corruption practices. | The management has embraced accountability by projects through engagement of all stakeholders in project implementation. The county governments sign contracts as well and provide oversight on use of funds and procurement. The roles of the implementing partner and WSTF are clearly stipulated. WSTF has engaged the services of County Resident Monitors (CRMs) who have a duty to ensure that projects account for funds. | Chief Manager Investments and Programmes and Ag. Chief Manager Finance | Open During our review in FY2018/2019, we noted long outstanding project receivable balances as at 30 June 2019 | 2019/2020 |

| Ref/ Issue | Finding | Recommendation | Management comments | Responsibility | Status | Timeframe |
|--|---|--|---|-------------------|---|-----------|
| 3.1.4 Inconsistencies between the Water Services Trust Deed and the Water Act, 2016 | <p>The Water Sector Trust Fund (formerly Water Services Trust Fund) was initially established under Section 83 of Water Act, 2002 (now repealed). A Trust Deed was made on 26 April 2004 for the purpose of establishing the Trust Fund. We noted that the Trust Deed had not been reviewed or updated since being drawn in 2004, to align it with the changes that have occurred in the Water Sector since 2004, particularly enactment of Water Act, 2016. Due to this, the Trust Deed has several inconsistencies with the subsequent legislations that have been enacted since 2004.</p> <p>Some of the inconsistencies noted are in the following matters:</p> <ul style="list-style-type: none"> • Objectives of the Trust Fund • Powers and functions of the Board • Appointment and composition of the Board | <p>Management should initiate conversations with the Cabinet Secretary in charge of water, with a view of getting him to review the Trust Deed to ensure it is updated and aligned to the provisions of the current laws governing the Water Sector.</p> | <p>WSTF has put measures in place to review the Trust Deed to be in line with the requirements of Water Act 2016 and constitution of Kenya 2010. This will be undertaken in the third of the financial year 2018-19</p> | Board of Trustees | Open From our discussion with the management and the legal team, the view is that the water Act 2016 Supersedes the water Services Trust Deed. However, the Trust deed was not reviewed. | 2019/2020 |
| 3.1.5 Inappropriate board constitution | <p>We noted that there were 13 Board of Trustee members during the year all appointed by the Cabinet Secretary, Ministry of Water and Sanitation. Three (3) of the members served until April 2018. As at year end, the board of trustees was made up of the Chairman and 10 members which was four (4) members more than the number stipulated in the Water Act 2016.</p> <p>We further noted the Board composition did not meet the two-third gender rule as stipulated in Chapter 4 - The Bill of Rights of the Constitution of Kenya 2010.</p> | <p>WSTF management should advise the appointing authority, Cabinet Secretary for Water and Sanitation, to ensure that the Board is constituted in line with the provisions of the Water Act, 2016.</p> | <p>Management communicated to the appointing authority as per the letter dated 27 Oct 2015 Ref: WSTF/3/HQ/Vol.VIII/13/ (123). The letter notified the appointing authority of the number of members appointed vis-à-vis requirements of the trust deed. The appointing authority communicated to WSTF as per letter dated 12 Nov 2015 Ref: MWI/Vol.VI/ (18) indicating that the matter was noted, and</p> | Board of Trustees | Closed We reviewed the Gazette notice 1250 of 8 Feb 2019 - Water act no 43 of 2016. The confirmation of the 7 members. CEO as the secretary and cabinet secretaries as Ex-Officio members. From the review of the | Resolved |

| Ref/ Issue | Finding | Recommendation | Management comments | Responsibility | Status | Timeframe | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|---|---------------------|----------------|-----------------|-----------|---|-------------------------------------|---------|--|--|----------------|--|----------------------------------|--|--|--------------|---------|---------------------|------------------|---------|---------------------|--------------|---------|---------------------|--|--|--------------------------------------|---|-----------------|
| 3.1.6 Over utilisation of the KfW operating levy | <p>From our review of operating levy utilisation for the Urban Investments, we noted that WSTF had a budget of EUR 404,762 for Phase III of UPC and a brought forward balance of EUR 211,109 which totals to EUR 615,871. WSTF has however reported EUR 937,041 as expenditure under the operating levy budget line as at 30 June 2018 resulting in an over utilisation of EUR 418,318. See the table below for the detailed analysis.</p> <table border="1"> <thead> <tr> <th>Description</th> <th>Amount €</th> <th>Details</th> </tr> </thead> <tbody> <tr> <td>Opening Balance</td> <td>211,109</td> <td>Relate to phase II of the Programme. Agreed to Dec 2014 signed FS and client communication</td> </tr> <tr> <td>Phase III operating levy allocation</td> <td>404,762</td> <td>Agreed to phase 3 grant agreement i.e. 5% of overall budget of 8.5 million</td> </tr> <tr> <td>Available budget for operating levy</td> <td>615,871</td> <td></td> </tr> <tr> <td colspan="3">Less expenditure to date:</td> </tr> <tr> <td>30 June 2015</td> <td>192,600</td> <td>Agreed to signed FS</td> </tr> <tr> <td>31 December 2015</td> <td>177,108</td> <td>Agreed to signed FS</td> </tr> <tr> <td>30 June 2016</td> <td>167,734</td> <td>Agreed to signed FS</td> </tr> </tbody> </table> | Description | Amount € | Details | Opening Balance | 211,109 | Relate to phase II of the Programme. Agreed to Dec 2014 signed FS and client communication | Phase III operating levy allocation | 404,762 | Agreed to phase 3 grant agreement i.e. 5% of overall budget of 8.5 million | Available budget for operating levy | 615,871 | | Less expenditure to date: | | | 30 June 2015 | 192,600 | Agreed to signed FS | 31 December 2015 | 177,108 | Agreed to signed FS | 30 June 2016 | 167,734 | Agreed to signed FS | <p>In future, management should seek prior approval before over utilizing budget lines and for any realignment above the contract limit.</p> | <p>appropriate action would be taken The issue on 2/3 gender rule would also be communicated to the appointing authority for relevant action</p> <p>Management has on several occasions engaged KfW on the operating levy utilisation starting from 2017 when it was noted that it was almost being fully utilized. Justification was provided given that several costs that ideally should be included in the Levy had been captured in the same with the largest being audit costs that cover almost 70% of the levy. Various suggestions on the funding have been discussed with KfW and aim to agree on the same in the next financial year.</p> | <p>Ag. Chief Manager Finance</p> | <p>board information in the financial statements shared with the ministry, this information is consistent.</p> <p>Closed We reviewed the subsequent communication with the ministry and the matter was duly handled by the ministry. WSTF proposed settling the over expenditure using government funds which the ministry approved.</p> | <p>Resolved</p> |
| Description | Amount € | Details | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Opening Balance | 211,109 | Relate to phase II of the Programme. Agreed to Dec 2014 signed FS and client communication | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Phase III operating levy allocation | 404,762 | Agreed to phase 3 grant agreement i.e. 5% of overall budget of 8.5 million | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Available budget for operating levy | 615,871 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Less expenditure to date: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 30 June 2015 | 192,600 | Agreed to signed FS | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 31 December 2015 | 177,108 | Agreed to signed FS | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 30 June 2016 | 167,734 | Agreed to signed FS | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Ref/ Issue | Finding | Recommendation | Management comments | Responsibility | Status | Timeframe | | | | | | | | | | | | | | | | | |
|---|---|--|---|---|-----------------|-----------|---------------------|------------------|---------|---------------------|--------------|---------|--------------------|--|------------------|--|--|------------------|--|--|--|--|--|
| | <table border="1"> <tr> <td>31 December 2016</td> <td>132,574</td> <td>Agreed to signed FS</td> </tr> <tr> <td>30 June 2017</td> <td>129,222</td> <td>Agreed to signed FS</td> </tr> <tr> <td>31 December 2017</td> <td>118,130</td> <td>Agreed to signed FS</td> </tr> <tr> <td>30 June 2018</td> <td>116,821</td> <td>Agreed to Draft FS</td> </tr> <tr> <td>Total expenses over utilisation</td> <td>1,034,189</td> <td></td> </tr> <tr> <td></td> <td>(418,318)</td> <td></td> </tr> </table> | 31 December 2016 | 132,574 | Agreed to signed FS | 30 June 2017 | 129,222 | Agreed to signed FS | 31 December 2017 | 118,130 | Agreed to signed FS | 30 June 2018 | 116,821 | Agreed to Draft FS | Total expenses over utilisation | 1,034,189 | | | (418,318) | | | | | |
| 31 December 2016 | 132,574 | Agreed to signed FS | | | | | | | | | | | | | | | | | | | | | |
| 30 June 2017 | 129,222 | Agreed to signed FS | | | | | | | | | | | | | | | | | | | | | |
| 31 December 2017 | 118,130 | Agreed to signed FS | | | | | | | | | | | | | | | | | | | | | |
| 30 June 2018 | 116,821 | Agreed to Draft FS | | | | | | | | | | | | | | | | | | | | | |
| Total expenses over utilisation | 1,034,189 | | | | | | | | | | | | | | | | | | | | | | |
| | (418,318) | | | | | | | | | | | | | | | | | | | | | | |
| 3.1.7 Non-compliance Account closure/opening regulations | <p>Non-compliance Account closure/opening regulations</p> <p>The WSTF Board approved the closure of some bank accounts during the period under review. However, no subsequent approval was obtained from the National Treasury. We also noted that the European Union 'Climate proofed Infrastructure for Improved Water Supply and Sanitation in Arid and Semi-Arid Lands (CIPRA)' project did not have a special account at the Central Bank of Kenya.</p> <p>In the period under review, a total of Kshs 648,447,173 was received directly into the EU funded 'Supporting the Horn of Africa Resilience (SHARE)' project bank account held at a commercial bank, on 3 January 2018.</p> | <p>WSTF should liaise with the National Treasury in order for a special project account to be opened on its behalf in the CBK.</p> | <p>Management shall ensure that all banks closure approvals are supported with authorization from NT on the same</p> <p>Management took note of the dispatched request letters in Feb 2018 to NT through the ministry of Water and Sanitation for the opening of project bank accounts and a special bank account in the CBK. WSTF has not yet received the approval which is being closely followed up with the ministry</p> <p>Management in addition notified MWS on receipt of funds from EU in Jan 2018.</p> | <p>Closed</p> <p>We noted that management dispatched request letter to National Treasury and the amount of Kshs 648,447,173 was deposited to special account at the Central Bank. Further, no new or closed accounts noted in FY 2018/2019</p> | <p>Resolved</p> | | | | | | | | | | | | | | | | | | |

| Ref/ Issue | Finding | Recommendation | Management comments | Responsibility | Status | Timeframe | | | | | | | | | | | | | | | |
|--|---|---|---|---------------------------|--|-----------------|-----------------|-----------|-----------------|-----------------|-----------|---------------|------------|-----------|----------------|------------------|---|---|-------------------------------------|--|-----------|
| 3.1.8 Failure to submit a register of losses to the National Treasury and Auditor General | During the year under review, we noted there was a loss of one laptop by a staff member. From our review, no register of such losses was maintained by WSTF nor was a report of the loss attached to the annual financial statements submitted to the National Treasury and the Auditor General. | Management should maintain a register of all losses and ensure that it is attached to the financial statements submitted to the National Treasury and the Auditor General | This recommendation is noted The management will adjust the final statements accordingly to include disclosure on losses incurred during the FY2017/2018 in order to comply with section 153 of PFM Act 2012 | Ag. Chief Manager Finance | Closed Management disclosed this in FY 2017/2018 financial and has subsequently recovered the amount from the staff member responsible. The final recovery was made in March 2019. | Resolved | | | | | | | | | | | | | | | |
| 3.1.9 Delayed submission of quarterly reports to donors | We noted instances of non-compliance with the development partners reporting requirements evidenced through late submission of reports to the development partners as shown below: <table border="1"> <thead> <tr> <th>Period</th> <th>Due Date</th> <th>Date submitted</th> </tr> </thead> <tbody> <tr> <td>Quarter 1</td> <td>30 October 2017</td> <td>7 November 2017</td> </tr> <tr> <td>Quarter 2</td> <td>30 January 2018</td> <td>2 February 2018</td> </tr> <tr> <td>Quarter 3</td> <td>30 April 2018</td> <td>2 May 2018</td> </tr> <tr> <td>Quarter 4</td> <td>30 August 2018</td> <td>3 September 2018</td> </tr> </tbody> </table> | Period | Due Date | Date submitted | Quarter 1 | 30 October 2017 | 7 November 2017 | Quarter 2 | 30 January 2018 | 2 February 2018 | Quarter 3 | 30 April 2018 | 2 May 2018 | Quarter 4 | 30 August 2018 | 3 September 2018 | Management should ensure reporting requirements are adhered to according to the provisions of the grant agreements with development partners. | The management has noted the recommendation and has instituted measures to ensure that reports are submitted within agreed timelines. For project reports, reporting efficiency will also be included in the programme managers performance contracts to institutionalize compliance monitoring. The program team leaders will also be involved in reporting. | Manager, Research, Planning and M&E | Open From our review of compliance with donor reporting, we noted instances of late reporting to the donors in FY 18/19. | 2019/2020 |
| Period | Due Date | Date submitted | | | | | | | | | | | | | | | | | | | |
| Quarter 1 | 30 October 2017 | 7 November 2017 | | | | | | | | | | | | | | | | | | | |
| Quarter 2 | 30 January 2018 | 2 February 2018 | | | | | | | | | | | | | | | | | | | |
| Quarter 3 | 30 April 2018 | 2 May 2018 | | | | | | | | | | | | | | | | | | | |
| Quarter 4 | 30 August 2018 | 3 September 2018 | | | | | | | | | | | | | | | | | | | |

| Ref/ Issue | Finding | Recommendation | Management comments | Responsibility | Status | Timeframe |
|--|---|---|--|------------------------------|--|-----------|
| 3.1.10 Weakness in the review and approval in the journal posting process | We noted instances where there was no evidence of review and approval of adjusting entries posted in the SAP accounting system. We however reviewed the adjusting journal entries and checked that they were appropriate and did not relate to unusual activities. | Management should ensure that the finance and operations manual is updated to provide a clear guidance on the segregation of duties in the review of journals. In addition, the management should ensure that the finance system is adequately configured to ensure that a user cannot input an entry and also post it. The WSTF accounting manual was silent with regards to review and approval of journal entries. Management should review and approve manual journal vouchers to support adjustments posted to the General Ledger. | Management has noted the observation and is in process of reviewing the finance and operations manual guide on reviewing and approval of journals as per recommendations. The SAP system shall be reviewed immediately after the audit to reconfigure the entry of Journals as per the auditor's recommendations | Ag. Chief Manager Finance | Open From our journal posting process, we noted instances where there was no evidence of review and approval of the journals posted. | 2019/2020 |
| 3.1.11 Weakness in procurement process | During our expenditure review, we noted instances where the Local Purchase Orders (LPO) were dated later than the invoice. However, we noted that before any procurement was done, an approval for the same was obtained from the CEO and based on the approval, the procurement team then use that approval to source for the good or service. | The management should ensure that they adhere to the procurement policy and purchase orders should be issued to the selected | Management has noted the findings relating to procurement and notified the same to the procurement department to be more vigilant in their review of | Ag. Chief Manager Finance | Closed From our review of the procurement process in FY 2018/2019, we noted that | Resolved |

| Ref/ Issue | Finding | Recommendation | Management comments | Responsibility | Status | Timeframe |
|--|--|---|--|--|---|-----------|
| | We further obtained comments from management on the circumstances leading to the deficiency noted. | suppliers before goods are sourced. | procurement related documentation. Each case has been analysed and appropriate justification provided | | LPOs were properly dated before invoices. | |
| 3.1.12 Payment of VAT using donor funds – Urban Investments Programme | The structure of programme implementation at WSTF is that majority of actual implementation of programmes is carried out by Water Service Providers (WSPs) who have to either obtain VAT exemption certificates or pay VAT for services and goods in compliance with the local laws and regulations. We noted that payments made in the year inclusive of VAT were for purposes of achieving the project objectives and are therefore eligible costs. Therefore, the expenses reported in the financial statements are not misstated. However, the funding agreement in relation to the Urban Investments Programme, prohibits the payment of taxes using project funds obtained from the development partners. | The Trust Fund management should continue to engage the various stakeholders (development partners, KRA and National Treasury) in order to arrive at a solution of the finding. | WSTF management has held various consultation with Development Partners and Ministry of Water and Sanitation to agree on modalities of resolution of the matter. A letter, Ref. Water Sector Trust Fund Management Letter for the year ended 30 June 2018 24 | Chief Manager Investments and Programmes and Ag. Chief Manager Finance | Open From our review in the current period, we noted instances of payment of VAT using donor funds. | 2019/2020 |
| 3.1.13 Delay in GoK counterpart funding | From our analysis of GoK contribution to the Urban KfW Programme, we noted that GoK had contributed a total of EUR 1,118,110 out of the expected amount of EUR 1,700,000. As at 30 June 2018, GoK should have at least contributed 20% of KfW contribution. | Management should liaise with GoK to ensure there is an adequate allocation to cater for the shortfall during the final period | WSTF/ADT/Vol.III/70/(261) dated 2nd September 2017 was written to the Principal Secretary, the National Treasury through Principal Secretary, Ministry of Water and Sanitation. Follow up for response is ongoing. Management has noted the recommendation and is continuously engaging the government to allocate adequate GoK funds to support both projects and the office | Ag. Chief Manager Finance | Open From our review in FY 2018/2019, we noted delay in GoK | 2019/2020 |

| Ref/ Issue | Finding | Recommendation | Management comments | Responsibility | Status | Timeframe | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|---|---|---------------------------|--|-----------|-----|-----|-----|-----|-----------|-----------|-----------|-----|-----------|-----------|---------|--------------|------------------|------------------|---------------|-------------|---------------|---|-------------|--|-------------|--|------------|---|-------------|----------------------------|--------------------|-------------------------------------|--|--|---------------------|--|
| | <table border="1"> <thead> <tr> <th>Partners</th> <th>Required contribution as per the agreement</th> <th>Actual Contribution</th> <th>Deficit/Surplus</th> </tr> <tr> <th></th> <th>Eur</th> <th>Eur</th> <th>Eur</th> </tr> </thead> <tbody> <tr> <td>KAW</td> <td>6,800,000</td> <td>7,450,287</td> <td>(650,287)</td> </tr> <tr> <td>GoK</td> <td>1,700,000</td> <td>1,118,110</td> <td>581,890</td> </tr> <tr> <td>Total</td> <td>8,500,000</td> <td>8,568,397</td> <td>68,397</td> </tr> </tbody> </table> <p>In relation to the J6P Programme, we noted also noted a deficit in GoK Counterpart contribution as tabulated in the table below:</p> <table border="1"> <thead> <tr> <th>Description</th> <th>Amount (Kshs)</th> </tr> </thead> <tbody> <tr> <td>Expected counterpart funding as per the grant agreement (a)</td> <td>405,000,000</td> </tr> <tr> <td>Amount contributed by GoK in 2016/2017 (b)</td> <td>178,938,600</td> </tr> <tr> <td>Amount contributed by GoK in 2017/2018 (c)</td> <td>44,000,000</td> </tr> <tr> <td>Total amount contributed by GoK (d) = b + c</td> <td>222,938,600</td> </tr> <tr> <td>Deficit (e) = a - d</td> <td>182,061,400</td> </tr> </tbody> </table> | Partners | Required contribution as per the agreement | Actual Contribution | Deficit/Surplus | | Eur | Eur | Eur | KAW | 6,800,000 | 7,450,287 | (650,287) | GoK | 1,700,000 | 1,118,110 | 581,890 | Total | 8,500,000 | 8,568,397 | 68,397 | Description | Amount (Kshs) | Expected counterpart funding as per the grant agreement (a) | 405,000,000 | Amount contributed by GoK in 2016/2017 (b) | 178,938,600 | Amount contributed by GoK in 2017/2018 (c) | 44,000,000 | Total amount contributed by GoK (d) = b + c | 222,938,600 | Deficit (e) = a - d | 182,061,400 | of implementation of the programme. | running costs. The GoK funds relating to the identified Programmes have been allocated in the budget for the year FY 2019/2020 and in the prior period adequate GoK allocation has been made to the identified programmes. | | counterpart funding | |
| Partners | Required contribution as per the agreement | Actual Contribution | Deficit/Surplus | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Eur | Eur | Eur | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| KAW | 6,800,000 | 7,450,287 | (650,287) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| GoK | 1,700,000 | 1,118,110 | 581,890 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 8,500,000 | 8,568,397 | 68,397 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Description | Amount (Kshs) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Expected counterpart funding as per the grant agreement (a) | 405,000,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Amount contributed by GoK in 2016/2017 (b) | 178,938,600 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Amount contributed by GoK in 2017/2018 (c) | 44,000,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total amount contributed by GoK (d) = b + c | 222,938,600 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Deficit (e) = a - d | 182,061,400 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3.1.14 Failure to recover outstanding balances before clearance | <p>We noted that the staff receivable balance as at 30 June 2018 consisted of an amount of Kshs. 213,884 owed by former staff, Stephen Kiama.</p> | Management should institute means of recovering the unaccounted-for balance or seek for a write off in line with PFM Act, 2012. Additionally, management should | During the financial year, management wrote a letter to NT to seek further guidance on how to treat the case. The NT guided through the letter that the case be investigated which was done | Ag. Chief Manager Finance | Open In our review of staff receivables in the current period, we noted it consisted this balance of | 2019/2020 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Ref/ Issue | Finding | Recommendation | Management comments | Responsibility | Status | Timeframe |
|---|--|--|--|---------------------------|---|-----------|
| | | institute procedures to ensure that staff account for imprests within 48 working hours of returning from an assignment as per the policy or recover the amount from the subsequent payroll. Management should also ensure that before staff are cleared upon resignation or termination, they obtain clearance from all departments in the organization. | The investigation report by Legal dept on imprest for Stephen Kiama concluded that it is deemed accounted for going by the underlying circumstances with the requirement to notify NT. The management presented the request to write-off the debt to the Board of Trustees | | 213,884 owned by former staff. Management had not obtained communication from Treasury on whether to write-off this amount. | |
| 3.1.15 Weaknesses in budgeting for investment programs | WSTF uses SAP Business One (SAP B1) as the financial reporting system. The system has various modules to aid in financial reporting. One of the modules in the system is the budgeting module whose objective is to assist in budgeting monitoring and reporting. We noted that that budget module had not been activated for WSTF. The project budgets are currently being tracked manually through Microsoft Excel. | Management needs to ensure that the process of activating the budget module system is fast tracked and finalised to ensure efficiency in budget monitoring. | Management has noted the recommendation. A training for finance staff was conducted in Aug 2018 on the budget module. Activation of the budget module in SAP is scheduled to commence from Dec 2018 | Ag. Chief Manager Finance | Closed From our observation of the SAP, we noted that the budget module had been activated. This was run in our presence. | Resolved |

| Ref/ Issue | Finding | Recommendation | Management comments | Responsibility | Status | Timeframe |
|---|--|--|--|--|--|-----------|
| 3.1.16 Failure to update the action plans for rural and urban investments with all audit recommendations | We noted that the management had not updated the action plans for rural and urban investments with all the prior period and interim audit recommendations. Only the findings containing questioned costs in the period July 2016 to June 2017 had been captured. | The WSTF management should ensure that a complete action plan is prepared after the completion of external audits and clearly track progress of the proposed action to be taken by management to close the issues. | Management has prepared an action plan of all findings captured in the past rural and urban financial audits and has enlisted the support of the CRMs to follow up the resolution of the same findings. However, follow up from WSTF on the support from the CRM has not been consistent. To address this, management is in the process of including the action plan as part of the reports required for submission by the CRMs as part of their routine monthly reporting and shall be reviewed by the internal audit department. | Chief Manager Investments and Programmes and Ag. Chief Manager Finance | Closed We noted that in the period under review, projects action plans were updated with audit recommendations | Resolved |

