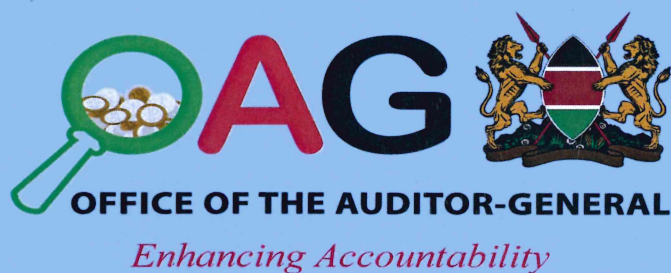


REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

**WATER AND SANITATION SERVICES
IMPROVEMENT PROJECT
(IDA GRANT/CREDIT NUMBER: IDA 5103-KE)**

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

**COAST WATER WORKS DEVELOPMENT
AGENCY**



Project Name: Water And Sanitation Service Improvement Project

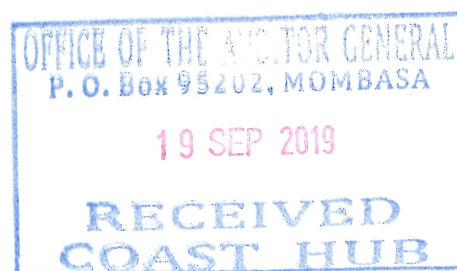
Implementing Entity Coast Water Works Development Agency

PROJECT GRANT/CREDIT NUMBER: IDA 5103-KE

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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



Water And Sanitation Service Improvement Project
Reports and Financial Statements
For the financial year ended June 30, 2019

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Water And Sanitation Service Improvement Project
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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name:

WATER AND SANITATION SERVICES IMPROVEMENT PROJECT
PROJECT NO: P096367
CREDIT NO: IDA-5103 KE

Objective:

The key objective of the project is to increase access to water supply and sanitation services in the Coast Region

REGISTERED OFFICE:

MIKINDANI STREET
OFF NKRUMAH ROAD
P.O BOX 90417-80100
MOMBASA,
KENYA

Contacts:

The following are the project contacts

Telephone: (254)-041-22315230
E-mail: info@cwsb.go.ke
Website: www.cwsb.go.ke

1.2 Project Information

Project Effective Date:	14 th December 2012
Project Initial End Date:	31 st December 2015
First Revised End Date:	15 th December 2017
Second Revised End Date:	31 st December 2019
Project Co-ordinator:	Eng. David Kanui
Project Sponsor:	World Bank

***Water And Sanitation Service Improvement Project
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1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Ministry of Water and Sanitation
Project number	P096367
Strategic goals of the project	(i)To increase access to reliable, affordable and sustainable water supply and sanitation services, (ii)To improve the water and waste water services in the areas served by Coast Water Works Development Agency.
Achievement of strategic goals	The project management aims to achieve the goals through the following means: (i)Rehabilitating selected existing water production, transmission, storage and distribution facilities and wastewater collection, treatment and disposal facilities; (ii)Expanding piped water supply services to under-served areas through the extension of primary and secondary distribution pipes where required (this would include service expansion into urban slums/informal settlements through a balanced program including the involvement of communities in decision making. (iii)Refining and strengthening the institutional structure, emphasizing on increasing accountability and transparency of the institutional, governance and management framework.
Other important background information of the project	Higher level objectives to which the project contributes include: Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) and Vision 2030. The ERSWEC calls for structural reforms to make water supplies and sanitation autonomous (including introducing commercial and private sector principles), mobilize investment for construction and rehabilitation, and enter into partnerships with community based organizations to expand services to the urban poor and rural communities. Vision 2030 identifies infrastructure development as a key enabler to help Kenya achieve its target of 10% and above annual growth. Within water services infrastructure development, water and sanitation investments in Water Services Boards and the strengthening of the sector's regulatory system constitute the main inputs into the strategy.

***Water And Sanitation Service Improvement Project
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Current situation that the project was formed to intervene	(a) Rehabilitation and extension of the existing water supply systems in the Coast Water Works Development Agency service area; and construction of offices for Coast Water Works Development Agency and provision of goods and services required for that purpose. (b) Carrying out by the Coast Water Works Development Agency of a program of activities to strengthen its capacity to carry out its responsibilities; and to strengthen the capacities of Water Service Providers operating within the Coast Water Works Development Agency area to carry out their responsibilities; and provision of goods and services required for that purpose. (c) Preparing and implementing long and medium term drought mitigation plans in the Coast Water Works Development Agency and Northern Water Service Board services areas, all through provision of goods, works and services required for that purpose. (d) Carrying out studies to strengthen the operational capacity of the Coast Water Works Development Agency, including energy audits, a customer identification survey and infrastructure mapping for all Water Service Providers; and preparation of a communication strategy all through provision of the services required for the purpose. (e) Implementing a Resettlement Policy Framework,
Project duration	The project was started on 21 st June 2012 and was extended to end on the 31 st December 2019

1.4 Bankers

The following are the bankers for the current year:

i) Designated Account:
CFC STANBIC BANK
WAIYAKI WAY, WESTLANDS
PO BOX 305509-00100
NAIROBI
Account No. 010- 000- 048- 8105

ii) Project Account
KENYA COMMERCIAL BANK
TREASURY SQUARE
P.O. BOX 90254- 80100
MOMBASA
Account No. 114-321-8191

1.5 Auditors

The project is audited by:
AUDITOR-GENERAL
KENYA NATIONAL AUDIT OFFICE
ANNIVERSARY TOWERS
P.O BOX 30084 -00100
NAIROBI

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1.6 Roles and Responsibilities

Names	Title designation	Key qualifications	Responsibilities
Mr.Jacob K Torutt	Chief Executive Officer	MBA(Finance),Bcom, CPA(K),DIP.Corp Governance	Accounting Officer
Eng.David Kanui	Project Engineer	BSc. Civil Engineering	Project Coordinator
Ms.Harriet Ngeera	Finance Manager	MBA(Finance),Bcom(Finance) CPA(K),CPS(K),CREDIT Management(Professional)	Head of Finance
Eng.Martin Tsuma	Technical Manager	BSc.Electro-mechanical Engineering	Head of Technical
Mr.Stanslus Jira	Procurement Officer	MSc. Procurement & Logistics,BPSM,DSM	Head of Procurement
Ms.Kibibi Shee	Project Accountant	B.com(Accounting),CPA (K)	Head Project Accounting
Mr.Salim Ali	ICT Officer	Bsc. Telecommunication Information Technology(TIT),MSc. Data Communication(Ongoing)	Head of ICT

1.7 Funding summary

The Project was for a duration of five years from 2012 to 2017, but due to delays in two of the major works undertaken by Coast Water Works Development Agency and Athi Water Works Development Agency, it was extended by two years, to end on the 31st December 2019, with an approved budget of US\$ 90,721,800.00 equivalent to Kshs. 7,552,589,850 at exchange rate of Kshs.83.25 to the USD.as highlighted in the table below.

This exchange of Kshs.83.25 rate was applicable at the signing of the contract but point rates are used to transfer funds from Treasury to the project. Similarly payments in foreign currencies are exchanged at rates ruling on that transaction date.

Below is the funding summary:

Source of funds	Donor Commitment-		Amount received (30 th June 2019)		Undrawn balance	
					(30 th June 2019)	
	USD	Kshs	USD	Kshs	USD	Kshs
	(A)	(B')	(A)-(B)	(A')-(B')	(A')	(B)
(i) Grant						
World Bank-IDA	90,721,800	7,552,589,850	83,770,563	7,908,628,609	6,951,237	(356,038,759)
(ii)Counterpart funds						
Government of Kenya	6,863,652	571,399,029	7,006,820	601,766,190	(143,168)	(30,367,161)
Total	97,585,452	8,123,988,879	90,777,383	8,510,394,799	6,808,069	(386,405,920)

Water And Sanitation Service Improvement Project
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For the financial year ended June 30, 2019

1.8 Summary of Overall Project Performance:

The project is on its final completion stage with most of the consultancy contracts ended and few works contracts on the defects liability period. During the financial year under review several works, consultancies and goods contracts were completed and a few remaining contracts finishing their defect liability period. The board still experiences delays in release of funds from National Treasury and the parent ministry, which resulted to non-payment of contractors and consultants invoices in good time and as a result we closed the year with some few pending payments.

The implementation of the project is generally satisfactory and the project is on track to be completed and achieve its objective.

Status of Approved budget and Actual expenditure for the last six Years

Financial Year	Project required budget	Treasury approved budget	% reduction	Actual Expenditure	Pending bills
	Kshs	Kshs	Kshs	Kshs	Kshs/USD
2012/2013	2,176,000,000	1,000,000,000	54	99,177,290	-
2013/2014	2,500,000,000	1,000,000,000	60	599,291,164	-
2014/2015	2,289,252,000	1,000,000,000	56	1,478,029,939	68,535,982
2015/2016	3,650,962,000	1,000,000,000	73	1,216,286,142	160,809,677
2016/2017	3,862,000,000	3,862,000,000	0	2,170,960,136	-
2017/2018	1,362,000,000	2,294,130,500		2,306,391,499	-
2018/2019	880,000,000	680,000,000	23	639,434,576	32,954,534 579,536
	16,720,214,000	10,836,130,500	35%	8,509,570,746	

Most of the contracts under this project are completed and this has seen the board increasing its bulk water supply. Among the major contracts that contributed to this factor are: Baricho Immediate Works involving drilling of three high yielding boreholes and their attendant electromechanical works, Baricho Lot 3 involving the Construction of Two major pipelines from Kakuyuni to Gongoni and Kakuyuni to Kilifi. These two pipelines would enable Mombasa and Kilifi have two separate dedicated transmission lines that would supply water to these two towns and hence increase its supply. An additional 22,000m³/d of water is expected to be produced from the Baricho wellfield. All these two contracts are now on defect liability period.

Rehabilitation of network reticulation in Mombasa together with improvement of water supply to Mombasa and Malindi informal settlements have been also completed. This is meant to provide water to what initially were unserved/ underserved areas so that water coverage could be increased.

***Water And Sanitation Service Improvement Project
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Other key contracts under WaSSIP-AF include Waste Water Master Plan, Water Distribution Master Plan and Drought Mitigation Measures for CWSB and NWSB regions. The project also offers institutional support in terms of capacity building and technical assistance for design and supervision of works.

From these projects that commenced in 2009 a lot of improvement has taken place in terms of increased water volumes being produced and reduced non-revenue water as shown below.

Year	Water Production (M ³)	Water Sold (M ³)	Non-revenue water (%)
2011	36,299,691	28,368,233	22%
2012	39,461,932	30,912,895	22%
2013	44,657,597	34,314,297	23%
2014	44,416,007	36,835,343	17%
2015	44,131,811	37,473,128	15%
2016	44,859,718	38,333,719	15%
2017	43,450,564	39,826,940	9%
2018	40,527,356	35,056,960	13%
2019	42,121,570	34,911,089	17%

There has been a lowering of budget approvals against project requirements and this has seen the project closing the financial year with pending bills. Challenges of power outages which in turn affects bulk water production and hence causing delays in revenue collection from the water service providers. Delays in receiving funds from the national treasury and the parent ministry are among the issues that hinders the smooth project completion and implementation.

This has led to several changes in completion deadlines. The board has had to approve a number of addendums in some projects which has seen some projects revise their contract prices.

Among the recommendations include:

- Improved capacity building of staff by attending short management courses which has greatly improved contract management.
- Timely preparation and compensation of people before project starts on the ground.
- Regular site visits and management meetings to review project progress has been introduced and is bearing fruits
- Follow up with Water service providers to pay their bills on time, which enables the board to settle power bills and thus avoiding disconnections.
- Regular follow up with our line ministry on issues of budgeting, disbursements and reconciliations of project funds

1.9 Summary of Project Compliance:

There are no legal issues so far that have been raised and all procurements and implementations are carried out as per the required Procurement Regulations

***Water And Sanitation Service Improvement Project
Reports and Financial Statements
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2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Chief Executive Officer for Coast Water Works Development Agency and the Project Coordinator for Water and Sanitation Service Improvement project (IDA Grant No.5103-KE) are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Chief Executive Officer for Coast Water Works Development Agency and the Project Coordinator for Water and Sanitation Service Improvement project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Chief Executive Officer for Coast Water Works Development Agency and the Project Coordinator for Water and Sanitation Service Improvement project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year/period ended June 30, 2019, and of the Project's financial position as at that date. The Chief Executive Officer for Coast Water Works Development Agency and the Project Coordinator for Water and Sanitation Service Improvement project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.


The Chief Executive Officer for Coast Water Works Development Agency and the Project Coordinator for Water and Sanitation Service Improvement project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by the Chief Executive Officer for Coast Water Works Development Agency and the Project Coordinator for Water and Sanitation Service Improvement project on 17.9. 2019 and signed by them.


Chief Executive Officer
Mr. Jacob Torutt


Project Coordinator
Eng. David Kanui


Project Accountant:
Ms. Kibibi Shee
ICPAK No. 21329

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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

REPORT OF THE AUDITOR-GENERAL ON WATER AND SANITATION SERVICES IMPROVEMENT PROJECT (IDA GRANT/CREDIT NUMBER: IDA 5103-KE) FOR THE YEAR ENDED 30 JUNE, 2019 - COAST WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Water and Sanitation Services Improvement Project (IDA Credit No.5103 KE) set out on pages 1 to 23, which comprise the statement of financial assets as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows, statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya, Section 35 of the Public Audit Act, 2015 and the Financing Agreement No.5103-KE dated 21 June, 2012 between the International Development Association (IDA) and the Republic of Kenya. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Water and Sanitation Services Improvement Project as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with Financing Agreement No.5103-KE dated 21 June, 2012.

In addition, the special accounts statement presents fairly, transactions for the year and the ending balance have reconciled with books of accounts.

Basis for Qualified Opinion

Unsupported Acquisition of Non-Current Assets

As disclosed in Note 8.6 to the financial statements and as previously reported, the statement of receipts and payments for the year ended 30 June, 2019 reflects a balance of Kshs.15,811,392 under acquisition of non-current assets. The balance includes an amount of Kshs.4,857,075 relating to purchase of office equipment to be used by the Project for the supply, installation and maintenance of billing system for six Water Service Providers (WSPs) in Mombasa, Kwale, Kilifi, Malindi, Taita Taveta and Tana-River whose contract was awarded on 26 October, 2016. The contract delivery

date was 26 February, 2017 at a contract sum of Kshs.81,374,584. To date, Kshs.73,470,703 has been paid. However, as at the time of audit in July, 2019, the status of the project was as follows:

	Project Site	Status Before Implementation	Status as at 30 July, 2019
1	Kwale Water Company	Kwale Water Company declined the offer to be supplied with the system before the contract was signed. However, the contract remained unchanged and diverted to Mazaras Bulk Water Unit	The system was rejected by the Water Company because it was in the process of acquiring one of its own and already the procuring process was on-going.
2	Kilifi Water Company	The Water Company procured their own billing system in 2016.	The Water Company continues using the system called Sulis. All the equipment under the new project is lying idle in the Company's premises
3	Malindi Water Company	The Water Company procured their own billing system in 2012.	The Water Company continues to use the system called Sulis. All the equipment under the new project is lying idle in the Company's premises
4	Tana River Water Company	The Water Company has never used any billing system.	The system is yet to be fully operational since configurations are still being done by supplier.

The Board did not provide evidence of needs assessment or requisition by the user water companies for audit review of the billing system. The contract period lapsed on 26 February, 2017, yet no action has been taken to extend the contract period or take other disciplinary action against the supplier. Further, although Management informed the contractor on 17 August, 2017 to renew the performance security which was to expire on 2 September, 2017, the same had not been renewed. This is contrary to Clause 18.1 of the Special Conditions of Contract which requires that the supplier should provide a performance security for the duration of the Project.

Consequently, the validity, propriety and value for money of expenditure on office equipment of Kshs.4,857,075 for the year ended 30 June, 2019 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Water and Sanitation Services Improvement Project Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing 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 qualified opinion.

Key Audit Matters

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

Other Matter

1. Pending Bills

Note 9.1 to the financial statements reflects pending bills totalling Kshs.32,954,534 as at 30 June, 2019. Management has not provided reasons for non-payment of the bills even though the Project was to end on 31 December, 2019 and is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

2. Budgetary Controls and Performance

The Water and Sanitation Services Improvement Project had a final budget of Kshs.880,002,000 and an actual expenditure of Kshs.639,434,575 resulting to an overall under-absorption of Kshs.240,567,425 or 27%. The overall under-absorption is an indication of improper planning and Management may need to revisit its budget execution process with a view to focusing on more priority areas before the project ending date of 31 December, 2019.

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 about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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 overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and 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 (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control.

In preparing the financial statements, Management is responsible for assessing Water and Sanitation Services Improvement Project's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Project or cease operations.


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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. 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 with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 that 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 that 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 noncompliance. 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 Water and Sanitation Services Improvement Project'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 that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Water and Sanitation Services Improvement Project to continue to sustain 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 Water and Sanitation Services Improvement Project to cease to continue to sustain 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 that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi


02 December, 2020


Water And Sanitation Service Improvement Project
Reports and Financial Statements
For the financial year ended June 30, 2019

4. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30TH JUNE 2019

	Notes	2018/2019	2018/2019	2018/2019	2017/2018	Cumulative to date
		Kshs	Direct Payments Kshs	Total Kshs	Total Kshs	Kshs
RECEIPTS						
Transfer from Government of Kenya	8.3	30,000,000		30,000,000	94,087,465	601,766,190
Proceeds from IDA	8.4	18,472,828	146,660,790	165,133,618	2,272,541,584	7,908,628,609
Miscellaneous Receipts	8.5			-	3,636,605	3,954,258
TOTAL RECEIPTS		48,472,828	146,660,790	195,133,618	2,370,265,655	8,514,349,057
PAYMENTS						
Acquisition of Non-Current Assets	8.6	15,811,392		15,811,392	124,435,338	526,431,243
Purchase of Goods and Works	8.7.1	217,442,546	146,660,790	364,103,336	1,269,618,421	5,082,712,720
Purchase of Consultancies	8.7.2	163,501,442		163,501,442	376,710,315	1,386,972,408
Resettlement Compensation	8.7.3	-		-	-	1,206,000
Trainings	8.7.4	365,423		365,423	13,486,954	65,582,899
Operating costs	8.7.5	-		-	-	230,500
Bank Charges	8.7.6	52,597		52,597	510,911	1,614,964
Drought Mitigation	8.7.7	95,600,385		95,600,385	521,629,560	1,444,891,479
TOTAL PAYMENTS		492,773,786	146,660,790	639,434,576	2,306,391,499	8,509,570,746
SURPLUS/(DEFICIT) FOR THE YEAR		(444,300,958)	-	(444,300,958)	63,874,156	4,778,312


Chief Executive Officer
Mr. Jacob Torutt


Project Coordinator
Eng. David Kanui


Project Accountant:
Ms. Kibibi Shee
ICPAK No. 21329

Water And Sanitation Service Improvement Project
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For the financial year ended June 30, 2019


5. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2019

	Notes	2018/2019	2017/2018
FINANCIAL ASSETS		Kshs	Kshs
Cash and Cash Equivalents			
Bank Balances	8.8A	4,778,312	449,079,270
Cash Balances	8.8B	-	-
Total Cash and Cash Equivalents		4,778,312	449,079,270
Accounts Receivable(Imprest & Advances)	8.9	-	-
TOTAL FINANCIAL ASSETS		<u>4,778,312</u>	<u>449,079,270</u>
REPRESENTED BY:			
Cash and cash equivalents b/fwd.	8.10	449,079,270	385,205,114
Prior year adjustments	8.11		
Surplus (Deficit) for the year		(444,300,958)	63,874,156
NET FINANCIAL POSITION		<u>4,778,312</u>	<u>449,079,270</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 17.9 2019 and signed by:


 Chief Executive Officer
 Mr. Jacob Torutt


 Project Coordinator
 Eng. David Kanui


 Project Accountant:
 Ms. Kibibi Shee
 ICPAK No. 21329

Water And Sanitation Service Improvement Project
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6. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30TH JUNE 2019

	Notes	2018/2019	2017/2018
		Kshs	Kshs
Receipts for Operating Income			
Transfer from Government Entities	8.3	30,000,000	94,087,465
Miscellaneous Receipts	8.5	-	3,636,605
		30,000,000	97,724,070
Payments for Operating Expenses			
Operating Costs	8.8.5	-	-
Training Expenses	8.7.4	(365,423)	(13,486,954)
Bank Charges	8.7.6	(52,597)	(510,911)
Net Cash flow From Operating Activities		29,581,980	83,726,205
Cash flow from Investing Activities			
Acquisition of Non-Current Assets	8.6	(15,811,392)	(73,720,247)
Purchase of Goods and Works	8.7.1	(217,442,546)	(571,024,192)
Purchase of Consultancy Services	8.7.2	(163,501,442)	(338,123,315)
Resettlement Compensation	8.7.3	-	-
Drought Mitigation	8.7.7	(95,600,385)	(487,915,466)
Net Cash Flows from Investing Activities		(492,355,766)	(1,470,783,221)
Cash Flow from Borrowing Activities			
Proceeds from Foreign Borrowings	8.4	18,472,828	1,450,931,171
Net Cash Flow from Borrowing Activities		18,472,828	1,450,931,171
Net Increase/(Decrease) in Cash and Cash Equivalent		(444,300,958)	63,874,156
Cash and Cash Equivalent at Beginning of Year		449,079,270	385,205,114
Cash and Cash Equivalent at end of Year		4,778,312	449,079,270

Chief Executive Officer
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Water And Sanitation Service Improvement Project
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7. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

FOR YEAR ENDED 30 JUNE 2019 (KSHS)

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget utilisation Difference	% of Variance
	a	b	c=a+b	d	e=d-c	f=e/c
Receipts						
Transfer from Government Of Kenya	40,000,000	-	40,000,000	30,000,000	(10,000,000)	-25%
Proceeds from domestic and foreign grants		-		-	-	
Proceeds from IDA borrowings	840,000,000	(200,000,000)	640,000,000	165,133,618	(474,866,382)	-74%
Miscellaneous Receipts					-	
Total Receipts	880,000,000	(200,000,000)	680,000,000	195,133,618	(484,866,382)	-71%
Payments						
Acquisition of Non-Current Assets	32,902,000	-	32,902,000	15,811,392	(17,090,608)	-52%
Purchase of Goods and Works	499,801,000	-	499,801,000	364,103,336	(135,697,664)	-27%
Purchase of Consultancy	247,586,000	-	247,586,000	163,501,442	(84,084,558)	-34%
Resettlement Compensation	-	-	-	-	-	0%
Trainings	-	-	-	365,423	365,423	100%
Drought Mitigation	99,713,000	-	99,713,000	95,600,385	(4,112,615)	-4%
Operating Costs	-	-	-	-	-	0%
Bank Charges	-	-	-	52,597	52,597	100%
Total Payments	880,002,000	-	880,002,000	639,434,575	(240,567,425)	-27%

Note: The significant budget utilisation/performance differences in the last column are explained in **Annex 1** to these financial statements.

Chief Executive Officer
Mr. Jacob Torutt

Project Coordinator
Eng. David Kanui

Project Accountant:
Ms. Kibibi Shee
ICPAK No. 21329

8. NOTES TO THE FINANCIAL STATEMENTS

The principal accounting policies adopted in the preparation of these financial statements are set out below:

8.1. Basis of Preparation

8.1.1. Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

The accounting policies adopted have been consistently applied to all the years presented.

8.1.2. Reporting entity

The financial statements are for the Project Water and Sanitation Service Improvement Project under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

8.1.3. Reporting currency

The financial statements are presented in Kenya Shillings (KShs), which is the functional and reporting currency of the Project and all values are rounded to the nearest Kenya Shilling.

8.2. Significant Accounting Policies

a) Recognition of receipts

The Project recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Government.

• Transfers from the Exchequer

Transfer from Exchequer is be recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

• External Assistance

External assistance is received through grants and loans from multilateral and bilateral development partners.

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SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donations and grants

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

Proceeds from borrowing

Borrowing includes Treasury bill, treasury bonds, corporate bonds, sovereign bonds and external loans acquired by the Project or any other debt the Project may take on will be treated on cash basis and recognized as a receipt during the year they were received.

Undrawn external assistance

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for the Project currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. An analysis of the Project's undrawn external assistance is shown in the funding summary

- **Other receipts**

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognised in the financial statements the time associated cash is received.

b) Recognition of payments

The Project recognises all payments when the event occurs and the related cash has actually been paid out by the Project.

- **Compensation of employees**

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

- **Use of goods and services**

Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. If not paid for during the period where goods/services are consumed, they shall be disclosed as pending bills.

- **Interest on borrowing**

Borrowing costs that include interest are recognized as payment in the period in which they incurred and paid for.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Repayment of borrowing (principal amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements.

- **Acquisition of fixed assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

c) In-kind donations

In-kind contributions are donations that are made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Project includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

Restriction on cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits

Water And Sanitation Service Improvement Project
Reports and Financial Statements
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SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Accounts receivable

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

f) Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Project at the end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

g) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation.

A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

h) Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments.

During the year Kshs 146,660,790 being loan disbursements were received in form of direct payments to third parties.

***Water And Sanitation Service Improvement Project
Reports and Financial Statements
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SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of receipts and payments.

j) Comparative figures

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

k) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2019.

l) Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

***Water And Sanitation Service Improvement Project
Reports and Financial Statements
For the financial year ended June 30, 2019***

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.3. RECEIPTS FROM GOVERNMENT OF KENYA

These represent counterpart funding and other receipts from government as follows:

Quarter	2018/2019	2017/2018	Cumulative To Date
	Kshs	Kshs	Kshs
Counterpart Funding through Ministry of Water and Sanitation			
Counterpart Funds Quarter 1	-	35,733,369	203,555,908
Counterpart Funds Quarter 2	10,000,000	16,000,000	136,804,852
Counterpart Funds Quarter 3	10,000,000	31,641,097	200,697,067
Counterpart Funds Quarter 4	10,000,000	10,712,999	60,708,363
	<u>30,000,000</u>	<u>94,087,465</u>	<u>601,766,190</u>
Other Transfer from Government Entities	-	-	-
Appropriation in Aid	-	-	-
Total	<u>30,000,000</u>	<u>94,087,465</u>	<u>601,766,190</u>

Water And Sanitation Service Improvement Project
Reports and Financial Statements
For the financial year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.4. PROCEEDS FROM IDA

During the 12 months to 30 June 2019 Coast Water Works Development Agency had received total grants from the World Bank amounting to Ksh.165, 133, 618. In total the project has received Kshs 7,908,628,609. This amount includes Kshs.1, 733,705,035 that were paid to project contracts directly by the World Bank as A-I-A.

Name of Donor	Date Received	Amount received in USD	Total Grants Received to date				Grants Received in cash	Total amount in Kshs
				2018/2019	2017/2018	2016/2017	2015/2016	2012/2013
		USD	Kshs	Kshs	Kshs	Kshs	Kshs	2014/2015
Loans Received								
World Bank	26.6.13	3,913,067	327,596,360			-	-	327,596,360
	10.3.14	6,381,116	549,286,379			-	-	549,286,379
	16.6.14	1,789,741	157,013,895			-	-	157,013,895
	31.10.14	8,756,482	500,000,000			-	-	500,000,000
	15.12.14		280,990,455			-	-	280,990,455
	5.5.15	5,741,788	100,000,000			-	-	100,000,000
			119,009,545					119,009,545
			381,533,162				381,533,162	
	26.6.15	6,192,377	617,445,055			-	617,445,055	
	9.2.16	15,557,140	1,574,380,560			1,574,380,560	-	
	6.5.16	970,127	98,264,164			98,264,164	-	
	10.1.17	714,408	72,298,090		72,298,090	-	-	
	31.5.17	4,175,551	422,565,761		422,565,761	-	-	
	20.6.17	2,135,181	216,917,780		216,917,780	-	-	
	16.10.17	4,778,410	739,149,540	18,472,828				
	21.12.17	4,528,981	18,472,828		739,149,540			
	13.6.18	1,181,122						
	A-I-A	7,807,022	765,433,832			765,433,832		
	A-I-A	7,694,565	821,610,413		821,610,413			
	A-I-A	1,453,486	146,660,790	146,660,790				
TOTAL		83,770,563	7,908,628,609	165,133,618	2,272,541,584	2,438,078,556	993,978,217	2,033,896,634

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.5. MISCELLANEOUS RECEIPTS

Quarter	2018/2019	2017/2018	Cumulative To Date
	Kshs	Kshs	Kshs
Refunds/Reversals of Cheques	-	3,636,605	3,954,258
	-	3,636,605	3,954,258

There were no miscellaneous receipts during the financial year under review.

8.6. ACQUISITION OF NON-FINANCIAL ASSETS

	2018/2019	2017/2018	Cumulative to Date
	Kshs	Kshs	Kshs
Purchase of Motor Vehicles		55,821,710	260,727,341
Purchase of Plant and Equipment			102,911,722
Purchase of Motor Cycles			17,990,032
Purchase of Office Furniture			8,921,196
Purchase of Office Equipment	15,811,392	68,613,628	135,880,951
	15,811,392	124,435,338	526,431,243

The cumulative expenditure for the purchase of Non-Current Assets at the beginning of the financial year 2018/2019 was Kshs.510, 619,850 and at the end of this financial year had accumulated to Kshs.526, 431, 243 as shown above.

Water And Sanitation Service Improvement Project
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.7 Expenditure by Category

8.7.1 Purchases of Goods and Works

	2018/2019	2018/2019	2018/2019	2017/2018	Cumulative To Date
	Kshs	Direct Payments Kshs	Total Kshs	Total Kshs	Kshs
Rehabilitation of Mzima Pipeline			-	-	210,320,819
Rehabilitation of Bulk water Services			-	28,607,340	686,176,636
Building of Lamu and Voi Offices			-	-	17,138,432
Malindi Informal Settlement Works			-	-	105,382,140
Rehabilitation and Partitioning Mazeras Offices			-	-	20,595,806
Rehabilitation of Voi Water Supplies			-	-	3,637,737
Rehabilitation of Lamu Water Supplies			-	35,972,604	134,370,152
Rehabilitation of Hola Water Supplies			-	-	697,481
Rehabilitation and Extension of Mombasa Water System Lot 2	67,302,594		67,302,594	244,699,445	1,005,217,412
Mombasa Informal Settlement Works Lot 1			-	16,384,574	107,166,868
Mombasa Informal Settlement Works Lot 2			-	30,152,375	145,727,975
Augmentation of Baricho Well Field Baricho Lot 1	97,595,110		97,595,110	156,603,918	571,631,507
Kakuyuni-Gongoni & Kakuyuni-Kilifi Pipeline Works Baricho lot 3	44,741,311	146,660,790	191,402,101	739,349,865	1,358,194,419
Construction of Surface Modular Steel Tanks			-	-	83,703,530
Augmentation of Taveta Lumi Water Supply	1,469,076		1,469,076	5,133,097	90,793,406
Construction of Moyale water pipeline NWSB	6,334,456		6,334,456	12,715,203	54,736,134
Installation of 222 no.Plastic Tanks within CWSB Area			-	-	42,477,923
145 No.10m3 plastic tanks in NWSB			-	-	35,790,152
Installation of 133 plastic tanks NWSB			-	-	34,190,389
	217,442,546	146,660,790	364,103,336	1,269,618,421	4,707,948,918

Water And Sanitation Service Improvement Project
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	2018/2019	2018/2019	2018/2019	2017/2018	Cumulative To Date
	Kshs	Direct Payments Kshs	Total Kshs	Total Kshs	Kshs
Purchase of Goods, Tools and Equipment	-				374,763,801
TOTAL	217,442,546	146,660,790	364,103,336	1,269,618,421	5,082,712,719

The cumulative purchase of goods and works at the beginning of the financial year 2018/2019 was Kshs.4, 718,609,383.

During the year under review the Board paid a total of ksh.364, 103,336 with Baricho Lot 3 works taking a total of Ksh.191, 402,101. Baricho Lot 3 is under Defects liability period and same to all other few works contracts remaining under the project

Water And Sanitation Service Improvement Project
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.7.2 PURCHASE OF CONSULTANCIES

	2018/2019	2018/2019	2018/2019	2017/2018	Cumulative To Date
	Kshs	Direct Payments Kshs	Total Kshs	Total Kshs	Kshs
Supervision of Bulk Water Services	8,975,599		8,975,599	-	210,570,231
Reconciliation of Receivables			-	-	532,810
Customer Identification Survey			-	936,221	15,497,076
Supervision of Informal Settlement			-	12,627,641	70,304,135
Preparation of Strategic Plan for CWSB			-	-	2,611,400
Advertisements			-	-	19,198,593
Incentive Based Performance Management			-	-	14,388,640
Water Master Plan for Mombasa and WSPs			-	-	4,124,673
DD & TD Preparation & Supervision of Baricho Works	102,452,125		102,452,125	167,768,568	365,202,875
Environmental and Social Impact Assessment			-	8,727,188	62,508,197
Implementation of Reconciliation of Receivables			-	-	23,765,541
Waste Water Master Plan for Mombasa and WSPs			-	-	163,360,441
DD TD & Works supervision of Kizingo WWTP			-	-	4,264,212
Wayleaves for Water Facilities			-	-	9,286,857
Communications Strategy	2,926,000		2,926,000	3,657,500	13,167,000
Supervision of Works for 6WSPs			-	-	26,613,736
Reduction of NRW & Network Model 8 WSPs	4,230,668		4,230,668	65,516,952	127,062,758
Supervision of Mombasa Lot 2 Works			-	16,197,515	75,117,252
Water distribution Master Plan for 6WSPS			-	55,513,655	72,803,268
Energy audit in water utilities			-	7,986,540	11,409,342
Bulk water supply service Contract 2	3,109,322		3,109,322	19,923,032	35,520,137
DD,TD,Preliminary ESIA/RAP for water distribution works for MSA and 3 WSP's	41,807,729		41,807,729	17,855,505	59,663,234
	163,501,442	-	163,501,442	376,710,315	1,386,972,408

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The cumulative purchase of Consultancy Services at the beginning of the financial year 2018 /2019 was Kshs.1,223, 470,967.

Most payments were done on final accounts for consultancy contracts as most of the works have been completed with only two major studies which are still ongoing as these are studies for the new water and sanitation development project.

8.7.3 RESETTLEMENT COMPENSATION

	2018/2019	2017/2018	Cumulative To Date
	Kshs	Kshs	Kshs.
Resettlement Compensation	-	-	1,206,000
	-	-	<u>1,206,000</u>

The cumulative payments for Resettlement Compensation at the beginning of the financial year 2018/2019 was Kshs.1, 206,000. During the year there was no payment made through the Project account but payments through the Development Account since these are funds emanating from the Government as counterpart

8.7.4 TRAININGS, SEMINARS AND STUDY TOURS

	2018/2019	2017/2018	Cumulative to Date
	Kshs	Kshs	Kshs
Conducted outside Africa			17,153,926
Conducted Within Africa, But Outside Kenya			5,769,443
Conducted Within the Country	365,423.00	13,486,954	42,659,530
	365,423.00	13,486,954	65,582,899

The cumulative payments for trainings at the beginning of the financial year 2018/2019 was Kshs.65, 217,476. All trainings were conducted locally. These were trainings on strategic management and Corporate Governance for the Board of directors.

8.7.5 OPERATING COSTS

	2018/2019	2017/2018	Cumulative To Date
	Kshs	Kshs	Kshs.
Operating Costs	-	-	230,500
			230,500

The cumulative payments for operating costs at the beginning of the financial year 2018/2019 was kshs.230, 500. There were no operating costs relating to the project during the reporting period.

***Water And Sanitation Service Improvement Project
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.7.6 Bank Charges

	2018/2019	2017/2018	Cumulative to Date
	Kshs	Kshs	Kshs
Commissions and Account Maintenance	52,597	510,911	1,614,964
	52,597	510,911	1,614,964

The cumulative bank charges as at the beginning of the financial year 2018/2019 was Kshs.1, 562, 367. These were ordinary bank charges, commission for transfers and account maintenance for the transactions that took place during the year.

Water And Sanitation Service Improvement Project
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.7.7 DROUGHT MITIGATION

	2018/2019	2018/2019	2018/2019	2017/2018	Cumulative To Date
	Kshs	Direct Payments Kshs	Total Kshs	Total Kshs	Kshs
1.Goods					
500 No.10,000 Ltrs Plastic Water Tanks			-	-	44,923,580
5 No Mobile water treatment units			-	-	49,836,839
10 No. Potable steel tanks for Baricho			-	-	5,394,000
44 No.Collapsible tanks			-	-	8,691,090
120 No.of collapsible water tanks for NWSB			-	-	14,674,363
Purchase of standby Generators			-	23,229,243	24,462,091
	-	-	-	23,229,243	147,981,963
2.Works					-
Construction of water supplies in Drought Areas of CWSB Lot 1			-	-	68,451,607
Construction of water supplies in Drought Areas of CWSB Lot 2	2,846,704		2,846,704	21,049,477	45,162,046
Construction of water supplies in Drought Areas of CWSB Lot 3	2,368,338		2,368,338	12,051,018	75,739,507
Construction of water supplies in Drought Areas of NWSB Lot 4			-	1,117,080	115,710,929
Construction of Nyalani Water Supply in Kwale county	9,680,052		9,680,052	-	87,361,886
Rehabilitation of Bura Irrigation scheme water supply	11,972,182		11,972,182	5,004,707	52,397,165
Construction of water supply pipelines in Masalani NWSB			-	20,048,023	67,961,565
Construction of water supply pipelines in Rumuruti NWSB			-	16,416,488	43,550,473
Construction of Water Supply pipelines in Korondile in NWSB	59,847,729		59,847,729	77,241,674	137,381,724
	86,715,004	-	86,715,004	152,928,467	693,716,902
3.Consultancies					-
Construction supervision of drought response civil works	4,934,062		4,934,062	49,628,568	115,164,307

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	2018/2019	2018/2019	2018/2019	2017/2018	Cumulative To Date
	Kshs	Direct Payments Kshs	Total Kshs	Total Kshs	Kshs
Design review of Bute Dam			-	-	57,403,347
Drought Mitigation Strategic Plan for CWSB Area	3,951,319		3,951,319	14,750,623	49,789,306
Evaluation Monitoring and Modelling of Merti Aquifer			-	34,767,168	49,118,340
Water Master plan for Wajir and Daadab host Community			-	67,428,188	84,285,235
Sanitation Master Plan for Wajir & Dadaab			-	146,437,503	169,205,111
Drought Mitigation plan for NWSB			-	32,459,801	78,226,968
	8,885,381	-	8,885,381	345,471,851	603,192,614
TOTAL	95,600,385	-	95,600,385	521,629,560	1,444,891,479

The cumulative payments for Drought Mitigation activities at the beginning of the financial year 2018/2019 was Kshs1,349,291,093.

During the year under review, major part of the funds were paying retentions for works that were under in NWSB and few consultancy contracts. No goods were procured under the financial year.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.8 CASH AND CASH EQUIVALENTS CARRIED FORWARD

8.8 A. PROJECT BANK ACCOUNT

	2018/2019	2017/2018
	Kshs	Kshs
Bank Balances KCB Account 114-321-8191		
	4,778,312	449,079,270
	4,778,312	449,079,270

The figures are as per the cash book balances. There is a statement of reconciliation which harmonizes the figures as at the end of the financial year

8.8 B. CASH IN HAND

The project do not handle cash in hand in its operations.

8.9 OUTSTANDING IMPRESTS AND ADVANCES

The project did not have outstanding imprests and advances at the close of the period.

8.10 FUND BALANCE BROUGHT FORWARD

	2018/2019	2017/2018
	Kshs	Kshs
Cash and cash equivalents b/fwd	449,079,270	385,205,114

These are balances brought forward from previous financial years

8.11 Prior Year Adjustment.

There were no adjustments to the figures that would have emanated from prior year transaction

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. OTHER IMPORTANT DISCLOSURES

9.1 PENDING ACCOUNTS PAYABLE (See Annex 2)

CONTRACTOR/CONSULTANT	IPC NO.	AMOUNT (KSH)	AMOUNT (USD)
FRONTIER ENGINEERING LTA	IPC NO.4	5,047,397	
ZAMCONSULT	IPC NO.2	26,444,137	
RESEARCH EAST AFRICA	IPC NO.7	1,463,000	
MANGAT I.B.PATEL	IPC 4		231,814
MANGAT I.B.PATEL	IPC 5		115,907
MANGAT I.B.PATEL	IPC 6		231,814
TOTAL		32,954,534	579,536

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10. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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


Reference No.on the external audit report	Issues/Observations from Auditors	Management Comments	Focal Person to resolve the issue(Name & Designation)	Timeframe(Put a date when you expect the issue to be resolved)
1	Acquisition on Non-Current Assets			
	Included in the statement of receipts & payments and as disclosed in Note8.5 for the year ended 30th June 2018 is acquisition of non-current asset of ksh.73, 720,247 paid by the project. Included in this figure is the purchase of office equipment amounting to 68,613,628.This was for the supply and installation and maintenance of billing system for 6 water service providers (WSP'S) in Mombasa, Kwale, Kilifi, Malindi, Taita taveta and Tana River was awarded on 26 October 2016 and the contract delivery date was on 26 February 2017, at a contract sum of ksh.81, 374,583.67 to date ksh.68, 613,628 has been paid. However as at the time of audit September 2018: The board did not provide evidence of needs assessments or requisition by the user water companies for audit review of the billing system. The contract lapsed on 26 February 2017 yet no action has been taken to extend the contract period or take other disiplinary action against the supplier	The billing contract involves the supply of hardware servers to WSP's and ensure billing systems are installed, tested and in use with a 3years maintenance. With respect to the hardware, all hardware and their respective software have been supplied and delivered. The u-vision utility billing systems have also been installed and configured in all the servers and delivered to wsp's. The current activities going on is that the supplier is trying to make sure that the technical specifications are met so wsp's will be able to produce correct bills and with information being properly displayed on the bills. As at time of audit an AVR front user expert (software provider) is present to ensure that the system is functioning and address any challenges of the system.so far we have been working on the database so as to have correct data, consumer details to be properly displayed. Adjustment modules, definitions of the different payment types, and meter reading procedures and how the billing is done in cases such as estimates, pro rating and moving averages. The system can be confirmed in the next audit.	Eng. Martin Tsuma, Technical Manager	Not Resolved
2	Drought Mitigation			

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	<p>The statement of receipt & payment for the year ended 30 June, 2018 reflects drought mitigation amount ksh.487,915,466 paid by the project in No 8.11 to the financial statements. This includes rehabilitation of Bura Irrigation Scheme water supply amount of ksh.5,004,707. The rehabilitation works was awarded to a contractor at a sum of ksh.90, 905,144.40 with a commencement date of 18 April 2016 for a period of 12 month up to 17, April 2017. However the contract was terminated on 30, November 2017 due to slow progress. The overall project implementation as assessed by the consultation was 66.64% when the contract was terminated and the total amount Ksh.39, 954,023.25 has been paid. An out of court settlement of ksh.11,972,181 was paid to the contractor in September 2018 to withdraw a court case. Consequently the propriety and value for money of drought mitigation costs totaling to 39,954,023.25 paid up to the year-end 30, June 2018 and the out of court settlement of ksh.11,972,181 paid after the year end could not be confirmed.</p>	<p>The contract price for the rehabilitation of Bura water supply was ksh.90, 905,144.10 (including contingencies and VOs 1 & 2) with a commencement date of 18th April 2016 for a contract period of 12 months. The contract was terminated on the 30th November 2017 following poor performance by the contractor. The physical overall project progress at the time of termination was 66.64% based on the contract final accounts with a total amount of ksh.39, 954,023.25 having been paid for work done. This total payment upon termination was 43.95% against overall project progress of 66.64%, meaning that the outstanding payment due to the contractor was ksh.19, 872,761.10. The contractor moved to court and got orders stopping CWSB from re advertising the remaining works. In the course of court proceedings, the contractor requested for an out of settlement which CWSB accepted. The negotiations for out of court settlement meeting was held on the 14th AUG 2018 at the CEO's Boardroom. The following was negotiated and agreed. The contractor to bear the penalty of 15% in line with GCC & PCC 58.1 in line with the signed contract on the outstanding works amounting to ksh.4, 491,636.57. Contractor to pay for liquidated damages of 0.075% up to a maximum of the final contract sum in line with GCC & PCC 47.1 of signed contract amounting to ksh.3, 408,942.90. The contractor to formally withdraw the case and submit the withdrawal documents to CWSB. Client to pay the contractor his last payment based on the final account less 15% penalty on outstanding works in line with GCC & PCC 58.1 and liquidated damages. Therefore the 11,972,181.69 paid to the contractor was a payment for work already done. Contract was re advertised on the 18th December 2018 and a contractor was awarded the remaining works on the 6th April 2019 to complete the work using GOK funds. This is therefore to request auditor general to review the issue and declare the expenditure eligible and drop the same from our last year's report.</p>	<p>Eng. Martin Tsuma, Technical Manager</p>	<p>Resolved</p>
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 Chief Executive Officer
 Mr. Jacob Torutt


 Project Coordinator
 Eng. David Kanui


 Project Accountant:
 Ms. Kibibi Shee
 ICPAK No. 21329

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ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS (KSHS)

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget utilisation Difference	% of Variance
	a	b	c=a+b	d	e=d-c	f=e/c
Receipts						
Transfer from Government Of Kenya	40,000,000	-	40,000,000	30,000,000	(10,000,000)	-25%
Proceeds from domestic and foreign grants		-		-	-	
Proceeds from IDA borrowings	840,000,000	(200,000,000)	640,000,000	165,133,618	(474,866,382)	-74%
Miscellaneous Receipts					-	
Total Receipts	880,000,000	(200,000,000)	680,000,000	195,133,618	(484,866,382)	-71%
Payments						
Acquisition of Non-Current Assets	32,902,000	-	32,902,000	15,811,392	(17,090,608)	-52%
Purchase of Goods and Works	499,801,000	-	499,801,000	364,103,336	(135,697,664)	-27%
Purchase of Consultancy	247,586,000	-	247,586,000	163,501,442	(84,084,558)	-34%
Resettlement Compensation	-	-	-	-	-	0%
Trainings	-	-	-	365,423	365,423	100%
Drought Mitigation	99,713,000	-	99,713,000	95,600,385	(4,112,615)	-4%
Operating Costs	-	-	-	-	-	0%
Bank Charges	-	-	-	52,597	52,597	100%
Total Payments	880,002,000	-	880,002,000	639,434,576	(240,567,424)	-27%

1) Transfer from Government of Kenya

The actual amount indicated is a reimbursement of funds utilised to pay suppliers, contractors and consultants paid out of Wassip-AF account. By the end of the financial year the fourth quarter funds amounting to Kshs. 10,000,000 had not been transferred.

2) Proceeds from IDA Borrowings

There were some budget slashes during the reporting period which resulted to our budget being reduced by Kshs.200,000,000 and due slow processing of funds requests from the ministry, an amount of ksh.474,866,382 had not been transferred to the project account at the end of the reporting period.

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3) Acquisition of Non-current Assets

Non-current assets is a category that derives its procurements from Goods, Works and Drought Mitigation. Hence its budget originates there from.

4) Trainings

The funds for this category were sourced immediately when WaSSIP-AF started and therefore expenditures were based on that initial budget of 2013 and approval by the bank on each and every training being undertaken with the projects funds.

5) Drought Mitigation

Most of the contracts under drought mitigation were completed and a few were still under defect liability period i.e works contract at Kinna, Korr and Korondile are have been completed and they are at defects liability period and the extension and construction of water supply pipelines in Rumuruti and Moyale have fully been completed.

5) Bank Charges

These were ordinary bank charges, commission for transfers and account maintenance for the transactions that took place during the year

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ANNEX 2 - ANALYSIS OF PENDING BILLS

CONTRACTOR/CONSULTANT	IPC NO.	AMOUNT (KSH)	AMOUNT (USD)
FRONTIER ENGINEERING LTA	IPC NO.4	5,047,397	
ZAMCONSULT	IPC NO.2	26,444,137	
RESEARCH EAST AFRICA	IPC NO.7	1,463,000	
MANGAT I.B.PATEL	IPC 4		231,814
MANGAT I.B.PATEL	IPC 5		115,907
MANGAT I.B.PATEL	IPC 6		231,814
TOTAL		32,954,534	579,536

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ANNEX 3 - DIRECT PAYMENTS MADE BY THE WORLD BANK ON BEHALF OF COAST WATER WORKS DEVELOPMENT AGENCY

Contractor	Contract Details	Payment Currency	Cert.Amount	Exc.Rate	Amount (Kshs)
A.WORKS					
China Henan	Baricho lot 3	USD	1,453,485.83	100.90	146,660,790
					146,660,790
B.CONSULTANCIES					
C. GOODS					
					146,660,790

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APPENDICES

i) STATEMENT OF SPECIAL (DESIGNATED) ACCOUNT RECONCILIATION FOR THE YEAR ENDED 30 JUNE 2019

Credit no: 4376/5103-KE DA-CC
Bank account no: 0100000488105
Held with: CFC STANBIC BANK, NAIROBI

		USD	KSHS
1	Amount advanced by IDA	66,815,490.13	6,835,111,053.97
	Less:		
2	Total amount Documented	62,109,204.32	6,353,666,016.29
3	Outstanding amount to be Documented	4,706,285.81	481,445,037.68
	Represented by:		
4	Ending Special Account Balance as at 30 th June 2019	2,488,497.46	254,569,059.71
5	Amount claimed but not credited as at 30 th June 2019		
6	Amount withdrawn and not claimed	2,217,788.35	226,875,977.96
7	Service Charges		
8	Interest earning		
9	Total advances to Special Account year ended 30th June 2019	4,706,285.81	481,445,037.68

The exchange rate used is that of 30th June 2019 ksh.102.2983 to the USD.

The amount appearing on line 6 is eligible for financing by the World Bank and shall be documented in subsequent IFRs.

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ii) ACCOUNT STATEMENT FOR THE PERIOD ENDED 30 JUNE 2019

Account No: 0100000488105
 Depository Bank: Stanbic Bank-Nairobi
 Address: Waiyaki Way, Westlands, Nairobi
 Related Loan: Part 2 Coast Water Works Development Agency
 Credit Agreement: 5103-KE
 Currency: USD

Account Activity:	USD	KSHS
Beginning balance of 1 st July 2018 as per CBK Ledger Account	10,488,497.46	1,072,955,459.71
Add:		
Total Amount deposited by World Bank		
Total Interest earnings		
Total amount refunded to cover ineligible expenditure		-
Deduct		
Total Amount withdrawn	8,000,000.00	757,622,367.65
Total Service Charge		
Ending balance on 30th June 2019	2,488,497.46	254,569,059.71

NOTE: The ending balance as per the Central Bank of Kenya Ledger Account and the Off-shore Special Account as at 30th June 2019 have been reconciled and a copy of the supporting Reconciliation Statement is attached.