

REPUBLIC OF KENYA



Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

**NATIONAL WATER HARVESTING
AND STORAGE AUTHORITY**

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



Hifadhi Maji, Boresha Maisha

NATIONAL WATER HARVESTING & STORAGE AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING

JUNE 30, 2019

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

National Water Harvesting & Storage Authority
Annual Reports and Financial Statements
For the year ended June 30, 2019

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I. KEY AUTHORITY INFORMATION AND MANAGEMENT

(a) Background information

National Water Harvesting and Storage Authority is established under Section 30 of the Water Act 2016. Section 149 of the Water Act 2016, transformed the Authority from National Water Conservation & Pipeline Authority (NWCPC) which was established under the State Authority's' Act Chapter 446 of the Laws of Kenya vide Legal Notice No. 270 of 24th June, 1988.

Vision

"To be the premier authority in water infrastructure development and management in Kenya and beyond"

Mission

"Developing and managing national water works infrastructure towards enhancing water security, flood mitigation and storage for multipurpose use."

(b) Principal Activities

The Authority's Mandate and functions as stipulated in Section 32 of the Water Act 2016 are as follows;

(1) The functions and powers of the Water Storage Authority shall be to -

- a) Undertake on behalf of the national government, the development of national public water works for water resources storage and flood control;
- b) Maintain and manage national public water works infrastructure for water resources storage;
- c) Collect and provide information for the formulation by the Cabinet Secretary of the national water resources storage and flood control strategies
- d) Develop a water harvesting policy and enforce water harvesting strategies;
- e) Undertake on behalf of the national government strategic water emergency interventions during drought; and
- f) Advise the Cabinet Secretary on any matter concerning national public water works for water storage and flood control.

(2) The Water Storage Authority may appoint agents for the operation, management, maintenance and safety of any storage infrastructure that it has developed.

(3) The Water Storage Authority shall have such other powers and functions as may be conferred or imposed on it by this or any other Act

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KEY AUTHORITY INFORMATION AND MANAGEMENT (Continued)

(c) Key Management

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

- Board of Directors
- Accounting officer/Chief Executive Officer
- Management

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2019 and who had direct fiduciary responsibility were:

No.	Name of the Staff	Responsibility
1	CS. Sharon Obonyo	Chief Executive Officer (Acting)
2	Eng. Ali Ibrahim Hassan	General Manager Construction
3	CPA Margaret Kithunzi	General Manager, Finance & Corporate Planning(Acting)
4	Eng. Henry Kigenyi	General Manager Technical Planning & Design(Acting)
5	Justus Ambutsi Wabuyabo	General Manager Corporate and Legal Services
6	Solomon Musiega Assava	General Manager Human Resource & Administration
7	John Mwalya Musyoka	Chief Procurement Officer
8	CPA Philip Ngovi Nzengu	Chief Internal Auditor(Acting)

(e) Fiduciary Oversight Arrangements

Finance Committee

The Committee comprises of four non-executive directors (one of them as Chairman) and the Chief Executive Officer as the Secretary.

The Committee has the following duties and responsibilities as directed by the Board:

- a) Develop, review and monitor implementation of the resource mobilization strategy of the Authority
- b) Review and make recommendations to the Board of Directors regarding the Authority's annual financial plans;
- c) Review the financial condition of the Authority and its requirements for funds.
- d) Review and make recommendations to the Board of Directors regarding any proposed capital project which is required to be approved by the Board of Directors;
- e) Review and make recommendations to the Board where appropriate regarding Authority's financial and risk management policies and practices, including cash investment policies; debt limitations; annual and longer-term operating plans; long-term capital expenditure

NATIONAL WATER HARVESTING & STORAGE AUTHORITY FINANCIAL STATEMENTS FOR THE QUARTER ENDED 30th June 2019.

projects; financing plans; and other financial transactions or issues that management desires to have reviewed by the Committee;

Risk & Audit Committee

This Committee comprises of four non-executive directors (one of them as Chairman) excluding the Chief Executive Officer and the secretary is the Chief Internal Auditor

The Board of Directors of the Authority established the Risk & Audit Committee to discharge duties related to safeguarding the Authority's assets; operation of adequate systems; control processes and preparation of accurate financial reporting and statements in compliance with legal requirements and accounting standards

The Committee shall have the following duties and responsibilities, as well as such other duties and responsibilities as it deems appropriate to carry out its purposes or as directed by the Board:

- a) Deal with appointment and termination of the Chief Internal Auditor. The Committee shall recommend this to the Board of Directors for approval.
- b) Discuss problems and reservation arising from the final audits, and any matter the external auditor may wish to discuss (in the absence of management where necessary)
- c) Review the external auditor's report(s) to the Management and Management's response.
- d) Consider the major findings in internal investigations and Management's response.
- e) Have explicit authority to investigate any matter within its terms of reference, the resources that it needs to do so and full access to information,
- f) Obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary;
- g) Consider other topics as defined by the Board including regular review of the capacity of the internal audit function; and
- h) The Committee must ensure that all legal provisions are followed. In addition to the various statutes that apply to the Authority's operations, these should include:
 - Code of conduct
 - Water Act 2002
 - The Government's Rules and Regulations
 - State Corporation's Act
 - Policies, Rules and Regulations established by the Board
- i) Establish an internal audit function and the Risk & Audit Committee's function in relation to Internal Audit functions, to include:
 - Review of the adequacy, scope, functions and resources of the Internal Audit function and ensure that it has the necessary authority to carry out its work.
 - Review the Internal Audit Program and results of the Internal Audit process and, where necessary ensure that appropriate actions are taken on the recommendations of the Internal Audit function.
 - Review any appraisal or assessment of the performance of members of the Internal Audit function.
 - Approve any appointment or termination of senior staff members of the Internal Audit function.
 - Ensure that the Internal Audit function is independent of the activities of the Authority and is performed with impartiality, proficiency and due professional care.

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KEY AUTHORITY INFORMATION AND MANAGEMENT (Continued)

(f) Headquarters

P.O. Box 30173
GPO 00100
Dunga road, Industrial Area
Nairobi, Kenya.

(g) Contacts

Telephone: (254) (020) 556600/1254)
Hotline: (254) 020 6531047
E-mail: info@nwcpc.go.ke
Website: www.waterauthority.go.ke

(h) Bankers

Kenya Commercial Bank
P.O. Box 30081
GPO 00100
Nairobi, Kenya

National Bank of Kenya
National Bank Building Harambee Avenue, Nairobi
P.O BOX 72866
City Square-00200
Nairobi, Kenya

(i) Independent Auditors

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

(j) Principal Legal Adviser

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

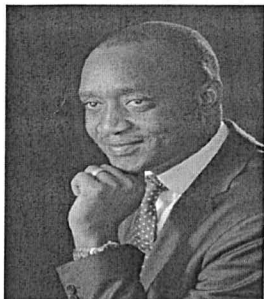


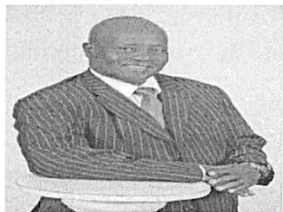
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THE BOARD OF DIRECTORS





Board of Directors who were in office during the financial year ended 30 June 2019 were:

 Hon.(Dr.) Julius Kones	<p>Born in 1972. He has a PhD in Mathematics, Master and Bachelor of Science degrees in Mathematics and Statistics respectively.</p> <p>The former statistics lecturer at the University of Nairobi is the immediate former MP for Konoin Constituency in Bomet County.</p> <p>He is the Chairman of the Board.</p>
 Walubengo Waningilo	<p>Born in 1965. He has a Postgraduate Master's degree in Arts, BA(Hons), LLB(Hons), Post Graduate Diploma(KSL).</p> <p>He has worked at National Hospital Insurance Funds for 15 years in Operations and prosecutions.</p> <p>He is also a practicing advocate. He chaired the GRAC committee.</p>
 Ms. Halima Kiniti	<p>Born in 1965. She has undertaken Customer Service Training and holds a certificate in Institutional Management. Ms. Halima is a leading business woman and entrepreneur. For the last seven years she has run an infrastructure construction company that has successfully built and rehabilitated road infrastructure across Kenya.</p> <p>Prior to this, she had worked for sixteen years in the hospitality industry with global brands like Diners club and Hilton Hotels as well as leading blue chip companies like Kenya Airways offering extensive skills in hospitality and natural affinity for superior customer care.</p>
 Moses Ndwiga	<p>Born in 1952. He has a Bachelor of Education Science from (University of Nairobi).</p> <p>Mr. Ndwiga has vast experience in the Education Sector having previously worked through the ranks to Senior Principal Teacher in various institutions including Siakago High School, Kegonge High School, Kiangugi High School and Kithegi Secondary School.</p>

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 <p>John Kangogo</p>	<p>Born in 1960. Mr. Kangogo worked with the Elgeyo/Marakwet county council before moving to the National Irrigation Board. Later he moved to Ministry of Finance at the Customs Department.</p> <p>He founded Cornerstone Security Services Ltd, Flagon Ltd and North Rift Wood & Timber Company Ltd where he serves the positions of Executive Chairman and Executive Director respectively.</p>
 <p>Eng. Vincent Sidai Esyepet</p>	<p>Born in 1974. He holds a M.A Project Planning & Management UoN, BSc(Hons) degree in Civil Engineering – JKUAT, Post Graduate in Program for Management Development – Strathmore/GIBS, Diploma in Advanced Concrete Technology – Institute of Concrete Tech. UK, Certificate in Concrete Technology – Cement & Concrete Institute, Certificate in Corporate Governance – Centre for Corporate Governance.</p> <p>He is also a Registered Engineer, Engineers Registration Board, Corporate Member, Institution of Engineers of Kenya and Member Institute of Concrete Technology - UK. Eng Sidai has over sixteen years of progressive experience in the construction industry, business management, and logistical management and people skills gained through working with various organizations</p>
 <p>Mrs. Alome Achayo</p>	<p>Born in 1968. Mrs. Alome has a Masters in Business Administration-Finance/Management and Bachelor of Science - Microbiology. She has over 15 years combined senior and middle level management experience acquired through working in various capacities in various institutions. She has previously headed Mombasa Water supply and Sanitation Co. Ltd, as the managing director.</p> <p>She worked as a general manager in E & A industries Ltd among others. She also worked as General Manager Business Development at Agricultural Finance Authority (AFC). Prior to that she worked as product manager in various international pharmaceutical firms.</p>




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 <p>CPA. Geoffrey Malombe (HSC) Representing PS, National Treasury</p>	<p>Born in 1972. FCPA Malombe has an MBA (Finance Option), Bachelor Degree (Agriculture and Economics). He is a Certified Public Accountant (Kenya) and a Member of the Institute of Certified Public Accountants of Kenya (ICPAK).</p> <p>He joined Government in 1997 and rose through the ranks to Senior Deputy Accountant General in 2016. He has over 20 years' experience in various Government ministries. He has also been involved in other Public Financial Management reforms in the National Treasury. He was the alternate to the Principal Secretary- The National Treasury.</p>
 <p>Eng. Lawrence Simitu</p>	<p>Born in 1965. He has a BSC in Civil Engineering (U.O.N), MSc in Civil Engineering (U.O.N).He has over 20 years' experience in the water sector.</p>
 <p>Dr (Eng.) Ali Hassan</p>	<p>Born in 1965. Has a PHD in Project Management, MSc in Project Management, Master's in Business Administration, BSc Civil Engineering, Diploma in Irrigation Engineering and Certificate in Strategic Leadership Development Certificate in Corporate Governance.</p> <p>Member of the institute of engineers of Kenya (MIEK). He was the acting Managing Director during this period.</p>
 <p>CS. Justus Ambutsi Wabuyabo</p>	<p>Born in 1974. He has a Master of Law (LL.M) Degree (Public International Law), Bachelor of Law LL.B (Hons.) and Post Graduate Diploma in Law.</p> <p>He is an Advocate of the High Court and a member of the Law Society of Kenya with experience of more than 15 years in legal affairs. He is the company secretary and the head of Corporate and Legal Services Department.</p>





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THE BOARD OF DIRECTORS




Board of Directors who are currently in office;

No.	Name	Director's date of birth, key qualifications and work experience
1	 <p>Mr. Erick Okeyo, MBS, MKIM <i>Chairman</i></p>	<p>Born in 1974. He holds a Diploma in Marketing Management. He previously served as the Board Chairman at Lake Victoria South Water Works Development Agency. He was the first Vice Chairman of the Private Security Regulatory Authority in the Office of the President.</p> <p>He is a member of the Kenya Hospital Association- Nairobi Hospital Board and National Chairman of the Kenya Security Industry Association (KSIA).</p>
2	 <p>Eng. S.A.O Alima <i>Rep PS Ministry of Water & Sanitation</i></p>	<p>Born 1966. He holds a Degree in Civil Engineering from the University of Nairobi and has a wealth of technical and managerial experience gained while working with the Ministry of Water, Sanitation and Irrigation in Various positions.</p> <p>He is a member of the Human Resource & General Purposes, Finance and Strategy, Technical and Business Development Board Committees.</p>
3	 <p>Bernard Otieno Okebe <i>Member</i></p>	<p>Born 1977. He holds a Master of Science degree in Communication studies, Bachelor of Science degree in Communication and Public Relations and Advance Diploma in Journalism.</p> <p>He has over 24 years experience in Communication and Media. He also served as a member of Water Action Group (WAG) under WASREB and a Member of Board of Governors for God-Oloo Secondary School.</p> <p>He is a member of the of Human Resources & General Purposes and Governance, Risk and Audit Board Committees at NWHSa.</p>

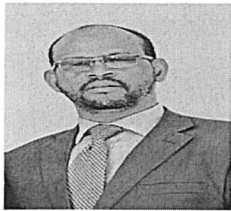

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4	 <p>Dr. Geoffrey Gitau Kamau <i>Member</i></p>	<p>Born 1971. He holds a PhD in Entrepreneurship and MSc in Entrepreneurship both from JKUAT. He also holds several postgraduate and ICT professional credentials including MISM Keller Graduate School (USA); Cisco CCNA - San Diego College (USA), Diploma IMIS –UK, Master of Communication Management - University of Rwanda & UK Telecommunications Authority, and IBM Cyber Security Specialist.</p> <p>He is the Chairman of the Human Resource and General Purposes Committee.</p>
5	 <p>Banticha Abdullahi Jaldesa <i>Member</i></p>	<p>Born 1978. He holds a Bachelor of Arts in Education and a Certificate in ICT Proficiency from Maseno University. He was a previous Member of Parliament for Isiolo South Constituency in 2013 where he served until 2017.</p> <p>He has previously worked as a Finance Director in a petroleum company where he coordinated financial strategic planning of the company, increased revenues and expanded markets for the company.</p> <p>He is the Chairman of the Governance, Risk and Audit Board Committee at NWHSA.</p>
6	 <p>Monica Namunyak Cherutich <i>Member</i></p>	<p>Born 1974. She is a qualified teacher and is the Vice Chair County Public Service Board.</p> <p>She is a member of the Human Resources & General Purposes and Finance Board Committees at NWHSA.</p>
7	 <p>Jane Mwikali Makau <i>Member</i></p>	<p>Born 1977. She holds a Master's degree in Business Administration and a Bachelor of Arts Degree; BA (Hons.) in Business and Management from University of Sunderland United Kingdom. Additionally, Jane has a higher National Diploma in Business and Technology from EDEXCEL University UK and a Marketing, Sales and Advertising Diploma from Graffins College. She holds a certificate in Entrepreneurship from Babson College in Boston USA.</p> <p>She is a Director at NWHSA and the Chair of Strategy, Technical & Business Development Committee and a member of Governance Risk and Audit Board Committee. (GRAC).</p>

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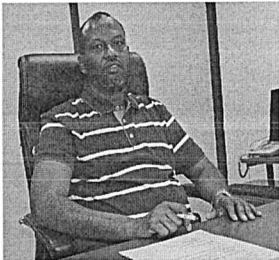

8	 <p>Abdikadir Haji Abdi Dara <i>Member</i></p>	<p>Born 1960. He holds an MBA in International Marketing Management from the American Graduate School of International Management (Thunderbird), Glendale, Arizona and a Bachelor of Arts in Business Management and International Relations from Webster University, Geneva, Switzerland.</p> <p>He has over 15 years of executive level management and analytical experience supporting project initiatives in the United States, Africa and the Middle East. Mr. Dara is a member of the Finance and Strategy, Technical and Business Development Board Committees at NWHSA.</p>
9	 <p>Walubengo Waningilo <i>Member</i></p>	<p>Born 1965. He holds a Master of Laws (LLM), Masters in History and a Bachelor of Arts in Sociology & History and a Bachelor of Laws (LLB) degree from the University of Nairobi. He also holds a Post Graduate Diploma from the Kenya School of Law and Investigations and Prosecution Certificate from the CID Training School.</p> <p>He is the Chairman of the Finance Board Committee at NWHSA. Chairman of the Finance Board Committee at NWHSA. He is also a practicing advocate.</p>
10	 <p>Samwel Mwati <i>Representative: PS Ministry of Lands and Physical Planning</i></p>	<p>Born 1969. He holds a Master's Degree in Public Policy and Administration from Kenyatta University and a Bachelor of Arts Degree from University of Nairobi. He has extensive experience in Administration and Management.</p> <p>He is a member of Governance, Risk and Audit and Human Resource & General Purposes Board Committees at NWHSA.</p>

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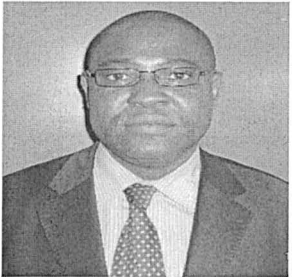
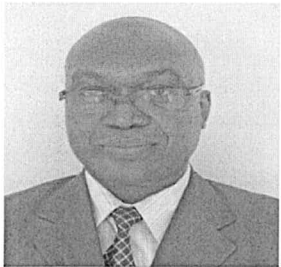
11	 <p>Elema Huka <i>Representative: The National Treasury</i></p>	<p>He holds a Bachelor degree in Economics from the University of Nairobi. Currently Mr. Huka is deployed at the Public Debt Management Directorate of the National Treasury.</p> <p>He previously worked as a programme Economist under Economic Empowerment Program, a joint program under World Bank and Government of Kenya.</p> <p>He is a member of the Finance, Strategy, Technical and Business Development, and Governance, Risk and Audit Board Committees at NWHSA.</p>
12	 <p>CS. Sharon Obonyo <i>Chief Executive Officer (Ag) & Company Secretary</i></p>	<p>She holds a Bachelor of Laws(LLB). She is an Advocate of the high court of Kenya and a Certified secretary with the institute of certified public secretaries.</p> <p>She has over 12 years of company secretarial practice, boardroom experience and Counsel to various Parastatals. Previously, she served at the Geothermal Development Company as a Legal Officer and a member of the Audit Committee at the Geothermal Association of Kenya (GAK). CS. Obonyo is also the current Chair of the Legal and Nominating Committee at the Geothermal Association of Kenya.</p>

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MANAGEMENT TEAM

No.	Name of the Staff	Key Qualifications and Work Experience
1	 <p>CS. Sharon Obonyo <i>Chief Executive Officer (Acting)</i></p>	<p>She holds a Bachelor of Laws(LLB). She is an Advocate of the high court of Kenya and Certified secretary with the institute of certified public secretaries</p> <p>Currently the Ag CEO. National Water Harvesting and Storage Authority. She is also the substantial Chief Legal Officer National Water Conservation & Pipeline corporation. Previously she worked with Geothermal Development Company and A.R. Kapila and Company Advocates.</p>
2	 <p>Eng. Ali Ibrahim Hassan General Manager Construction</p>	<p>PHD in Project management, MSc in Project Management, Master's in Business Administration, BSc in Civil Engineering Diploma in Irrigation Engineering and Certificate in Strategic Leadership Development Certificate in Corporate Governance. Member of the institute of engineers of Kenya (MIEK).</p>
3	 <p>CPA Margaret Kithunzi General Manager, Finance & Corporate Planning(Acting)</p>	<p>MBA (Finance), Bachelor of Commerce Degree. CPA (K) member of the Institute of Certified Public Accountant Kenya</p>

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4	 <p>Eng. Henry Kigenyi General Manager Technical Planning & Design(Acting)</p>	<p>Bsc.Civil engineering Registered Consulting engineer Water supply and dam expert He has over 29 years' experience in the water sector.</p>
5	 <p>Justus Ambutsi Wabuyabo General Manager Corporate and Legal Services</p>	<p>Master of Law (LL.M) Degree (Public International Law), Bachelor of Law LL.B (Hons.) and Post Graduate Diploma in Law. Member of the law society of Kenya</p>
6	 <p>Solomon Musiega Assava General Manager Human Resource & Administration</p>	<p>Master of Business Administration degree (Human Resources Management), Bachelor of Arts degree in Government, Higher National Diploma in Human Resources Management Member of the Institute of Human Resource Management, Kenya (IHRM-K).</p>

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7	 John Mwalya Musyoka Chief Procurement Officer	Executive Masters of Business Administration, Post Graduate Diploma in Purchasing & Supplies Bachelor of Commerce degree (Business Administration option).
8	 CPA Philip Ngovi Nzengu Chief Internal Auditor	Masters' Degree in Procurement, and a Bachelors' Degree, CPA(K), Member of ICPAK

CHAIRMAN'S STATEMENT

The Constitution of Kenya guarantees every citizen the right to clean and safe water in adequate quantities. This right comes at the back drop of a nation which is water scarce.

National Water Harvesting & Storage Authority, formerly known as National Water Conservation & Pipeline Corporation has over the years tried to stand in the gap by developing water infrastructure such as dams, pans and boreholes while at the same time mitigating the effects of floods by building dykes amongst other things.

To achieve its mandate, the Authority has fully embraced performance contracting which involves freely negotiated arrangements between the Board of Directors and the Government of the Republic of Kenya on Service delivery. The same performance Contract is cascaded to management whereby the Chief Executive Officer signed a contract with the Board and in turn signed similar contracts with the Heads of Departments. The Heads of Department on their part signed similar contracts with Divisional Heads.

The Performance Contracts have been useful tools to set targets and monitor performance of the Authority's activities. In the last financial year, the Authority performed well and met targets on most of the performance indicators despite a constrained budget allocation by the GoK.


The Authority is fully committed to its vision of becoming a world class institution in water infrastructure development and management. By engaging with County Governments, the Authority will endeavour to increase the storage capacity of water especially in the arid and semi-arid areas of the county with a view of enhancing water security nationally and mitigate against the effects of floods and drought in vulnerable areas.

My Board will continue to engage with Government, the public and other stakeholders to rebrand the Authority and make it relevant under the Water Act 2016 and the new constitution dispensation of devolution.

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As an Authority we will continue to aspire to excel as envisioned in our vision statement of world class institution in water infrastructure development and management. Prudent performance management and quality service delivery will be echeloned at all levels in the Authority. Further to this and as a public organization, the Board's decisions are guided by the core principles prescribed in the Public Officers Ethics Act and internal code of conduct.

In conclusion, I wish to state that the organization is ready to face the future and that the activities captured in this Annual Report and Financial statements represent the true status of the Authority


Erick Okeyo, MBS, MKIM
Chairman of the Board

Date:.....

REPORT OF THE CHIEF EXECUTIVE OFFICER

I am pleased to present the Financial Statements of the Authority for the period ended 30th June 2019. During the year the institution depicted good financial health despite operating in a very challenging environment.

The Authority faced budget constraints as it did not secure full funding from the Government as expected. Nonetheless, we managed to surmount the challenges to meet the annual targets.

In line with Vision 2030, the Authority has finalized the construction of Kiserian Dam, Chemususu Dam, Kalundu Dam and continues to oversee construction of multi-billion large reservoirs namely, , Muruny (Siyoi) Dam Water Supply Project, Umaa Dam and Badasa Dam. A number of dams were planned for the year namely; Rare, Londiani, Isiolo, Rumuruti, Upper Narok and Koru. The Authority continued with the construction works on the Siyoi-Muruny dam whose completion rate was measured at 55%. The dams form bulk of the operating expenses of the Authority in line with its mandate.

Besides these dams, the Authority undertook flood control works across the country where dykes were constructed along River Kuja, River Pekerra, River Nyando, River Awase, and River Kawalase while one check dam was constructed in Narok.

Human Resources remain the greatest asset of the Authority. In order to fully harness this important resource, the Institution organized and managed to send a number of officers at all cadres to various trainings as a way of building capacity. Similarly, customers and stakeholders are central to our business sustainability. Customer satisfaction is a key driver in fostering brand loyalty which leads to business growth and long-term viability. In today's diverse and highly dynamic business environment, it has become vital to tailor communication and engagement program to varied address stakeholder needs. In this regard we sustain mutually beneficial and strategic stakeholder interactions. This included participatory meetings and forums with investors, business partners, customer associations and the three arms of GoK.

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In support of the Big Four Agenda, the Authority has played a key role as an Enabler. This is through provision of Clean Water where dams are being constructed.

The Report provides in summary the activities of the Authority for the financial year 2018-2019 and provides a true and accurate status of the financial affairs of the Authority for the period ending 30th June 2019.



CS. Sharon Obonyo
Ag. Chief Executive Officer

Date:

CORPORATE GOVERNANCE STATEMENT

The Board of National Water Harvesting and Storage Authority is responsible and accountable to the Government of Kenya through the Ministry of Water & Sanitation in ensuring that the Authority complies with the law and the highest standards of Corporate Governance.

Composition of the Board

The Water Act 2016 provides for the membership to the Board of Directors of the Authority.

During the period, the membership was as follows: -

- A Non-Executive Chairman appointed by the President
- The Chief Executive Officer of the Authority
- The Principal Secretary to the Ministry for Water, Sanitation and Irrigation
- The Principal Secretary to The National Treasury
- The Principal Secretary to Ministry of Lands & Physical Planning
- Six independent members

Roles and Responsibilities of the Board

The Board has delegated authority for the operations and administration of the Authority to the Chief Executive Officer (CEO).

The functions of the Board are to:

- a) Provide effective leadership and collaborate with the Executive management team in:
 - Articulating the organization's values, vision, mission and strategies
 - Developing strategic (direction) plans and ordering strategic priorities
 - Maintaining open lines of communication and promulgating through the organization and with external stakeholders the values, vision, mission and strategies
 - Developing and maintaining an organization structure to support the achievement of agreed strategic objectives of the National Water Harvesting and Storage Authority
- b) Monitor the performance of the CEO against agreed performance indicators
- c) Review and agree the business (action) plans and annual budget proposed by the Executive management team
- d) Monitor the achievement of the strategic and business plans and annual budget outcomes

NATIONAL WATER HARVESTING & STORAGE AUTHORITY FINANCIAL STATEMENTS FOR THE QUARTER ENDED 30th June 2019.

- e) Establish such committees, policies and procedures as will facilitate the more effective discharge of the Board's roles and responsibilities
- f) Ensure, through the Board committees and others as appropriate, compliance obligations and functions are effectively discharged
- g) Initiate a Board self-evaluation program and follow-up action to deal with issues arising and arrange for directors to attend courses, seminars and participate in development programs as the Board judges appropriate
- h) Ensure that all significant systems and procedures are in place for the organization to run effectively, efficiently, and meet all legal, administrative, professional and contractual requirements

Committees of the Board

Human Resource & General Purposes Committee

The Committee comprises of five non-executive directors (one of them as Chairman) and the Chief Executive Officer as the Secretary. The Board of Directors of the National Water Harvesting and Storage Authority has established the Human Resources and General Purposes Committee to review, and as appropriate, act on behalf of the Board, or make recommendations to the Board concerning staff, corporate communication, corporate social responsibility and legal issues. The Committee meets on quarterly or need basis.

Finance Committee

The Committee comprises of four non-executive directors (one of them as Chairman) and the Chief Executive Officer as the Secretary. The Committee has the duties and responsibilities of developing, reviewing and monitoring implementation of the resource mobilization strategy of the Authority. The Committee meets on quarterly or need basis.

Governance, Risk & Audit Committee

This Committee comprises of four non-executive directors (one of them as Chairman) and the secretary is the Chief Internal Auditor. The Board of Directors of the National Water Harvesting and Storage Authority has established the Risk & Audit Committee to discharge duties related to safeguarding the Authority's assets; operation of adequate systems; control processes and

NATIONAL WATER HARVESTING & STORAGE AUTHORITY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30th June 2019.

preparation of accurate financial reporting and statements in compliance with legal requirements and accounting standards. The Committee meets on quarterly or need basis.

Strategy, Technical & Business Committee

The Committee comprises of four non-executive directors (one of them as Chairman) and the Chief Executive Officer as the Secretary. The Board of Directors of the National Water Harvesting and Storage Authority has established the Strategy, Technical and Business Development Committee to review, and as appropriate, act on behalf of the Board, or make recommendations to the Board concerning planning, strategy, technical, ICT and business development issues. The Committee meets on quarterly or need basis.

In summary the Board activities are as summarized below:

NO	NAME	NO OF MEETINGS	MEMBERSHIP	AVERAGE ATTENDANCE%
1	FULL BOARD	7	12	83%
2	FINANCE COMMITTEE MEETING	1	4	80%
3	HUMAN RESOURCE & GENERAL-PURPOSE COMMITTEE MEETING	4	5	100%
4	GOVERNANCE, RISK & AUDIT MEETING	1	4	80%
5	STRATEGY, TECHNICAL BUSINESS COMMITTEE MEETING	2	4	80%
6	ADHOC MEETINGS & TRAVELS	21	1	100%

National Water Harvesting & Storage Authority)

Annual Reports and Financial Statements

For the year ended June 30, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

a. Financial Performance Highlights

The Authority's financial performance recorded a decline in performance with the deficit declining by Kshs.51.792M and total revenue declining by Kshs.17.8M and expenditure rising by Kshs.33.8M respectively, in the year under review.

Table 1: Financial Performance Highlights

	2018/2019	2017-2018	Change in Income	
	Kshs	Kshs	Kshs	%
Surplus / Deficit for the year	-145,374,113	-93,478,575	-51,895,538	56%

i. Income

The exchequer decreased by Kshs.71M amidst the rising cost of operations. In addition, the revenues from exchange transactions declined by 53.21M. The same was attributed to a decrease in the number of contracts sourced by the Business Development division, poor interest rates on balances held by KCB as well as a marginal increase in rental revenues.

ii. Expenses

Generally, the expenses increased from Kes.625.95M to Kes.660.04M over the period. The biggest variance is recorded on the Use of Goods and services and Staff Costs which were attributed to an increase in Security Costs as result of a pending bill payable to Lavington Security as well as implementation of revised SRC salaries

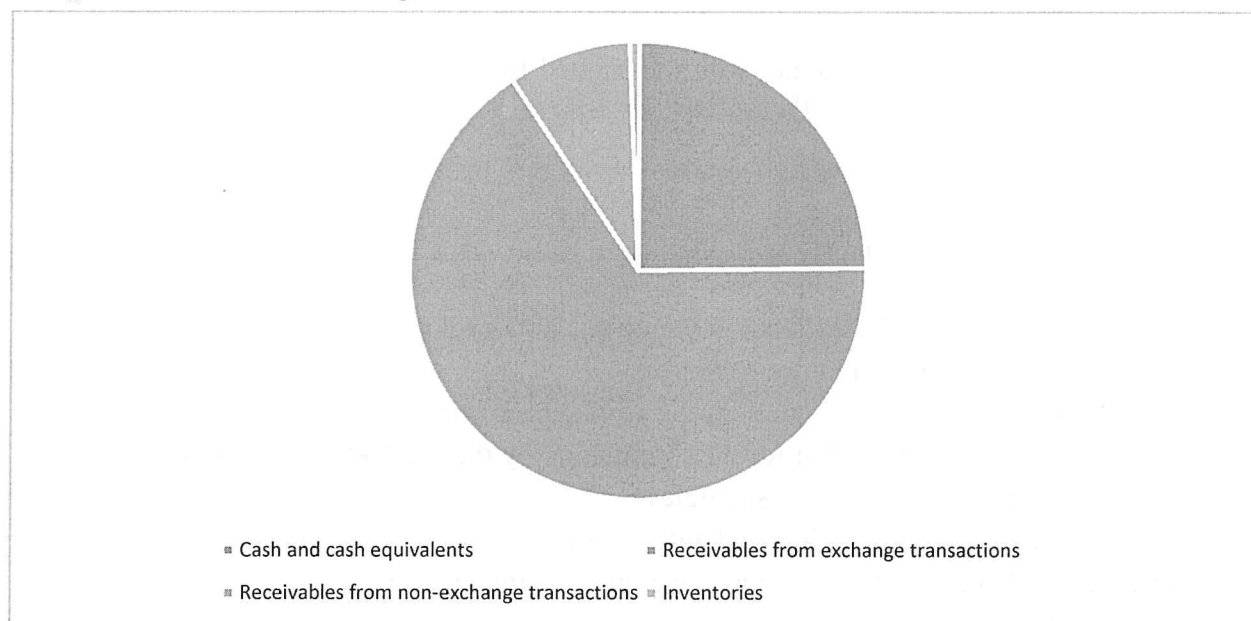
b. Position Highlights

The Authority maintains a healthy balance sheet with a funding of Kes.20.609 B. The Property, Plant & Equipment is Kes.20.710B and is composed of Capital W.I.P items of Kes.20.12B which consists of capital expenditures including Chemususu dam, Kiserian Dam, Kalundu Dam, Umaa and Badasa Songa Dam. Chemususu and Kiserian Dams are completed but are yet to be handed over to the Water Service Boards.

Receivables from exchange transactions decreased by Kshs81.09M while receivables from non-exchange transactions decreased by Kshs1.67M Cash and cash equivalents by Kshs.183M However, the improvement on receivables was eroded by a drop in Inventory by Kshs.8.8M (56%).

NATIONAL WATER HARVESTING & STORAGE AUTHORITY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30th June 2019.

Composition of Assets During the Year



Further, against a Development budget of Kes.1.282B, the Authority received Kes.1.503B by the close of the Financial Year. This Development Budget was to be utilized on Muruny (Siyoi) Dam Water Supply Project, Flood Control and Drought Mitigation. As such the following projects were implemented during the year were:

- Muruny (Siyoi) Dam Water Supply Project– West Pokot County
- River Awase Flood Control – Homabay County
- River Nzoia Flood Control – Busia County
- River Nyando Flood Control – Kisumu County
- River Kawalase Flood Control – Turkana County
- Narok Flood Control-Narok County
- River Kuja Flood Control – Migori County

National Water Harvesting & Storage Authority)
Annual Reports and Financial Statements
For the year ended June 30, 2019

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the *Authority's* affairs.

Principal activities

The principal activities of the Authority are (continue to be):

- a) Undertake on behalf of the national government, the development of national public water works for water resources storage and flood control;
- b) Maintain and manage national public water works infrastructure for water resources storage;
- c) Collect and provide information for the formulation by the Cabinet Secretary of the national water resources storage and flood control strategies
- d) Develop a water harvesting policy and enforce water harvesting strategies;
- e) Undertake on behalf of the national government strategic water emergency interventions during drought; and
- f) Advise the Cabinet Secretary on any matter concerning national public water works for water storage and flood control.

Results

The results of the Authority for the year ended June 30, 2019 are set out on page 1- 34

Directors

The members of the Board of Directors who served during the year are shown on page vi to ix. During the year 2019 the Chairman of the Board retired and Dr. David Ole Nkedianye was appointed with effect from February 2019. The other Board Members were appointed during the month of March 2019.

Dividends/Surplus remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The Authority did not make any surplus during the year 2019 and hence no remittance to the Consolidated Fund.

Auditors

The Auditor General is responsible for the statutory audit of the Authority in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 to carry out the audit of the Authority for the year/period ended June 30, 2019 in accordance to section 23 of the Public Audit Act, 2015.


By Order of the Board

CS. Sharon Obonyo

Company Secretary

Nairobi

Date:.....

National Water Harvesting & Storage Authority)

Annual Reports and Financial Statements

For the year ended June 30, 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

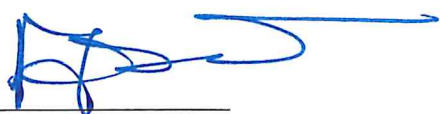
The Directors are responsible for the preparation and presentation of the *Authority's* financial statements, which give a true and fair view of the state of affairs of the *Authority* for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the *Authority*; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *Authority*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *Authority's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act). The Directors are of the opinion that the *Authority's* financial statements give a true and fair view of the state of *Authority's* transactions during the financial year ended June 30, 2019, and of the *Authority's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *Authority*, which have been relied upon in the preparation of the *Authority's* financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the *Authority* will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The *Authority's* financial statements were approved by the Board on _____ 2019 and signed on its behalf by:



Director

Director

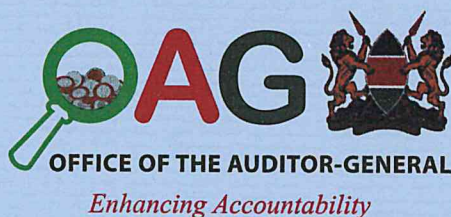
Director

NATIONAL WATER HARVESTING & STORAGE AUTHORITY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30th June 2019.

**REPORT OF THE AUDITOR GENERAL ON NATIONAL WATER HARVESTING &
STORAGE AUTHORITY**

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NATIONAL WATER HARVESTING AND STORAGE AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Water Harvesting and Storage Authority set out on pages 1 to 36, 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 in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Water Harvesting and Storage Authority 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 (Accrual Basis) and comply with the Water Act, 2016 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported and Offsetting of Trade and Other Payables from Exchange Transactions

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.1,134,402,781. However, as previously reported, the balance included debit balances totaling Kshs.444,255,818 for which supporting schedules were not provided and which were offset against the payables contrary to the provisions of Paragraph 48 of IPSAS 1 – Presentation of Financial Statements - which prohibits offsetting of assets and liabilities, revenue and expenses.

In addition, included in the balance of Kshs.1,134,402,781 were trade payables of Kshs.384,013,234 which had been outstanding for more than one year and for which

Management did not provide detailed supplier ledgers and supporting documents for audit verification.

In view of the foregoing, it was not possible to confirm the accuracy, validity and completeness of the trade and other payables from exchange transactions balance of Kshs.1,134,402,781.

2. Long Outstanding Unreconciled Items in Cash and Cash Equivalents

The statement financial position reflects cash and cash equivalents amount of Kshs.256,191,108. However, as previously reported, the balance excluded Kshs.31,860,430 relating to unposted items reflected in the bank reconciliations, as detailed below:

Account Name	Account No.	Date First Reported	Amount (Kshs.)
Development A/c	1114280593	2009	24,671,142
Special A/c	1114279978	2006	2,133,280
Recurrent A/c	1114280488	2006	5,056,008
			31,860,430

The items have been outstanding for more than 10 years and it is not clear why Management has not investigated the unposted items to clear them from the reconciliation statements.

Further, as disclosed in Note 18 to the financial statements, a credit balance of Kshs.5,020 was offset against the reported cash and cash equivalents balance contrary to the provisions of Paragraph 48 of IPSAS 1 – Presentation of Financial Statements - which prohibits offsetting of assets and liabilities, revenue and expenses

In addition, the recurrent account bank reconciliation statement reflected a cashbook under cast of Kshs.1,956,997, a reconciling item which should have been adjusted in the cashbook before preparing the reconciliation.

Consequently, it was not possible to confirm the accuracy and completeness of the cash and cash equivalents balance of Kshs.256,191,108 as at 30 June, 2019.

3. Undisclosed Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions amounting to Kshs.674,383,971. However, as previously reported, the balance excludes water supply debts of Kshs.1,377,265,028 and pre-payments totaling to Kshs.754,400 transferred to Water Service Boards (currently Water Works Development Agencies) under various agreements between the Authority and the Water Service Boards in the financial year 2005/2006. However, the agreements had not been formalized and the legal status of the debts remained uncertain.

Consequently, the accuracy and completeness of the reported receivables balance could not be confirmed.

4. Long Outstanding Receivables from Non-Exchange Transactions

As disclosed in Note 20 to the financial statements, the statement of financial position reflects receivables from non-exchange transactions amounting to Kshs.92,339,809. However, the following issues were noted;

- (i) As reported in the prior year, the receivables amount includes staff salary advances of Kshs.3,641,273 out of which Kshs.1,213,269 had been outstanding for periods beyond 90 days against the Authority's policies but were yet to be recovered from the payroll.
- (ii) The receivables from non-exchange transactions also include deposits amounting to Kshs.14,017,475, which have remained outstanding from the Judiciary from 2015/2016 financial year.
- (iii) The receivables also include temporary imprests of Kshs.92,983,913 which were yet to be surrendered by the end of the financial year, and Management was yet to make recoveries of the outstanding amounts through the payroll. However, a specific provision for bad debts of Kshs.18,302,852 on outstanding imprest has been made, and according to Management, this relates to staff members who have either passed on or left the Authority.

In the circumstances, it has not been possible to confirm the recoverability of receivables from non-exchange balance of Kshs.92,339,809 as at 30 June, 2019.

5. Undisclosed and Long Outstanding Loans

As previously reported, the Authority has not disclosed in its financial statements an outstanding balance of Kshs.2,460,874,897 relating to various loans. In addition, although the loan repayments were due, the Authority had not made any repayment nor recognized in the books of account the interest due, together with the related arrears. According to Management, the loans were supposed to have been passed over to the Water Works Development Agencies which took over the facilities constructed using the loans, and which were supposed to generate the revenue to repay the loans. However, no formal documentation was provided to support the explanation.

Further, although Management explained that the Authority had no capacity to repay the loans without financial support from The National Treasury and that they had sought the intervention of the Ministry of Water on the matter, the loans continued to attract interest and penalties and the lenders might invoke the terms of lending to the disadvantage of the Authority, the Water Works Development Agencies or The National Treasury.

6. Undisclosed Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs.20,710,104,989 under property, plant and equipment. However, and as previously reported, the balance

excludes an amount of Kshs.16,781,832 being the value of various assets earmarked for transfer to various Water Works Development Agencies. Although Management explained that the Ministry of Water, Sanitation and Irrigation had directed the Agencies to have the transfer agreements signed, the matter had not yet been finalized as at the time of the audit.

Consequently, the accuracy and completeness of the reported balance of Kshs.20,710,104,989 for property, plant and equipment could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Water Harvesting and Storage Authority 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 the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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 year under review.

Other Matter

Unresolved Prior Year Audit Matters

As disclosed at the Progress on Follow Up of Auditor's Recommendations section of the financial statements, prior year audit matters remained unresolved as at 30 June, 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, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Work in Progress

The statement of financial position reflects a property, plant and equipment balance of Kshs.20,710,104,989 which, as disclosed in Note 22 to the financial statements, includes an amount of Kshs.20,118,587,213 relating to capital work - in - progress amounting to Kshs.20,118,587,213. The following audit findings were made:

1.1 Construction of Head Office

The work in progress balance of Kshs.20,118,587,213 includes an amount of Kshs.859,351,951 relating to the construction of a Head Office Block. The Authority awarded the contract for the construction of the office block to a local firm at a contract sum of Kshs.485,400,820 in 2008. However, as previously reported, the firm abandoned the project after being paid a total of Kshs.80,660,480. The Authority thereafter procured another firm for the project and by the end of the 2018/2019 financial year, a total of Kshs.859,351,951 had been incurred on the building. This exceeded the original contract sum by Kshs.373,951,131 representing a variation of 77% contrary to the provisions of Section 139 (6) of Public Procurement and Asset Disposal Act, 2015 which provides that where variations result in an increment of the contract price by more than twenty-five percent, such variations shall be tendered for separately. Although Management explained that the cost escalations arose from change in prices between 2008 and 2011, it was not possible to confirm whether public funds were utilized in an effective manner.

Management was therefore, in breach of the law.

1.2 Siyoi – Muruny Dam

The work in progress balance of Kshs.20,118,587,213 also includes an amount of Kshs.4,762,838,041 relating to construction of the Siyoi Muruny Dam and Water Supply Project, located in West Pokot County, in two lots.

1.2.1 Lot 1

Lot 1 entailed construction of the dam whose contract was awarded to a Chinese contractor in March, 2015, at a contract price of Kshs.5,056,182,763. The certified works on the project as at 30 June, 2019 amounted to Kshs.4,951,286,259, out of which the cumulative payments totalled Kshs.4,762,838,041. Included in the cumulative payments was an amount of Kshs.2,123,822,597 paid to the contractor. However, although the contract, which was for thirty-six (36) months commencing 30 March, 2015 and ending on 30 March, 2018, had 3 extensions, to 20 July, 2018, 19 August, 2018 and subsequently to 16 March, 2020, the progress report provided for audit review indicated that only approximately 53% of the works had been completed as at 30 June, 2019.

Further, payment certificates totaling Kshs.76,217,535 due for payment as at 30 June, 2019 were yet to be settled and the contractor through a letter dated 29 March, 2019, issued a notice of suspension of works citing delay in honoring interim payment certificates. As at the time of the audit inspection in October, 2019, the contractor had withdrawn the machinery from the site.

According to Management, the inability to pay resulted from lack of budgetary allocation from The National Treasury.

1.2.2 Lot 2

Lot 2 entailed construction of Siyoi Kapenguria Water Supply for which the contract was awarded to a contractor in March, 2015 for 52 Months (225 Weeks) at a contract price of

Kshs.4,149,828,304. The Project's cumulative payments of Kshs.4,762,838,041 includes an amount of Kshs.2,466,085,937 paid to the contractor as at 30 June, 2019. The contract completion date was extended by five (5) months to 29 August, 2018 and subsequently to 19 July, 2019 with associated costs amounting to Kshs.233,583,344. However, the progress report provided for audit indicated that work completed as at 31 March, 2019 was approximately 68%.

Further, payment certificates totaling Kshs.285,160,189 due for payment as at 30 June, 2019 were yet to be settled and the contractor through a letter dated 18 March, 2019, issued a notice of suspension of works citing delay in honoring interim payment certificates. As at the time of the audit inspection in October, 2019, the contractor had withdrawn the machinery, and there was no activity on site. According to Management, the inability to pay resulted from lack of budgetary allocation from The National Treasury.

Under the circumstances, it was not possible to confirm that the Project would be completed within schedule and in a cost-effective manner.

2. Excess Board of Directors

The statement of financial performance reflects remuneration of Directors expenditure of Kshs.13,256,227. However, the Cabinet Secretary appointed seven (7) Independent Directors to the Board instead of five (5) as provided for under Section 31(e) of the Water Act, 2016, resulting to an excess of two (2) Members. This resulted in unnecessary extra costs on remuneration to the Directors.

In view of the above, it was not possible to confirm that the Board was properly constituted and the propriety of the expenditure.

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

Basis for Conclusion

Composition of the Audit Committee

The Audit Committee did not have any Member with expertise in audit, financial management or accounting, experience and knowledge in risk management or membership of professional body in good standing, as required under Section 3.4 (2) (b) of the Code of Governance for State Corporations (Mwongozo).

In the circumstances, the effectiveness of the Audit Committee in executing its oversight role, could not be confirmed.

The audit was conducted in accordance to ISSAI 2315 and 2330. The standards require that I plan and perform the audit to obtain assurance on whether effective processes and systems of internal control, risk management and overall governance, were operating effectively, in all material respects. I believe that the 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 Authority's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to either terminate the Authority or cease operations.

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

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

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

19 August, 2021

National Water Harvesting & Storage Authority)

Annual Reports and Financial Statements

For the year ended June 30, 2019

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2018-2019	2017-2018
		Kshs	Kshs
Revenue from non-exchange transactions			
Transfers from other governments	6	392,850,000	463,864,001
		392,850,000	463,864,001
Revenue from exchange transactions			
Rendering of services	7	78,644,246	18,882,008
Rental revenue from facilities and equipment	8	32,769,890	27,974,160
Finance income - external investments	9	6,261,703	3,343,081
Other income	10	4,146,389	18,409,217
		121,822,228	68,608,466
Total revenue		514,672,228	532,472,467
Expenses			
Use of goods and services	11	52,323,140	24,575,527
Employee costs	12	338,582,374	303,794,451
Remuneration of directors	13	13,256,227	35,823,097
Depreciation and amortization expense	14	85,967,922	87,866,178
Repairs and maintenance	15	3,134,869	2,391,098
General expenses	16	165,842,554	170,999,230
Taxation	17	939,255	501,462
Total expenses		660,046,341	625,951,042
Deficit for the year		(145,374,113)	(93,478,575)

National Water Harvesting & Storage Authority)

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For the year ended June 30, 2019

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Notes	2018-2019	2017-2018
		Kshs	Kshs
Assets			
Current Assets			
Cash and cash equivalents	18	256,191,108	71,706,484
Receivables from exchange transactions	19	674,383,971	755,475,343
Receivables from non-exchange transactions	20	92,339,809	90,669,732
Inventories	21	6,852,946	15,694,950
		1,029,767,833	933,546,510
Non-current Assets			
Property, plant and equipment	22	20,710,104,989	19,654,644,527
Intangible assets	23	3,802,037	5,703,055
		20,713,907,025	19,660,347,582
Total Assets		21,743,674,859	20,593,894,091
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	24	1,134,402,781	1,340,883,175
		1,134,402,781	1,340,883,175
Total liabilities		1,134,402,781	1,340,883,175
Net assets		20,609,272,078	19,253,010,916
Reserves		358,080,032	358,080,032
Accumulated surplus		(522,021,901)	(376,647,788)
Capital Fund		20,773,213,947	19,271,578,672
Total net assets and liabilities		20,609,272,078	19,253,010,916

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


Ag. Chief Executive Officer

Name: CS. Sharon Obonyo


Head of Finance

Name: CPA Patrick Ataro Otwani


Chairman of the Board

Name: Mr. Erick Okeyo, MBS, MKIM

Date.....

ICPAK Member Number: 13572

Date -----

Date.....

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STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2019

	Reserves Kshs	Accumulated Surplus Kshs	Capital Fund Kshs	Total Kshs
At July 1, 2017	358,080,032	(283,169,213)	18,161,854,589	18,236,765,408
Total comprehensive income	0	(93,478,575)	0	(93,478,575)
Capital/Development grants received during the year			1,124,000,000	1,124,000,000
Recognized as Other Incomes			(14,275,917)	(14,275,917)
At June 30, 2017	358,080,032	(376,647,788)	19,271,578,672	19,253,010,916
At July 1, 2018	358,080,032	(376,647,788)	19,271,578,672	19,253,010,916
Total comprehensive income	0	(145,374,113)	0	(145,374,113)
Capital/Development grants received during the year			1,503,292,000	1,503,292,000
Recognized as Other Incomes			(1,656,725)	(1,656,725)
At June 30, 2019	358,080,032	(522,021,901)	20,773,213,947	20,609,272,078

National Water Harvesting & Storage Authority)

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STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

		2018-2019	2017-2018
		Kshs	Kshs
Cash flows from operating activities			
Receipts			
Transfer from other governments	6	392,850,000	463,864,001
Rendering of services	7	78,644,246	17,755,272
Rental revenue from facilities and equipment	8	32,769,890	14,277,232
Finance income - external investments	9	6,261,703	3,343,081
Other income	10	4,146,389	18,409,217
Total Receipts		514,672,228	517,648,803
Payments			
Use of goods and services	11	52,323,140	17,628,216
Employee costs	12	338,582,374	325,602,029
Remuneration of directors	13	13,256,227	35,823,097
Repairs and maintenance	15	3,134,869	2,391,098
General expenses	16	165,842,554	153,329,260
Taxation	17	939,255	501,462
Total Payments		574,078,419	535,275,162
Adjusted for changes in working capital			
Receivables from exchange transactions	19	81,091,372	58,002,193
Receivables from non-exchange transactions	20	(1,670,076)	63,473,752
Inventories	21	8,842,004	15,694,650
Trade and other payables from exchange trans	24	(206,480,394)	503,643,158
Other payments			642,598,202
		(118,217,094)	(107,323,040)
Net Cash generated from/(used in) Operating Activities		(177,623,286)	624,971,842
Cash flows from investing activities			
Purchase of PPE and intangible assets	22&23	(1,139,527,366)	(1,850,461,917)
Disposal of PPE and intangible assets			
Net cash flows used in investing activities		(1,139,527,366)	(1,850,461,917)
Cash flows from financing activities			
Receipts from Government grants		1,501,635,274	1,109,724,083
Net cash flows used in financing activities		1,501,635,274	1,109,724,083
Increase/(Decrease) in cash and cash equivalents		184,484,622	(115,765,991)
Cash and cash equivalents at 1 st July 2018	18a	71,706,486	187,472,477
Cash and cash equivalents at 30 JUNE 2019	18b	256,191,108	71,706,486

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**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2019**

	Original budget 2018-2019 Kshs	Adjustments 2018-2019 Kshs	Final budget 2018-2019 Kshs	Recurrent Actual on comparable basis 2018-2019 Kshs	Development Actual on comparable basis 2018-2019 Kshs	Performance difference 2018-2019 Kshs	Final budget 2017-2018 Kshs
Revenue							
Government grants and subsidies - recurrent	405,000,000	(8,100,000)	396,900,000	392,850,000	0	(4,050,000)	463,864,001
Government grants and subsidies - Development	1,150,000,000	132,000,000	1,282,000,000		1,503,292,000.00	221,292,000	1,860,792,000
Other income A.I.A	100,000,000	0	100,000,000	121,822,228	0	21,822,228	100,000,000
Total income	1,655,000,000	123,900,000	1,778,900,000	514,672,228	1,503,292,000	239,064,228	2,424,656,001
Expenses							
Use of goods and services	23,000,000	0	23,000,000	52,323,140	0	(29,323,140)	45,000,000
Employee costs	340,000,000	0	340,000,000	338,582,374	0	1,417,626	304,684,646
Remuneration of directors	14,000,000	0	14,000,000	13,256,227	0	743,773	36,000,000
Depreciation and amortization expense	-	0	0	85,967,922	0	(85,967,922)	-
Repairs and maintenance	3,200,000	0	3,200,000	3,134,869	0	65,131	3,492,264
General expenses	124,800,000	-8,100,000	116,700,000	165,842,554	0	(49,142,554)	174,687,091
Taxation		0	0	939,255	0	(939,255)	-
Dams & Pans	1,000,000,000	0	1,000,000,000		1,050,793,871	(50,793,871)	1,700,000,000
Flood control	150,000,000	90,000,000	240,000,000		63,082,035	176,917,965	150,792,000
Drought Mitigation	-	42,000,000	42,000,000		-	-	-
Construction of Buildings	-	0	0		13,640,795	(13,640,795)	10,000,000
Total expenditure	1,655,000,000	123,900,000	1,778,900,000	660,046,341	1,127,516,701	(50,663,042)	2,424,656,001
Surplus for the period	-	-	-	(145,374,113)	375,775,299	289,727,270	-

Budget notes

The Authority did not receive Kes.4,050,000 on its allocated recurrent budget from the GoK. This was subsequently requested as no reason was given for the variance. The development variance of Kes. 221,292,000 is as a result of a grant of Kes.848,792,000 received relating to financial year 2017-2018, non-received grant of Kes.500million (Siyoi Dam) and Kes.37.5m (Flood Control). The positive variance on A.I.A is as a result of increased in recognized Business Development Works. In addition, the Use of Goods and Services negative variance is as a result of an accrued pending bill on security costs which was verified and recognized during the audit year. Besides, no budget was allocated for the depreciation expenses. Still, the negative variance on general expenses was a result of captured pending bills under the items. Finally, the negative variance on the dams is as a result of invoiced works as the project is an ongoing multiyear project and therefore expenses are recognized as and when invoiced. Finally, Flood control works had a huge positive variance as implementation of the works delayed.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

National Water Harvesting and Storage Authority is established by and derives its authority and accountability from Water Act 2016. The Authority is wholly owned by the Government of Kenya and is domiciled in Kenya. The Authority's principal activities are:

- Undertake on behalf of the national government, the development of national public water works for water resources storage and flood control;
- Maintain and manage national public water works infrastructure for water resources storage;
- Collect and provide information for the formulation by the Cabinet Secretary of the national water resources storage and flood control strategies
- Develop a water harvesting policy and enforce water harvesting strategies;
- Undertake on behalf of the national government strategic water emergency interventions during drought; and
- Advise the Cabinet Secretary on any matter concerning national public water works for water storage and flood control.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Authority's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note xx

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Authority.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

Standard	Impact
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.

3 ADOPTION OF NEW AND REVISED STANDARDS (Continued)

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	<p>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 Authority future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • 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 Authority risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.

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Standard	Effective date and impact:
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 Authority 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 Authority; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the Authority financial performance, financial position and cash flows.

i. Early adoption of standards

The Authority did not early – adopt any new or amended standards in year 2019

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees, taxes and fines

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

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Authority and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds

ii) Revenue from exchange transactions

Rendering of services

The Authority recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Sale of goods

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

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

Dividends

Dividends or similar distributions must be recognized when the shareholder's or the Authority's right to receive payments is established.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

b) Budget information

The original budget for FY 2018-2019 was approved by the National Assembly on May 2018. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Authority upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Authority recorded additional appropriations of Kshs.123.9 Million on the 2018-2019 budget following the governing body's approval.

The Authority's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under page 5 of these financial statements.

c) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Authority operates and generates taxable income.

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

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets.

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Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable Authority and the same taxation authority.

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

d) Investment property

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

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

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

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

e) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Authority recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

f) Leases

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

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

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

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

g) Intangible assets

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

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

h) Research and development costs

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

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

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

i) Financial instruments

Financial assets

Initial recognition and measurement

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

Loans and receivables

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

Held-to-maturity

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

Impairment of financial assets

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

Impairment of financial assets (Continued)

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

Financial liabilities

Initial recognition and measurement

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

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

Loans and borrowing

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

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

i) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

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

j) Provisions

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

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

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

Contingent liabilities

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

Contingent assets

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

k) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements.

Accumulated Reserves

This is the portion of net income that is maintained by the Authority. If a deficit is incurred, then it reduces the Authority's accumulated reserves balance.

Capital Reserves

The Board makes a provision for renewing depreciating assets by creating a capital reserve equal to the accumulated depreciation and amortization at the end of the financial year.

Revaluation Reserve

The Board adopts the revaluation model for recognition of the Property Plant and Equipment. Where the first time an asset is revalued and such revaluation value is higher than the historical cost then such is carried as a revaluation reserve. Subsequent drops in value draw down the revaluation reserve.

l) Changes in accounting policies and estimates

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

m) Employee benefits

Retirement benefit plans

The Authority provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an Authority pays fixed contributions into a separate Authority (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

n) Foreign currency transactions

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

o) Borrowing costs

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

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

Related parties

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

p) Service concession arrangements

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

q) 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 authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

r) Comparative figures

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

s) Subsequent events

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

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Authority's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. Some of the assumptions made include: That the entity is and shall continue being a going concern; that the entity shall continue receiving Government funding for its activities.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Authority based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Authority. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Authority
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note xxx.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. TRANSFERS FROM OTHER GOVERNMENTS

Description	2018-2019	2017-2018
	KShs	KShs
Unconditional grants		
Operational grant – State Dept of Water	392,850,000	463,864,001
Total government grants and subsidies	392,850,000	463,864,001

Name of the Department sending the grant	Amount recognized to Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund. KShs	Total grant income during the year KShs	2017-2018 KShs
State Department of Water and Sanitation	392,850,000		1,503,292,000	1,896,142,000	1,587,864,001
Total	392,850,000		1,503,292,000	1,896,142,000	1,587,864,001

7. RENDERING OF SERVICES

Description	2018-2019	2017-2018
	KShs	KShs
Sales - Drilling of Boreholes	78,644,246	18,882,008
Total revenue from the rendering of services	78,644,246	18,882,008

The Authority runs a Business Unit Division. The division is headed by the General Manager Finance. Its primary function is to generate revenues to help boost the Recurrent Budget portion of Appropriations in Aid. Revenue is recognized based on invoiced works.

8. RENTAL REVENUE FROM FACILITIES AND EQUIPMENT

Description	2018-2019	2017-2018
	KShs	KShs
Straight-lined operating lease receipts	32,769,890	27,974,160
Total rentals	32,769,890	27,974,160

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The Corporation has leased part of its Head Quarter building which sits on the Land LR.NO.209,13971) The lease arrangements are:

Leasee	Area	Period	Annual Receipts
National Environment Trust Fund	1st Floor	5 yr renewable	8,741,638
Nairobi City Water & Sewerage Company	2nd Floor	5 yr renewable	8,911,345
Anti-Counterfeit Agency	3rd Floor	5 yr renewable	11,541,276
Ereava Catering Services	Kitchen	5 yr renewable	3,115,407
Kenya Water For Health Organization	Old Building	5 yr renewable	372,414
Kenya Climate Change Working Group			87,811
			32,769,890

9.FINANCE INCOME - EXTERNAL INVESTMENTS

Description	2018-2019	2017-2018
	KShs	KShs
Interest on monies held in current accounts with Kenya Commercial Bank Ltd	6,261,703	3,343,081
Total finance income – external investments	6,261,703	3,343,081

The Corporation has negotiated interest on daily bank balances on its Current Accounts held at KCB. Such interest is deposited on a monthly basis net of 15% withholding tax. It is then reported under this note as Gross.

10.OTHER INCOME

Description	2018-2019	2017-2018
	KShs	KShs
Income from sale of tender	-	0
Income from disposal of assets	1,966,000	4,133,300
Recognized capital fund	1,656,725	14,275,917
Hire of Equipment	23,664	
Dam Conference Contributions	500,000	
Total other income	4,146,389	18,409,217

The recognized capital fund relates to the expenses incurred on small dams and routine maintenance of project vehicles which are funded through Development Grants. The expenses have been recorded in Note 16 of the General Expenses.

11.USE OF GOODS AND SERVICES

Description	2018-2019	2017-2018
	KShs	KShs
Electricity	6,745,129	5,852,536
Water	1,634,824	1,197,344
Security	43,241,602	5,078,430
Professional services	0	12,285,472
Subscriptions	701,585	161,745
Total good and services	52,323,140	24,575,527

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12.EMPLOYEE COSTS

	2018-2019	2017-2018
	KShs	KShs
Salaries and wages	181,758,314	152,109,451
Employee related costs - contributions to pensions and medical aids	64,670,391	57,371,186
Travel, motor car, accommodation, subsistence and other allowances	18,052,483	30,039,609
Housing benefits and allowances	74,101,186	64,274,205
Employee costs	338,582,374	303,794,451

13. REMUNERATION OF DIRECTORS

Description	2018-2019	2017-2018
	KShs	KShs
Chairman's Honoraria	1,001,786	1,010,000
Directors emoluments	9,067,092	27,823,618
Other allowances	3,187,349	6,989,479
Total director emoluments	13,256,227	35,823,097

14.DEPRECIATION AND ARMOTISATION EXPENSE

Description	2018-2019	2017-2018
	KShs	KShs
Property, plant and equipment	84,066,904	85,014,651
Intangible assets	1,901,018	2,851,527
Total depreciation and amortization	85,967,922	87,866,178

15.REPAIRS AND MAINTENANCE

Description	2018-2019	2017-2018
	KShs	KShs
Buildings	2,243,699	2,014,781
Motor Vehicle Repairs	861,670	219,565
Office Equipment	29,500	156,752
Total repairs and maintenance	3,134,869	2,391,098

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16. GENERAL EXPENSES

Description	2018-2019	2017-2018
	KShs	KShs
Publicity Costs	3,540,634	1,096,860
Audit fees	1,768,705	1,500,000
Computer Accessories	608,398	687,976
Computer Software License	885,980	885,980
Legal expenses	19,513,440	30,864,982
Fuel and oil	462,000	4,939,887
Sanitary Expenses	39,000	15,400
Rates	477,094	477,094
Postage	105,388	191,372
Printing and stationery	8,905,840	7,318,710
Monitoring & Evaluation	6,338,577	3,633,800
Local Travel Expenses	25,505,569	13,126,900
Insurance	3,505,383	13,668,196
Cleaning Costs	12,184,260	7,317,750
Bank Charges	1,658,476	647,383
Office Tea, Beverages and Consumables	644,045	843,511
Telecommunication	3,424,038	3,089,834
Training	13,864,867	12,827,650
Staff Welfare	5,756,504	5,376,771
Expenses related to Small Dams	0	7,874,040
Routine Maintenance of Project Vehicles	1,656,725	6,401,877
Expenses - Drilling of the Boreholes	54,991,830	48,213,257
Licences	5,800	-
Total general expenses	165,842,554	170,999,230

The expenses relating to small dams and routine maintenance of project vehicles is funded through Development Grant which have been transferred from the Deferred Income (see note 25) and have been recognized as Deferred Income Recognized under Note 10

17. TAX

Description	2018-2019	2017-2018
	KShs	KShs
Current income tax charge	939,255	501,462
Income tax expense reported in the statement of financial performance	939,255	501,462

18. CASH AND CASH EQUIVALENTS

Description	2018-2019	2017-2018
	KShs	KShs
Current Accounts	256,191,108	71,706,484
Total cash and cash equivalents	256,191,108	71,706,484

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18b.DETAILED ANALYSIS OF THE CASH AND CASH EQUIVALENT

		2018-2019	2017-2018
Financial institution	Account number	KShs	KShs
a) Current account	0		
<u>Kenya Commercial bank:</u>			
Recurrent Account	1114280488	30,883,896	22,767,446
Development Account	1114280593	101,309,935	32,335,593
Special Account	1114279978	23,159,992	11,184,618
Deposits Account	1114279889	2,213,717	1,617,464
Retention Account	1124316329	98,628,588	3,801,364
Equalization Fund Account	1209755858	-5,020	0
Cash in Hand and in transit		0	0
Sub- total		256,191,108	71,706,484
<u>National Bank of Kenya</u>			
Current Account	1023085137200	0	0
Sub- total		0	0
Grand total		256,191,108	71,706,484

19.RECEIVABLES FROM EXCHANGE TRANSACTIONS

Description	2018-2019	2017-2018
	KShs	KShs
Current receivables		
Rent Receivable	14,361,121	15,141,742
Prepaid Insurance & others	0	3,201,557
Net Business Unit Debtors	133,201,582	68,277,772
Recoverable Advances	526,821,268	668,854,272
Total receivables	674,383,971	755,475,343

20. RECEIVABLES FROM NON- EXCHANGE TRANSACTIONS

Description	2018-2019	2017-2018
	KShs	KShs
Current receivables		
Temporary Imprests to staff	92,983,913	95,707,203
Specific Provision for Bad Debts	(18,302,852)	(20,965,420)
Net Temporary Imprests to staff	74,681,061	74,741,783
Salary Advances to Staff	3,641,273	1,910,474
Deposit with the Courts	14,017,475	14,017,475
Total current receivables	92,339,809	90,669,732

21.INVENTORIES

Description	2018-2019	2017-2018
	KShs	KShs
Consumable stores	6,852,946	15,694,950
Total inventories at the lower of cost and net realizable value	6,852,946	15,694,950

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22 PROPERTY, PLANT AND EQUIPMENT

Cost	Leasehold Land Kshs	Buildings Kshs	Plant & Field Equipment Kshs	Motor Vehicles & Cycles Kshs	Furniture & Fittings Kshs	Office Equipment Kshs	Computer & Accessories Kshs	Capital Work In Progress Kshs	Total Kshs
At 1st July 2017	340,000,000	68,597,700	230,042,450	258,855,000	5,973,201	7,162,700	4,281,090	17,146,333,880	18,061,246,021
Additions	-	-	-	-	1,600,000	292,000	1,179,000	1,846,209,167	1,849,280,167
Disposals	-	-	-	(3,050,000)	-	-	-	-	(3,050,000)
At 30th June 2018	340,000,000	68,597,700	230,042,450	255,805,000	7,573,201	7,454,700	5,460,090	18,992,543,047	19,907,476,188
Additions	-	-	-	-	12,516,000	697,200	270,000	1,126,044,166	1,139,527,366
Disposals	-	-	-	(5,050,000)	-	-	-	-	(5,050,000)
At 30th June 2019	340,000,000	68,597,700	230,042,450	250,755,000	20,089,201	8,151,900	5,730,090	20,118,587,213	21,041,953,554
Depreciation									
At 1st July 2017	8,296,000	3,429,886	23,004,246	129,427,500	1,493,300	1,790,676	2,662,904	0	170,104,511
Depreciation	4,148,000	1,714,943	11,502,123	63,951,250	946,650	931,838	1,819,848	0	85,014,651
Disposal	-	-	-	(2,287,500)	-	-	-	0	(2,287,500)
At 30th June 2018	12,444,000	5,144,828	34,506,368	191,091,250	2,439,950	2,722,513	4,482,752	0	252,831,662
Depreciation	4,148,000	1,714,943	11,502,123	62,688,750	2,511,150	1,018,988	482,952	0	84,066,904
Disposal	-	-	-	(5,050,000)	-	-	-	0	(5,050,000)
At 30th June 2019	16,592,000	6,859,771	46,008,491	248,730,000	4,951,100	3,741,501	4,965,704	0	331,848,566
Net book values									0
At 30th June 2019	323,408,000	61,737,930	184,033,960	2,025,000	15,138,101	4,410,400	764,386	20,118,587,213	20,710,104,989
At 30th June 2018	327,556,000	63,452,872	195,536,082	64,713,750	5,133,251	4,732,187	977,338	18,992,543,047	19,654,644,527
Dep Policy Rate	1.22%	2.50%	5.00%	25.00%	12.50%	12.50%	33.33%	0.00%	

The capital work in progress includes costs associated with construction of Large Dams, Dykes & Canals, Head quarter office block and Water pipelines. These assets, upon completion, are handed over to the Water Service Boards who then operate them. Details of the capital work in progress are as shown herebelow:

	2018-2019 Shs	Adjustments Shs	2017-2018 Shs
Large Dams	17,885,392,743	1,049,321,336	16,836,071,406.98
Dykes & Canals	1,215,048,022	63,082,035	1,151,965,987.51
Water Pipelines	158,794,497	0	158,794,497.00
Construction of HQ Office Block	859,351,951	13,640,795	845,711,155.92
Total	20,118,587,213	1,126,044,166	18,992,543,047

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 INTANGIBLE ASSETS-SOFTWARE

Description	2018-2019	2017-2018
	KShs	KShs
Cost		
At beginning of the year	37,146,430	35,964,680
Additions	-	1,181,750
At end of the year	37,146,430	37,146,430
Additions-internal development	-	-
At end of the year	37,146,430	37,146,430
Amortization and impairment		
At beginning of the year	31,443,375	28,591,848
Amortization	1,901,018	2,851,527
At end of the year	33,344,393	31,443,375
Impairment loss	-	-
At end of the year	33,344,393	31,443,375
NBV	3,802,037	5,703,055
Dep Policy Rate	33%	33%

24. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Description	2018-2019	2017-2018
	KShs	KShs
Trade payables	707,555,700	986,536,940
Payments received in advance	30,670,071	61,741,532
Employee advances	0	0
Third-party payments	22,818,154	1,840,917
Retentions held on behalf of suppliers	350,709,889	269,991,231
Accruals	22,648,966	20,772,555
Total trade and other payables	1,134,402,781	1,340,883,175

25. WORKING CAPITAL MANAGEMENT

	2018-2019	2017-2018
	KShs	KShs
Surplus for the year before tax	(145,374,113)	(93,478,575)
Adjusted for:		
Depreciation and Impairment	85,967,922	87,866,178
Working capital adjustments:		
Change in Inventories	8,842,004	35,828,698
Change in Receivables from exchange transactions	81,091,372	80,719,336
Change in Receivables from non-exchange transactions	(1,670,076)	(87,115,375)
Change in Trade and other payables from exchange transactions	(206,480,394)	372,788,185
Changes in Trade and other payables from non-exchange transactions	0	(2,451,875)
Net cash flows from operating activities	(177,623,286)	394,156,572

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 FINANCIAL RISK MANAGEMENT

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

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

(i) Credit risk

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

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

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

	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2019				
Receivables from exchange transactions	674,383,971	0	670,048,087	4,335,884
Receivables from non-exchange transactions	92,339,809	0	68,711,821	20,965,420
Bank balances	256,191,108	256,191,108	0	0
Total	1,022,914,887	256,191,108	738,759,908	25,301,304
At 30 June 2018				
Receivables from exchange transactions	755,475,343	0	751,142,939	4,335,884
Receivables from non-exchange transactions	90,669,732	0	85,175,382	20,965,420
Bank balances	71,706,484	71,706,484	0	0
Total	917,851,559	71,706,484	836,318,321	25,301,304

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The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

(ii) Liquidity risk management

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

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
(iii) At 30 June 2019				
Trade payables	241,568,963.00	92,560,004.00	800,273,813.94	1,134,402,780.94
Total	382,637,037.80	995,211.81	957,250,925.45	1,340,883,175.06
At 30 June 2018				
Trade payables	382,637,037.80	995,211.81	957,250,925.45	1,340,883,175.06
Total	382,637,037.80	995,211.81	957,250,925.45	1,340,883,175.06

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

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

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

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

Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *Authority's* market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The *Authority* considers relevant and observable market prices in its valuations where possible.

iv) Capital Risk Management

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

	2018-2019	2017-2018
	Kshs	Kshs
Revaluation reserve	358,080,032	358,080,032
Retained earnings	(522,021,901)	-376,917,202
Capital reserve	20,773,213,947	19,271,578,672
Total funds	20,609,272,078	19,252,727,967
Less: cash and bank balances	256,191,108	71,706,484
Net debt/ (excess cash and cash equivalents)	-256,191,108	-71,706,484
Gearing		

27 RELATED PARTY BALANCES

Nature of related party relationships

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

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Government of Kenya

The Government of Kenya is the principal shareholder of the Authority, holding 100% of the Authority's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the Authority, both domestic and external. Other related parties include:

- i) The National Government;
- ii) The Ministry of Water & Sanitation;
- iii) The Board of Directors;

	2018-2019	2017-2018
	Kshs	Kshs
Transactions with related parties		
a) Grants from the Government		
Grants from National Govt	1,896,142,000	1,587,864,001
Total	1,896,142,000	1,587,864,001
b) Key management compensation		
Directors' emoluments	13,256,227	35,823,097
Compensation to the CEO	7,300,000	705,203.00
Compensation to key management	20,976,000	26,667,444
Total	41,532,227	63,195,744

28 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities	2018-2019	2017-2018
	Kshs	Kshs
Court Judgements, Arbitral Awards and Legal Fees		145,818,772
Total		145,818,772

29 CAPITAL COMMITMENTS

Capital commitments	2018-2019	2017-2018
	Kshs	Kshs
Authorised and contracted for: Siyoi Muruny Dam Water Supply Project	4,005,000,245	4,505,000,245
Total	4,005,000,245	4,505,000,245

30 DIVIDENDS/SURPLUS REMISSION

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The Authority did not make any surplus during the year and hence no remittance to the Consolidated Fund.

31 EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

32 ULTIMATE AND HOLDING AUTHORITY

The Authority is a State Authority/ or a Semi- Autonomous Government Agency under the Ministry of Water & Sanitation. Its ultimate parent is the Government of Kenya.

33 Currency

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

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APPENDIX 1: 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.

Ref. No. on External Audit Report	Issue/Observation from Auditor	Management Comments	Focal Point	Status	Time Frame
1.	<u>Property, Plant & Equipment</u> Carrying value of Kshs. 547,352,619 could not be confirmed as it excluded various assets valued at Kshs.16,781,832,000 transferred to WSBs yet the transfer agreements are unsigned	The Authority had sought the intervention of the Cabinet Secretary, Ministry of Water and Irrigation (CS, MWI). The CS, MWI directed vide letter Ref. No. MWI/DDD/1/10/VOL.VII/(2) dated 11 th November, 2016 the various WSBs to have the transfer agreements signed.	Chief Executive Officer	Not Resolved	1 st December, 2020
2.	<u>Capital W.1.P-HQ Building</u> The first contractor abandoned works yet the Authority has not had their claim under performance bond honoured. The project was delayed and there was a significant increase in cost.	The Court case related to unhonoured claim is still pending in Court. The project has been completed and the final account is being analysed. The same will be presented to the auditors for verification.	Chief Executive Officer	Not Resolved	1 st December, 2020
3 3.1	<u>Receivables from Exchequer Transactions</u> <u>Water Service Boards Debtors</u> Carrying value of Kshs.856,189,729	The Authority had sought the intervention of the Cabinet Secretary, Ministry of Water	Chief Executive	Not Resolved	1 st December, 2020

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	excludes water supply debt of Kshs. 1,377,265,028 yet the transfer agreements, transferring the same to WSBs are unsigned.	and Irrigation (CS, MWI). The CS, MWI directed vide letter Ref. No. MWI/IDD/1/10/VOL.VII/(2) dated 11 th November, 2016 the various WSBs to have the transfer agreements signed.	Officer		
3.2	<u>Long Outstanding Debts</u> Trade debtors totaling to Kshs.58,449,462.00 are aged over 90 days. The provision of Kshs.4,335,884 seemed inadequate. No efforts were shown to recover.	The provision on outstanding debts is made on debts over 150 days. The debt, save for those provided for were considered recoverable.	Chief Executive Officer	Not resolved	1 st December, 2020
3.3.	<u>Recoverable Advances</u> No explanation was provided as to why the Authority made advance payments to Kshs. 789,018,357 to contractors contrary to PPDA, 2005	The advance was in compliance with signed contracts between Toddy Civil Eng. Co. Ltd. And China Jiangxi Int. K Ltd. Who are the Siyoi (Muruny) Dam water contractors in West Pokot County. Advance payments for mobilization of the contractors are allowed by the PPADA 2015 where an advance guarantee is provided, which in this case was provided.	Chief Executive Officer	Not resolved	30 th June, 2022
4 4.1	<u>Receivable from Non-Exchange Transactions</u> <u>Temporary Imprest</u> Imprest aged over 90 days of Kshs.30,630,577 has only been provided at Kshs.13,684,021 which appears in	The imprest has been reduced through officers surrendering. However, the provision has been increased to Kshs. 21,337,214. This is specific to staff who left the Authority or are deceased. The	Chief Executive Officer	Not resolved	1 st November, 2020.

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	adequate.		Management has engaged the BOD on the writing off for the deceased persons and recovery for those who left the Authority		
5.4	<p>Construction of Nzoia Dam</p> <p>No final feasibility report provided for audit scrutiny after spending Kes.153,631,760.00</p>	<p>The Authority engaged the services of East African Consulting Engineers in association with TATA consulting Engineers to review the design for the 30m high dam (dam site 34B), supervise the construction, and prepare a dam development plan along River Nzoia and feasibility studies for three dams. The contract period was 54 months at a contract sum of Kshs. 153,631,760.00. Only Kes.KShs.38,914,105has been paid.</p> <p>The assignment was divided into 3 categories:</p> <ul style="list-style-type: none"> • Review of designs, Environmental and Socio Impacts Assessment (ESIA) & assistance to procurement of Contractor – KShs.16,124,000 - (Category 1a services)<i>Status - Not executed and not paid</i> • Supervision of Construction Works for Nzoia Dam site 34B – KShs. 97,261,360 -(Category 1b services)<i>Status - Not executed and</i> 	Chief Executive Officer	Resolved	

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			<i>not paid</i> Development of Dam Development Plan and Feasibility studies of three dam sites-KShs.38,914,105 (Category II services). <i>Status - Executed and partly paid</i> M/s East African Consulting Engineers in association with TATA consulting Engineers was discharged from all their responsibilities in the contract No. NWC/RFP/036/2012-2013 vide our ref letter: NWCPC/P&D/FIL/153 Vol II(35) dated 5th May,2016.			
6.	<u>Cash & Cash Equivalent</u> Reconciliations with reconciling items		The Finance Committee of the Board resolved to write-off the same and it awaits full Board Resolutions	Chief Executive Officer	Not resolved	30 th November, 2020.
9.	<u>Inventories</u> Stocks include obsolete items		The stocks have been disposed off.	Chief Executive Officer	Resolved	
10.	<u>Long Outstanding Loan</u> An on-lent loan of Kshs. 2,460,874,897 and the interest accrued for late payment		The Authority had obtained three loans through various subsidiary agreements	Chief Executive	Not resolved	1 st October, 2022

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	has not been reflected in the financial statements	<p>with the Government of Kenya for various projects. The loans were disbursed through the National Treasury who in turn disbursed to the Ministry of Water and Irrigation and thereafter the same was disbursed to the Authority. The loans were to be serviced as per indicated repayment plans at the indicated interest rates. The proceeds obtained from water sales were to be partly used in defraying the same. However, the water tariffs were to be adjusted to accommodate the repayment but this was never done.</p> <p>On 12th August 2005, the then Minister for Water and Irrigation gazetted (Legal Notice No. 101 in the Kenya Gazette Supplement No. 61) the water (plan of transfer of water services) rules, 2005 to guide on the enactment of the Water Act 2002. The Notice required that the Authority finalizes the transfer of certain roles relating to sale of water to Water Service Boards in their jurisdictions. The deadline for such execution of transfer agreements was 30th June 2006. The transfer was to be in the form of signed transfer agreements. Though drafted, the transfer agreements were not signed. However, the Water Service Boards assumed the assets and the ensuing liabilities.</p>	Officer	
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		Severally, the National Treasury has continued to claim from the Authority, and the Authority has written to the Ministry of Water seeking on its intervention for both the signing of the transfer agreements and assistance on repayment of the loan due before handing over. Through a letter dated 19th October, 2016 (See Annex 10), the Principal Secretary in the State Department of Water directed the Authority to hand over the loan portfolio taken by the Authority to the relevant Water Service Board as per the Transfer Plan.			
12.1	Trade Payables Reconciliation of the payables and failure to settle long outstanding payables	The trade payables are being reconciled and a pending bills committee has been put in place to interrogate the accuracy of the bills. Budget constraints have been identified as the challenge to settling these bills.	Chief Executive Officer	Not resolved	1 st October, 2021
12.3	Debit Balances Reconciliation of the payables and failure to settle long outstanding payables	The trade payables are being reconciled	Chief Executive Officer	Not resolved	1 st October, 2020

Sharon Obonyo

CS. Sharon Obonyo

Ag. Chief Executive Officer

Mr. Erick Okeyo

Mr. Erick Okeyo, MBS, MKIM

Chairman of the Board

Date.....

Date.....

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APPENDIX II: PROJECTS IMPLEMENTED BY THE AUTHORITY

Status of Projects completion

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	Muruny (Siyoi) Dam	9.9 billion	5,197,721,609	55%	1,000,000,000	1,680,000,000	GoK
2	Flood Control and Mgmt	240 million	0	26%	240,000,000	63,530,000	GoK
3.	Drought Mitigation	42 million	0	0	42,000,000	0	
Stalled Projects							
1	Badasa Dam	3,627,316	2,056,000	40%	0	0	GoK
2	Umaa Dam	2,771,024	1,190,000	40%	0	0	GoK
Ongoing Projects - Under Planning and Design							
					0		
1	Londiani Dam	96,936	50,233	75%	0	0	GoK
2	Upper Narok Dam	112,357	43,933	65%	0	0	GoK
3	Rumuruti Dam	167,051	24,973	35%	0	0	GoK
4	Soin-Koru	26,480	16,212	70%	0	0	GoK
5	Isiolo Dam	56,237	44,990	80%	0	0	GoK
6	Rare Dam	84,980	30,816	65%	0	0	GoK
7	Pesi (Nyahururu) Dam	36,500	1,500	25%	0	0	GoK
8	Kinja Dam	30,300	300	10%	0	0	GoK
9	Kinale Dam	35,250	250	10%	0	0	GoK

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APPENDIX III: INTER-AUTHORITY TRANSFERS

	AUTHORITY NAME:	NATIONAL WATER HARVESTING &STORAGE AUTHORITY		
	Break down of Transfers from the State Department of Water and Irrigation			
	FY 2018/2019			
a.	Recurrent Grants			
		Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
		03.09.2018	33,750,000.00	2018-2019
		06.09.2018	33,750,000.00	2018-2019
		03.10.2018	33,750,000.00	2018-2019
		02.11.2018	33,075,000.00	2018-2019
		03.12.2018	33,075,000.00	2018-2019
		24.01.2019	33,075,000.00	2018-2019
		12.02.2019	33,075,000.00	2018-2019
		05.03.2019	33,075,000.00	2018-2019
		04.04.2019	24,975,000.00	2018-2019
		17.05.2019	33,750,000.00	2018-2019
		04.06.2019	33,750,000.00	2018-2019
		27.06.2019	33,750,000.00	2018-2019
		Total	392,850,000.00	
b.	Development Grants			
		Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
		03.07.2018	848,792,000.00	2017-2018
		18.10.2018	287,500,000.00	2018-2019
		19.10.2018	250,000,000.00	2018-2019
		28.12.2018	37,500,000.00	2018-2019
		25.06.2019	42,000,000.00	2018-2019
		27.06.2019	37,500,000.00	2018-2019
		Total	1,503,292,000.00	

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

Finance Manager
National Water Harvesting & Storage Authority

Sign 

Head of Accounting Unit
Ministry of Water, Irrigation
and Sanitation

Sign-----

