

REPUBLIC OF KENYA



*Enhancing Accountability*

|                               |        |
|-------------------------------|--------|
| THE NATIONAL ASSEMBLY         |        |
| DATE: 17 FEB 2022             | REPORT |
| TABLED BY: LDM                | OF     |
| CLERK-AT-THE-TABLE: C. Ndintu |        |

**THE AUDITOR-GENERAL**

**ON**

**KENYA URBAN WATER AND SANITATION  
OBA PROJECT FUND FOR LOW INCOME  
AREAS (PROJECT GRANT CREDIT  
NUMBER TF 016395-KE)**

**FOR THE YEAR ENDED  
30 JUNE, 2021**

**WATER SECTOR TRUST FUND**



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**KENYA URBAN WATER AND SANITATION (KUWAS)  
OBA PROJECT FUND FOR LOW INCOME AREAS P132979**

**IMPLEMENTED BY WATER SECTOR TRUST FUND (WSTF)**

**PROJECT GRANT/CREDIT NUMBER TF 016395-KE**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2021**

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



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**KENYA URBAN WATER AND SANITATION (KUWAS) OBA PROJECT**  
**Draft Annual Report and Financial Statements**  
**For the financial year ended June 30, 2021**

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**1. PROJECT INFORMATION AND OVERALL PERFORMANCE**

**1.1 Name and registered office**

**Name:** The project's official name is Kenya Urban Water and Sanitation (KUWAS) OBA Project Fund for Low Income Areas,

**Objective:** The key objective of the project is to increase the number of people in low income areas with access to improved water supply and sanitation services in Kenyan towns and cities.

**Address:** The project headquarters offices are Nairobi (city), Nairobi County, Kenya.

The address of its registered office is:

CIC Plaza Mara Road  
PO Box 49699-00100  
Nairobi, Kenya  
Tel: 254-20-272 0696

**Contacts:** The following are the project contacts

Telephone: 254-20-272 0696  
E-mail: [ismail.shaiye@waterfund.go.ke](mailto:ismail.shaiye@waterfund.go.ke)  
Website: [www.waterfund.go.ke](http://www.waterfund.go.ke)

**1.2 Project Information**

|                     |                   |
|---------------------|-------------------|
| Project Start Date: | 01/12/2014        |
| Project End Date:   | 30/11/2020        |
| Project Manager:    | Fidelis Tamangani |
| Project Sponsor:    | World Bank        |

**1.3 Project Overview**

|   |  |
|---|--|
| Line Ministry/State Department of the project | Ministry of Water and Sanitation.  |
| Project number                                | TF 016395-KE   |
| Strategic goals of the project                | The objective of the program is to improve the operating efficiency and financial performance of WSPs, and to extend access to unserved consumers. Once the projects are complete and pre-agreed targets set for the project have been achieved, the WSPs will be eligible for up to 60 percent subsidy of the |

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|                                |   |
|--------------------------------|---|
|                                | <p>commercial loans borrowed. The subsidies are disbursed towards partial loan repayment.</p> <p>In recognition of the need to reduce grant financing for commercially viable water utilities and in order to introduce a new business model to water financing, the Result Based Financing (RBF) programme is supporting water utilities that are investing in water supply and sanitation improvement projects in the low-income and underserved rural and urban areas in Kenya. The Water Service Providers (WSPs) are able to leverage loans from local financing institutions, which are then subsidised at a percentage of the project cost on attainment of agreed deliverables.</p>   |
| Achievement of strategic goals | <p>The projects to be implemented by the water utilities are pre-financed with commercial loans from domestic lenders in Kenya on market terms for construction of water supply and sanitation services infrastructure. The loans will support investments linked to the following:</p> <ul style="list-style-type: none"> <li>• Construction/expansion of water and sewer networks to reach unserved consumers;</li> <li>• Rehabilitation/improvement of existing networks e.g. the non-revenue water reduction programme;</li> <li>• Water and/or sewer connections to households and public points; and</li> <li>• Water and sewer treatment facilities.</li> </ul> <p>After completion of their projects, the water utilities are incentivised through applying one-off subsidies provided under the RBF sub-programmes for up to 60%.</p> <p>To facilitate the uptake of the RBF subsidies, the water utilities' projects are pre-financed with commercial loans from local lenders. The RBF programme is currently working with four commercial banks, namely Sidian Bank, Kenya Commercial Bank (KCB), Co-operative Bank and Housing Finance, which have access to a 50% guarantee provided by USAID. Other banks, including Equity Bank, Family Bank, CBA and ABC Bank, have also been approached by the Water Fund and have shown interest in financing the water utilities under the programme.</p> |

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|   |  |
|---|--|
| <p>Other important background information of the project</p>      | <p>The Results-Based Financing (RBF) investment programme is a commercial financing facility that became operational in WSTF in December 2014 after the Government of Kenya signed a Grant Subsidiary Agreement with the German Development Bank (KfW) and the World Bank. The Swedish International Development Agency (SIDA) provided a grant for 11.835 million USD through the World Bank Output-Based Aid (OBA) project.</p> <p>Over the last few years, Kenya has been classified as lower middle income country. This comes with the consequences reduced support and official development assistance. This has precipitated the dwindling resources in the water sector against the need for increased water and sanitation access. The foregoing background therefore calls for innovative financing to meet the needs in the sector. As a result, the World Bank having piloted the programme initially scaled it up starting 2014 with WSTF identified as the Executing Agency. The programme targeted the most vulnerable residents of low income areas of urban cities, towns as well as peri-urban areas. The programme therefore mobilized resources and implemented 10 projects that are addressing sanitation and water challenges.</p> |
| <p>Current situation that the project was formed to intervene</p> | <p>The program has also disbursed subsidies to the five projects for those that are ongoing and those fully completed totalling KShs. 160.89 million by 30 June 2019. An additional 9 water utilities are currently accessing technical assistance funding in excess of KShs. 35 million for project proposal development, after which they will be eligible to access commercial loans from local lenders. The 9 projects are estimated to cost in excess of KShs. 1.5 billion and will access subsidies of over KShs. 850 million after fully achieving the pre-agreed targets.</p> <p>The RBF program has reached out to a total of 11,172 households or 54,573 people in low income areas with improved water and sanitation services. The primary beneficiaries reached are categorized as 66,735 people accessing individual water connections, 6,578 people accessing water kiosks and 420 people accessing yard taps. The program is targeting to reach at least 120,000 people with access to clean water and sanitation services by 30 November 2020.</p>  |
| <p>Project duration</p>   | <p>The project started on 1st December 2014 and ran until 30 November 2020.</p>  |

**1.4 Bankers**

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

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**1.5 Auditors**

Office of the Auditor General.  
 Anniversary Towers, University Way  
 P.O. Box 30084 0100  
 Nairobi.

**1.6 Roles and Responsibilities**

| <b>Names</b>      | <b>Title designation</b>   | <b>Key qualification</b>   | <b>Responsibilities</b>   |
|-------------------|----------------------------|--|---|
| Fidelis Tamangani | Programme Manager          | Masters in Business Administration,<br><br>Bachelor of Science Natural Resources Management & Agriculture;                   | <ul style="list-style-type: none"> <li>• Baseline Study &amp; Reporting</li> <li>• Verification of Satisfactory Provision of Outputs</li> <li>• Assess compliance with project rules and procurement and safeguards requirements</li> <li>• Preparation of Outputs Verification Report</li> </ul> |
| Panuel Nyaga      | Senior Procurement Officer | Post Graduate Diploma – Purchasing and Supplies<br><br>MSC Procurement and Logistics<br><br>Bachelor of Commerce - Marketing | <ul style="list-style-type: none"> <li>• Support Project Procurement Processes</li> </ul>   |
| Mathew Karanja    | Senior Finance Officer     | Certified Public Accountant (CPA - K)<br><br>Masters in Project Planning and Management<br><br>Bachelor of Commerce, Finance | <ul style="list-style-type: none"> <li>• Preparation of project financial statements and reporting.</li> </ul>  |

**1.7 Funding summary**

The Project is for duration of 6 years from 2014 to November 2020 with an approved budget of US\$ 11.835 equivalent to KShs 1,183,500,000 as highlighted in the table below:

Below is the funding summary:



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| Source of funds  | Donor Commitment-     |                      | Amount received to date – (30.06.2021) |                      | Undrawn balance to date (30.06.2021) |                   |
|------------------|-----------------------|----------------------|--|----------------------|--------------------------------------|-------------------|
|                  | <i>Donor currency</i> | <i>KShs</i>          | <i>Donor currency</i>                  | <i>KShs</i>          | <i>Donor currency</i>                | <i>KShs</i>       |
|                  | (A)                   | (A')                 | (B)                                    | (B')                 | (A)-(B)                              | (A')-(B')         |
| <b>(i) Grant</b> |                       |                      |  |                      |                                      |                   |
| World Bank       | 11,107,000            | 1,110,700,000        | 10,459,260                             | 1,039,660,980        | 647,740                              | 71,039,020        |
| <b>Total</b>     | <b>11,107,000</b>     | <b>1,110,700,000</b> | <b>10,459,260</b>                      | <b>1,039,660,980</b> | <b>647,740</b>                       | <b>71,039,020</b> |

**1.8 Summary of Overall Project Performance:**

Since inception of the program in December 2014, the OBA program has supported nine (9) water and sanitation improvement projects valued at KShs. 1.37 billion. A total of 14 WSP have accessed technical assistance funding amounting to Kshs. 66.96 million for the development of bankable proposals and projects supervision by June 30, 2021. Out of the 14 projects, 9 viable projects have a loan portfolio valued at Kshs. 1.37 billion. The loans are disbursed through four commercial banks namely Sidian bank (Kshs. 253 million), Co-op bank (Kshs. 995 million), Family bank (Kshs. 117 million).

The program has disbursed 60 percent subsidies totalling Kshs. 819 million to nine subprojects by June 30<sup>th</sup>, 2021. The 60 percent subsidy was disbursed to Embu (Kshs. 499 million), Nyeri (Kshs. 266 million), Kisumu (Kshs. 124 million), Mathira (Kshs. 117 million), Naivasha (Kshs. 106 million), Nol Turesh (Kshs. 101 million), Murang'a South phase II (Kshs. 95 million), Murang'a (Kshs. 37 million) and Murang'a South phase I (Kshs. 20 million).

The number of beneficiaries for the verified subprojects reached 24,952 households or approximately 124,763 people. The beneficiaries from the verified subprojects were broken down by: 114,905 people accessing individual connections, 9,438 people accessing water kiosks and 420 people accessing yard taps.

The project reached out to 40,355 people who now have improved sanitation services while a total of 84,408 people now have access to clean water through individual household connections, yard taps and public water kiosks.

**1.9 Summary of Project Compliance:**

The project is in compliance with the financing agreement, country laws and regulations. There were no instances of non-compliance during the period.

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**2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETRMINED OBJECTIVES**

The project development objective (PDO) is to increase the number of people in low income areas with access to improved water supply and sanitation services. The primary beneficiaries of the OBA Fund are 120,500 residents of low income areas who are gaining access to water and sanitation services through individual water and sewerage connections, public water and or public sanitation services (water kiosks and public toilets) constructed near or within their areas of residence.

| Output indicator                                   | Output Target | Number of people targeted |
|--|---------------|---------------------------|
| Number of water connections made under the project | 14500         | 72,500                    |
| Number of community water points                   | 40            | 8,500                     |
| Number of sewer connections made under the project | 7,906         | 39,500                    |

**Progress on attainment of Strategic development objectives**

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement: Below we provide the progress on attaining the stated objectives:

| WSPs              | Household     |                | Water Kiosks | Beneficiaries | Yard taps | Beneficiaries |
|-------------------|---------------|----------------|--------------|---------------|-----------|---------------|
|                   | Connections   | Beneficiaries  |              |               |           |               |
| Murang'a South I  | 2,310         | 11,550         | 14           | 4,004         | 7         | 420           |
| Murang'a Town     | 1,285         | 5,140          | 1            | 286           |           |               |
| Nol Turesh        | 4,009         | 20,045         | 8            | 2,288         |           |               |
| Naivasha          | 1,596         | 7,980          | 10           | 2,860         |           |               |
| Murang'a South II | 3,031         | 15,155         |              | -             |           |               |
| Nyeri             | 2,963         | 14,815         |              |               |           |               |
| Embu              | 5,108         | 25,540         |              |               |           |               |
| Mathira           | 1,417         | 7,085          |              | -             |           |               |
| Kisumu            | 1,519         | 7,595          |              | -             |           |               |
| <b>Total</b>      | <b>23,238</b> | <b>114,905</b> | <b>33</b>    | <b>9,438</b>  | <b>7</b>  | <b>420</b>    |

### **3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/ SUSTAINABILITY REPORTING**

The implemented water supply and sanitation improvement subprojects are assessed on their operational performance through a sustainability test. This is done by reviewing data of at least 80% of the households connected due to the subprojects, which may include:- a) bills issued for services provided and b) the amount paid for the bill, on time.

The aim is to determine if the beneficiaries are accessing the service, that water supply or sanitation services are reaching them. The ability to pay for the water bill and well as the sewerage bill is assessed for profitability check of the WSPs. Since the WSPs are pre-financed by the commercial banks, the sustainability test is also to verify if the WSPs are collecting enough revenue to be able to repay 40% of the loan after the full payment of the 60% OBA subsidy.

#### **4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES**

The WSTF management are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year (period) ended on June 30, 2021. This responsibility includes:

- (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period;
- (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project;
- (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) safeguarding the assets of the Project;
- (v) selecting and applying appropriate accounting policies; and
- (vi) making accounting estimates that are reasonable in the circumstances.

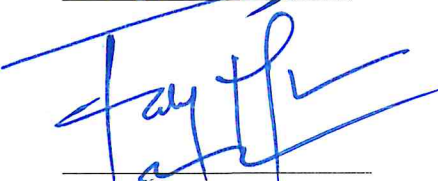
WSTF Management accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

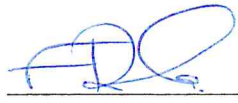
Management are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year/period ended June 30, 2021, and of the Project's financial position as at that date. Management further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.


Management confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

#### **Approval of the Project financial statements**

The Project financial statements were approved by the *Chief Executive Officer, Project Manager* and the *Chief Manager Finance* for Kenya Urban Water and Sanitation (KUWAS) OBA project on 01 OCTOBER 2021 and signed by them.

  
\_\_\_\_\_  
Chief Executive Officer  
Ismail Fahmy M. Shaiye

  
\_\_\_\_\_  
Project Manager  
Fidelis Tamangani

  
\_\_\_\_\_  
FOR Chief Manager Finance  
Samwel Gitau Mbugua  
ICPAK Member Number: 2868

# REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

*Enhancing Accountability*

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

## **REPORT OF THE AUDITOR-GENERAL ON KENYA URBAN WATER AND SANITATION OBA PROJECT FUND FOR LOW INCOME AREAS (PROJECT GRANT CREDIT NUMBER TF 016395-KE) FOR THE YEAR ENDED 30 JUNE, 2021-WATER SECTOR TRUST FUND**

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### PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazetted notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

## REPORT ON THE FINANCIAL STATEMENTS

### Opinion

I have audited the accompanying financial statements of Kenya Urban Water And Sanitation OBA Project Fund for Low Income Areas set out on pages 1 to 16 which comprise the statement of financial assets as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows and statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya 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, the financial statements present fairly, in all material respects, the financial position of Kenya Urban Water and Sanitation OBA Project Fund for Low Income Areas as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with Financing Agreement No.TF 016395-KE dated 05 September, 2014 between the Republic of Kenya and the International Development Association (World Bank) and the Public Finance Management Act, 2012.

### Basis for Opinion

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

### Key Audit Matters

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

### Other Matter

#### 1. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects actual receipts of Kshs.431,884,030 against a budget of 500,500,000 resulting into a receipts shortfall of Kshs.223,198,477 or 52% of budgeted receipts. Further, the statement reflects final expenditure budget and actual on comparable basis of Kshs.500,500,000 and

Kshs.503,717,208 resulting to an over-expenditure of Kshs.3,217,208 or 1% of the budget.

Management did not provide satisfactory explanation for the shortfall in revenue, which implies that the overall goals and objectives of the Project were not achieved as planned which impacted negatively on service delivery to the public.

## **2. Overall Project Implementation**

The Project commenced on 1 December, 2014 with the expected completion date on 30 November, 2020. The implementation period was however extended to 30 June, 2021. However, as disclosed under the Project Information segment Section 1.7 of the financial statements, as at 30 June, 2021, out of initial Donor commitment of Kshs.1,110,700,000, an amount of Kshs.1,039,660,980 was received resulting in an undrawn balance of Kshs.71,039,020.

Management attributed the under absorption of funds to delays in disbursements of funds by Commercial Banks to Water Service Providers and lapse of Project time.

### **Other Information**

The Program Management is responsible for the other information, which comprises Project Information and Overall Performance, Statement of Performance Against Project's Predetermined Objectives, Corporate Social Responsibility Statement/Sustainability Reporting and Statement of Project Management Responsibilities.

The other information does not include the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

### **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 matter(s) described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

#### **Basis for Conclusion**

##### **Late Submission of Financial Statements**

The financial statements of the Project for the year ended 30 June, 2021 were submitted for Audit on 8 October, 2021, eight (8) days after the statutory deadline of 30 September, 2021. This is contrary to Section 81(4) (a) of the Public Finance

Management Act, 2012 which requires accounting officers to submit financial statements to the Auditor-General within three (3) months after the end of each financial year for audit.

The Project Management was therefore in breach of the law.

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

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

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

### Basis for Conclusion

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Financing Agreement Number TF 016395-KE dated 5 September, 2014 between the IDA (World Bank) and the Republic of Kenya for Kenya Urban Water and Sanitation OBA Project Fund for Low Income Areas, I report based on my audit, that:

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and,
- iii. The Project's financial statements agree with the accounting records and returns.



## **Responsibilities of Management and those Charged with Governance**

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

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

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

## **Auditor-General's Responsibilities for the Audit**

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them 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 that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of 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 policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

07 December, 2021



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**KENYA URBAN WATER AND SANITATION (KUWAS) OBA PROJECT**  
**Draft Annual Report and Financial Statements**  
**For the financial year ended June 30, 2021**

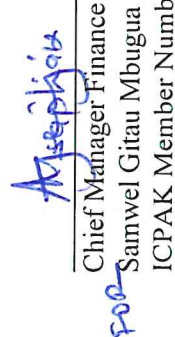
**6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE 2021**

|   | Note | 2020/2021                                     |                                |                     | 2019/2020                                     |                                |                    | Cumulative to-date   |
|---|------|---|--------------------------------|---------------------|---|--------------------------------|--------------------|----------------------|
|   |      | Receipts and payment controlled by the entity | Payments made by third parties | Total               | Receipts and payment controlled by the entity | Payments made by third parties | Total              |                      |
|   |      | KShs  | KShs                           | KShs                | KShs  | KShs                           | KShs               | KShs                 |
| <b>RECEIPTS</b>                           |      |   |                                |                     |   |                                |                    |                      |
| Proceeds from domestic and foreign grants | 10.3 | 264,123,199                                   | 167,760,831                    | 431,884,030         | 209,801,523                                   | -                              | 209,801,523        | 1,039,660,980        |
| <b>TOTAL RECEIPTS</b>                     |      | <b>264,123,199</b>                            | <b>167,760,831</b>             | <b>431,884,030</b>  | <b>209,801,523</b>                            | <b>-</b>                       | <b>209,801,523</b> | <b>1,039,660,980</b> |
| <b>PAYMENTS</b>                           |      |   |                                |                     |   |                                |                    |                      |
| Compensation of employees                 | 10.4 | 5,145,000                                     | -                              | 5,145,000           | 13,623,320                                    | -                              | 13,623,320         | 44,288,460           |
| Purchase of goods and services            | 10.5 | 10,495,273                                    | -                              | 10,495,273          | 26,929,806                                    | -                              | 26,929,806         | 175,822,261          |
| Other grants and transfers and payments   | 10.6 | 320,316,104                                   | 167,760,831                    | 488,076,935         | 170,531,079                                   | -                              | 170,531,079        | 819,499,742          |
| <b>TOTAL PAYMENTS</b>                     |      | <b>335,956,377</b>                            | <b>167,760,831</b>             | <b>503,717,208</b>  | <b>211,084,205</b>                            | <b>-</b>                       | <b>211,084,205</b> | <b>1,039,610,463</b> |
| <b>SURPLUS/(DEFICIT)</b>                  |      | <b>(71,833,178)</b>                           | <b>-</b>                       | <b>(71,833,178)</b> | <b>(1,282,682)</b>                            | <b>-</b>                       | <b>(1,282,682)</b> | <b>50,517</b>        |

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.

  
 Chief Executive Officer  
 Ismail Fahmy M. Shaiye

  
 Project Manager  
 Fidelis Tamangani

  
 Chief Manager Finance  
 Samwel Gitau Mbugua

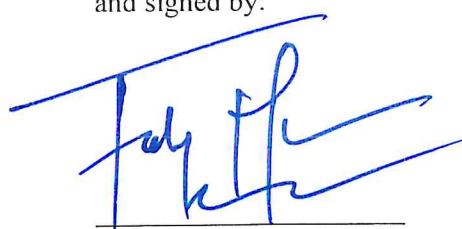
ICPAK Member Number: 2868

**KENYA URBAN WATER AND SANITATION (KUWAS) OBA PROJECT**  
**Draft Annual Report and Financial Statements**  
**For the financial year ended June 30, 2021**

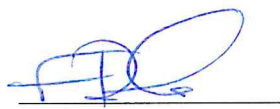
**7. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2021**

|  | Note | 2020/2021     | 2019/2020         |
|--|------|---------------|-------------------|
|  |      |               | KShs              |
| <b>FINANCIAL ASSETS</b>                |      |               |                   |
| <b>Cash and Cash Equivalents</b>       |      |               |                   |
| Cash Balances                          | 10.7 | 50,517        | 71,883,695        |
| <b>Total Cash and Cash Equivalents</b> |      | <b>50,517</b> | <b>71,883,695</b> |
| <b>TOTAL FINANCIAL ASSETS</b>          |      | <b>50,517</b> | <b>71,883,695</b> |
| <b>REPRESENTED BY</b>                  |      |               |                   |
| Fund balance b/fwd                     | 10.8 | 71,883,695    | 73,166,377        |
| Surplus/(Deficit) for the year         |      | (71,833,178)  | (1,282,682)       |
| <b>NET FINANCIAL POSITION</b>          |      | <b>50,517</b> | <b>71,883,695</b> |

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 01 OCTOBER 2021 and signed by:



Chief Executive Officer  
Ismail Fahmy M. Shaiye



Project Manager  
Fidelis Tamangani



Chief Manager Finance  
Samwel Gitau Mbugua  
ICPAK Member Number: 2868

**KENYA URBAN WATER AND SANITATION (KUWAS) OBA PROJECT**  
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**For the financial year ended June 30, 2021**

**8. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2021**

|  |      | 2020/2021           | 2019/2020          |
|--|------|---------------------|--------------------|
|  | Note | KShs                | KShs               |
| <b>Receipts for operating activities</b>                   |      |                     |                    |
| Proceeds from domestic and foreign grants                  | 10.3 | 431,884,030         | 209,801,523        |
| <b>Payments for operating activities</b>                   |      |                     |                    |
| Compensation of employees                                  | 10.4 | 5,145,000           | 13,623,320         |
| Purchase of goods and services                             | 10.5 | 10,495,273          | 26,929,806         |
| Other grants and transfers and payments                    | 10.6 | 488,076,935         | 170,531,079        |
| <b>Net cash flow from operating activities</b>             |      | <b>(71,833,178)</b> | <b>(1,282,682)</b> |
| <b>CASHFLOW FROM INVESTING ACTIVITIES</b>                  |      |                     |                    |
| Acquisition of Assets                                      |      |                     | -                  |
| <b>Net cash flows from Investing Activities</b>            |      |                     | -                  |
| <b>CASHFLOW FROM BORROWING ACTIVITIES</b>                  |      |                     |                    |
| Proceeds from Foreign Borrowings                           |      |                     | -                  |
| <b>Net cash flow from financing activities</b>             |      |                     | -                  |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT</b> |      | <b>(71,833,178)</b> | <b>(1,282,682)</b> |
| <b>Cash and cash equivalent at BEGINNING of the year</b>   |      | <b>71,883,695</b>   | <b>73,166,377</b>  |
| <b>Cash and cash equivalent at END of the year</b>         |      | <b>50,517</b>       | <b>71,883,695</b>  |

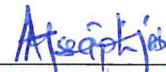
The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 01 OCTOBER 2021 and signed by:



Chief Executive Officer  
Ismail Fahmy M. Shaiye



Project Manager  
Fidelis Tamangani



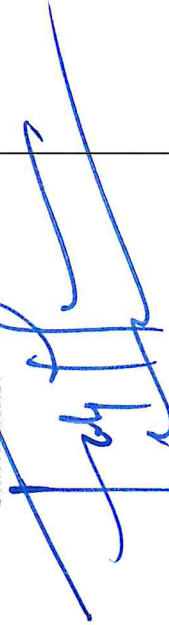
Chief Manager Finance  
FOR Samwel Gitau Mbugua  
ICPAK Member Number: 2868

KENYA URBAN WATER AND SANITATION (KUIWAS) OBA PROJECT  
 Draft Annual Report and Financial Statements  
 For the financial year ended June 30, 2021

9. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

| Receipts/Payments Item                    | Original Budget<br>a | Adjustments<br>b | Final Budget<br>c=a+b | Actual<br>Comparable Basis<br>d | Budget Utilization<br>Difference<br>e=c-d | % of<br>Utilization<br>f=d/c % |
|---|----------------------|------------------|-----------------------|---------------------------------|---|--------------------------------|
| <b>Receipts</b>                           |                      |                  |                       |                                 |   |                                |
| Proceeds from domestic and foreign grants | 150,000,000          | 350,500,000      | 500,500,000           | 431,884,030                     | (223,198,477)                             | 48%                            |
| <b>Total Receipts</b>                     | 150,000,000          | 350,500,000      | 500,500,000           | 431,884,030                     | (223,198,477)                             | 48%                            |
| <b>Payments</b>                           |                      |                  |                       |                                 |   |                                |
| Compensation of employees                 | 5,700,000            | -                | 5,700,000             | 5,145,000                       | 555,000                                   | 90%                            |
| Purchase of goods and services            | 16,507,500           | -                | 16,507,500            | 10,495,273                      | 6,012,227                                 | 64%                            |
| Other grants and transfers and payments   | 127,792,500          | 350,500,000      | 478,292,500           | 488,076,935                     | (9,784,435)                               | 102%                           |
| <b>Total Payments</b>                     | 150,000,000          | 350,500,000      | 500,500,000           | 503,717,208                     | (3,217,208)                               | 101%                           |

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



Chief Executive Officer  
 Ismail Fahmy M. Shaiye



Project Manager  
 Fidelis Tamangani



Chief Manager Finance  
 Samwel Gitau Mbugua  
 ICPAK Member Number: 2868



## **10. NOTES TO THE FINANCIAL STATEMENTS**

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

### **10.1 Basis of Preparation**

#### **10.1.1 Statement of compliance and basis of preparation**

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

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

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

#### **10.1.2 Reporting entity**

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

#### **10.1.3 Reporting currency**

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

### **10.2 Significant Accounting Policies**

#### **a) Recognition of receipts**

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

##### **• Transfers from the Exchequer**

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

##### **• External Assistance**

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Donations and grants**

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

**Proceeds from borrowing**

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

**Undrawn external assistance**

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

• **Other receipts**

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

**b) Recognition of payments**

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

• **Compensation of employees**

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

• **Use of goods and services**

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

• **Interest on borrowing**

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

### **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

- **Acquisition of fixed assets**

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

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

#### **c) In-kind donations**

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

#### **d) Cash and cash equivalents**

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

#### **Restriction on cash**

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**e) Accounts receivable**

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

**f) Pending bills**

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

**g) Budget**

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

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

***KENYA URBAN WATER AND SANITATION (KUWAS) OBA PROJECT***  
***Draft Annual Report and Financial Statements***  
***For the financial year ended June 30, 2021***

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**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**h) Exchange rate differences**

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

**i) Comparative figures**

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

**j) Errors**

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

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**10.3 PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS**

During the 12 months to 30 June 2021 we received grants from donors as detailed in the table below:

| Name of Donor                                | Date received | Amount received in donor currency | Grants received in cash | Grants received as direct payment* | Grants received in kind | Total amount in KShs |
|--|---------------|-----------------------------------|-------------------------|------------------------------------|-------------------------|----------------------|
|  |               | USD                               | KShs                    | KShs                               | KShs                    | KShs                 |
| <b>Grants Received from Bilateral Donors</b> |               |                                   |                         |                                    |                         |                      |
| World Bank                                   | 09.07.2020    | 514,111                           | 54,696,282              | -                                  | -                       | 54,696,282           |
| World Bank                                   | 21.09.2020    | 741,112                           | 80,174,416              | -                                  | -                       | 80,174,416           |
| World Bank                                   | 16.10.2020    | 1,190,968                         | 69,825,584              | -                                  | -                       | 69,825,584           |
| World Bank                                   | 06.01.2021    |                                   | 59,426,917              |                                    |                         | 59,426,917           |
| World Bank                                   | 27.04.2021    | 1,410,724.95                      |                         | 152,710,976                        | -                       | 152,710,976          |
| World Bank                                   | 04.05.2021    | 139,998.65                        |                         | 15,049,855                         | -                       | 15,049,855           |
| <b>Total</b>                                 |               | <b>3,996,914.60</b>               | <b>264,123,199</b>      | <b>167,760,831</b>                 | <b>-</b>                | <b>431,884,030</b>   |

**10.4 COMPENSATION OF EMPLOYEES**

This relates to salary cost and per diem allowances paid to the program manager during the period.

| Description              | (Kshs)           |
|--------------------------|------------------|
| Program manager salary   | 2,500,000        |
| Program manager gratuity | 1,905,000        |
| Per diem                 | 740,000          |
| <b>Total</b>             | <b>5,145,000</b> |

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**10.5 PURCHASE OF GOODS AND SERVICES**

|  | FY 2020/2021                        |                                |                   | Cumulative to- date |
|--|-------------------------------------|--------------------------------|-------------------|---------------------|
|  | Payments made by the Entity in Cash | Payments made by third parties | Total Payments    |                     |
|  | KShs                                | KShs                           | KShs              | KShs                |
| Independent verification agent                             | 2,071,950                           | -                              | 2,071,950         | 25,811,452          |
| Publicity and workshop                                     | -                                   | -                              | -                 | 7,964,634           |
| Administrative overheads                                   | 2,674,045                           | -                              | 2,674,045         | 21,429,401          |
| Capacity building for subproject design and implementation | 5,749,278                           | -                              | 5,749,278         | 120,616,774         |
| <b>Total</b>   | <b>10,495,273</b>                   | <b>-</b>                       | <b>10,495,273</b> | <b>175,822,261</b>  |

**10.6 OBA SUBSIDIES FOR WATER AND SANITATION SUBPROJECTS**

This relates to subsidies issued to water service providers during the period as follows:-

| Date            | Entity                                     | KShs               |
|-----------------|--|--------------------|
| 14 July 2020    | Embu Water and Sanitation Company Ltd      | 67,000,000         |
| 23 July 2020    | Embu Water and Sanitation Company Ltd      | 50,000,000         |
| 06 October 2020 | Mathira Water and Sanitation Company       | 43,641,609         |
| 06 October 2020 | Muranga South Water and Sanitation Limited | 23,100,000         |
| 06 October 2020 | Embu Water and Sanitation Company Ltd      | 2,554,973          |
| 27 October 2020 | Nyeri Water and Sewerage Company Ltd       | 62,194,408         |
| 27 October 2020 | Muranga South Water and Sanitation Limited | 7,605,591          |
| 13 January 2021 | Kisumu Water and Sewerage co. Ltd          | 38,073,668         |
| 19 January 2021 | Nyeri Water and Sewerage Company           | 26,145,855         |
| 27 April 2021   | Embu Water and Sanitation Company Ltd      | 152,710,976        |
| 04 May 2021     | Nyeri Water and Sewerage Company Ltd       | 15,049,855         |
| <b>Total</b>    |  | <b>488,076,935</b> |

**KENYA URBAN WATER AND SANITATION (KUWAS) OBA PROJECT**  
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**10.7 CASH AND CASH EQUIVALENTS CARRIED FORWARD**

| Description                     | 2020/2021     |
|---------------------------------|---------------|
|                                 | KShs          |
| Cash and cash equivalent OBA I  | 49,718        |
| Cash and cash equivalent OBA II | 799           |
| <b>Total</b>                    | <b>50,517</b> |

The project has 2 number of project accounts spread within the project implementation area and 1 number of foreign currency designated accounts managed by the National Treasury as listed below:

**10.7 A Bank Accounts**

**Project Bank Accounts**

|   | 2020/2021     |
|---|---------------|
|   | KShs          |
| <b>Foreign Currency Accounts</b>          |               |
| Central Bank of Kenya [A/c No 1000228121] | -             |
| <b>Total Foreign Currency balances</b>    | =             |
| <b>Local Currency Accounts</b>            |               |
| National Bank of Kenya [A/C No 3311001]   | 49,718        |
| National Bank of Kenya [A/C No 3311002]   | 799           |
| <b>Total local currency balances</b>      | <b>50,517</b> |
| <b>Total bank account balances</b>        | <b>50,517</b> |

**Special Deposit Accounts**

The balances in the Project's Special Deposit Account(s) as at 30<sup>th</sup> June 2021 are not included in the Statement of Financial Assets since they are below the line items and are yet to be drawn into the Exchequer Account as a voted provision.

Below is the Special Deposit Account (SDA) movement schedule which shows the flow of funds that were voted in the year. These funds have been reported as loans/grants received in the year under the Statement of Receipts and Payments.



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**For the financial year ended June 30, 2021**

**Special Deposit Accounts Movement Schedule**

|  | 2020/2021   |
|--|-------------|
|  | KShs        |
| <b>(i) A/C Name [A/c No 1000228121]</b>                                  |             |
| Opening balance  | 741,112     |
| Total amount deposited in the account                                    | 1,705,079   |
| Total amount withdrawn (as per Statement of Receipts & Payments)         | (2,446,191) |
|  |             |
| <b>Closing balance (as per SDA bank account reconciliation attached)</b> | <b>=</b>    |
|  |             |

**10.8 FUND BALANCE BROUGHT FORWARD**

|               | 2020/2021         | 2019/2020         |
|---------------|-------------------|-------------------|
|               | KShs              | KShs              |
| Bank accounts | 71,883,695        | 73,166,377        |
| <b>Total</b>  | <b>71,883,695</b> | <b>73,166,377</b> |

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**11. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS**

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

| Reference No. on the external audit Report | Issue / Observations from Auditor   | Management comments  | Focal person resolve the issue | Point to the Status: | Timeframe:     |
|--|---|--|--------------------------------|----------------------|----------------|
| 4.1  | <b>Delays in project implementation</b><br>According to information reflected in the annual report and financial statements, the Project commencement date was 1 <sup>st</sup> December 2014 with an expected completion date of 30 <sup>th</sup> November 2020. However, this Project whose Donor commitment was Kshs. 1,183,500,000 has only absorbed Kshs. 607,776,950 which accounts for 51% of the overall commitment. | The OBA Project was extended to 30 November, 2020 due to delays in subproject implementation as a result of the Coronavirus Disease 2019 (COVID-19). The extension will enable the subprojects to complete works and the disbursement of the outstanding subsidies for completion of physical works and household connections. | Project Manager                | Resolved             | Not applicable |
| 4.2  | <b>Presentation and disclosure</b><br>The content of the financial statement under project information and overall performance the note 1.6 currently shows roles and responsibilities of only one staff. An addition should be made to include the individuals   | The management has noted the recommendation and has incorporated other additional staff directly involved in the management and operation of the OBA project in the financial report.  | Chief Manager Finance          | Resolved             | Not applicable |

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| 4.2  | <b>Presentation and disclosure</b><br>The content of the financial statement under project information and overall performance the note 1.6 currently shows roles and responsibilities of only one staff. An addition should be   | The management has noted the recommendation and has incorporated other additional staff directly involved in the management and operation of the OBA project in the  | Chief Manager Finance             | Resolved | Not applicable |

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| Reference No. on the external audit Report | Issue / Observations from Auditor   | Management comments  | Focal person to resolve the issue | Status:  | Timeframe:     |
|--|---|--|-----------------------------------|----------|----------------|
| 4.3  | <p>made to include the individuals directly involved in the OBA project such as the Chief Executive Officer and the Chief Manager Officer.</p> <p><b>Tax compliance (VAT)</b><br/>           Payments amounting to Kshs 478,477 were charged VAT at the rate of 16% instead of 14% declared during the COVID pandemic</p> | <p>financial report.</p> <p>The management has noted the recommendation and has subsequently complied with charging of 14% VAT to consultants. For the payments already made, the management shall advise the consultants to note and file the necessary claim with KRA in the event they remitted the tax as presented.</p> | Chief Manager<br>Finance          | Resolved | Not applicable |
| 4.4  | <p><b>Compliance</b><br/>           Payments to the three Water Service Providers amounting to KShs 126,069,993 didn't follow the Subsidiary agreement and the management didn't provide modifications of the contract</p>  | <p>Following the approval of the changes to the disbursement criteria, WSTF submitted letters to the six WSPs that were currently under implementation including Naivasha, Nyeri, Murang'a South, Embu, Kisumu and Mathira.</p>  | Project Manager                   | Resolved | Not applicable |
| 4.5  | <p><b>Approval of OBA Manual</b></p>  | <p>The letter requesting for amendment of the operation manual was</p>   | Project Manager                   | Resolved | Not applicable |

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| Reference No. on the external audit Report | Issue / Observations from Auditor  | Management comments  | Focal person to resolve the issue | Point to the | Status:  | Timeframe:     |
|--|--|--|-----------------------------------|--------------|----------|----------------|
| 4.6  | <p>WSTF amended clauses of OBA operation manual specifically on disbursement of subsidy payment structure. Audit revealed there were communication from WSTF to World Bank requesting approval of the proposed changes on the operation manual however there was no evidence of approval since World Bank replied it's the duty of the recipient (The National Treasury) to request for the amendments and modification of the manual from the World Bank as per the legal agreement.</p> <p><b>Unrecorded amount. Kshs.3,720,000</b></p> <p>It was observed that the following cashbook amount of Kshs. 3,720,000 posted on 19/07/2019 being payment of project manager gratuity was not recorded in the OBA general ledger but the amount was posted in the cashbook</p> | <p>submitted to Ministry and National Treasury. National Treasury will then write to the Bank for this request.</p>  |                                   |              | Resolved | Not applicable |
|  |  | <p>The management has noted the recommendation and a reconciliation of the cashbook and general ledger has been done and the amount subsequently recorded in the OBA general ledger.</p> | Chief Manager Finance             |              | Resolved | Not applicable |

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|--|--|---|-----------------------------------|----------------------|----------------|
| 4.7  | <p><b>Procurement Irregularities</b></p> <p>For the period 1<sup>st</sup> January 2020 to 31<sup>st</sup> May 2020, WSTF awarded contracts to four short term consultants being technical consultant (Kshs 3,100,000), ESIA consultant (Kshs 2,000,000) through single source selection method. Through the audit, it was established that the awards were made based on a requested from the project manager to the CEO. There was no evidence of procurement process and therefore the procurement of the four consultants amounting to Kshs 5,100,000 was done un-procedurally.</p> | <p>There were two consultants who were rehired under the OBA project being the technical consultant and the ESIA consultant using direct procurement. The extension of the two contracts followed the approval of the OBA project by the World Bank from 31 December, 2019 to 31 May, 2020. The Senior Procurement Officer reviewed the request and provided his professional opinion on the request.</p> | Project Manager                   | Resolved             | Not applicable |

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**ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS**

|   | Final Budget<br>a  | Actual on Comparable Basis<br>b | Budget Utilization Difference<br>c=a-b | % of Utilization<br>d=b/a % | Comments on Variance   |
|---|--------------------|---------------------------------|--|-----------------------------|--|
| <b>Receipts</b>                           |                    |                                 |  |                             |  |
| Proceeds from domestic and foreign grants | 500,500,000        | 431,884,030                     | 68,615,970                             | 86%                         | The funds requested were lower since withdrawal applications are based on the expenditure incurred in a quarter.   |
| <b>Total Receipts</b>                     | <b>500,500,000</b> | <b>431,884,030</b>              | <b>68,615,970</b>                      | <b>86%</b>                  |  |
| <b>Payments</b>                           |                    |                                 |  |                             |  |
| Compensation of employees                 | 5,700,000          | 5,145,000                       | 555,000                                | 90%                         | The underspend is due to reduced monitoring activities due to the restriction of travel due to the Covid-19 pandemic.  |
| Purchase of goods and services            | 16,507,500         | 10,495,273                      | 6,012,227                              | 64%                         | <b>Publicity &amp; workshops:</b><br>The project did not undertake workshops due to Covid-19, other workshops were suspended.<br><br><b>Administration overheads:</b><br>Due to Covid-19, the sustainability testing of projects was suspended from February, 2020 up to June, 2020 resulting in a low expenditure<br><br><b>Capacity building for project design and implementation.</b><br>Payment for TA funding for supervising consultants was delayed due to delayed completion of projects. |
| Other grants and transfers and payments   | 478,292,500        | 488,076,935                     | -9,784,435                             | 102%                        | There was an overspend since payment of subsidies is based on the actual loan amount and interest  |

|                       | Final Budget | Actual on Comparable Basis | Budget Utilization Difference | % of Utilization | Comments on Variance  |
|-----------------------|--------------|----------------------------|-------------------------------|------------------|---|
|                       | a            | b                          | c=a-b                         | d=b/a %          |   |
| <b>Total Payments</b> | 500,500,000  | 503,717,208                | -3,217,208                    | 101%             | expense which can only be determined from the final payment certificate and interest computation. |