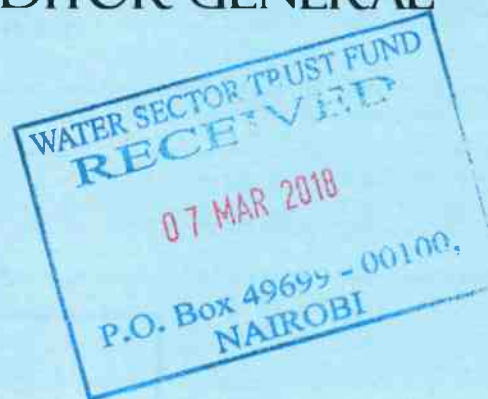


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
WATER SECTOR TRUST FUND**

**FOR THE YEAR ENDED  
30 JUNE 2017**

**WATER SECTOR TRUST FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**



**ISO 9001:2008 CERTIFIED**

*Financial Support for Improved Access to Water and Sanitation*

## GLOSSARY OF TERMS

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

Water Sector Trust Fund  
Annual report and financial statements  
For the year ended 30 June 2017  
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## CORPORATE INFORMATION

### INCORPORATION

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

### PRINCIPAL ACTIVITIES

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

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

#### Vision:

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

#### Mission:

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

#### Core Values

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

Water Sector Trust Fund  
Annual report and financial statements  
For the year ended 30 June 2017  
Corporate Information  
**CORPORATE INFORMATION**  
**BOARD OF TRUSTEES**  
Hon. P. N. Muthuri  
Mr. J. M. Njiru  
Prof. J. M. Njiru  
Dr. J. M. Njiru  
Mr. J. M. Njiru  
N

**CORPORATE INFORMATION (Continued)**

**BOARD OF TRUSTEES**

Hon. Musikari N. Kombo, EGH	- Board Chairman
Mr. Ismail Fahmy M. Shaiye	- Chief Executive Officer
Prof. Fred Harun Kiptoon Segor, EGH	- PS, State Department of Water Services
Dr. Kamau Thuge, EBS	- PS, the National Treasury (NT)
Ms. Margaret Wamuyu Kibui	- Alternate Trustee to PS: National Treasury
Mr. Calvin Shavanga	- Alternate Trustee to PS: Ministry of Water and Irrigation (Served up to 16 <sup>th</sup> September, 2016)
Mr. Daniel Kihara	- Alternate Trustee to PS: Ministry of Water and Irrigation (w.e.f 16 <sup>th</sup> September, 2016)
Mr. Geoffrey Kiringa Ruku	- Member (Served up to 31 <sup>st</sup> May 2017)
Mr. Stephen N. Gwandaru	- Member
Mr. Adan Omar Enow	- Member
Mr. Joel Onsare Gasuka	- Member
Mr. Joseph Kotoine Nkaiwuatei	- Member
Eng. Onesmus kipkirui Maritim	- Member
Ms. Rose N. Kinuthia	- Member
Ms. Sheila Murugi Mugo	- Member

**MANAGEMENT TEAM**

Mr. Ismail Fahmy M. Shaiye, BA (Global Studies), Masters in International Environmental Law and MSc (Natural Resource Management)	- Chief Executive Officer
Mr. Bonface Wanyonyi, BCom (Accounting), MBA, CPA (K)	- Chief Manager, Finance
Mr. Edwin Korir, B.Ed. (Arts), MBA, CPA (K)	- Chief Manager, Internal Audit & Risk Management
Mr. Willis Okello Ombai, BSc (Forestry), MA (Project Planning & Management)	- Chief Manager, Investments & Programmes
Ms. Rosaita Ngina Mbukua, BSc (Natural Resources Management) MBA, Dip Project Management	- Chief Manager, Resource Mobilization & Corporate Affairs (served up to 08 <sup>th</sup> May, 2017)
Mr. Samwel Gitau Mbugua, B. Com (Accounting), MBA, CPA (K)	- Manager, Finance
Mr. Bernard Njenga, B. Com (Business Information Systems), MBA	- ICT Manager
Mr. Ronald Kimaiyo, B.Ed. (Arts), MBA, Higher Dip. HR	- Manager, Human Resources and Administration
Mr. Isaac Kega, BA (Econ), MEcon, PMP, MESK	- Manager, Monitoring & Evaluation
Mr. Simon Onyango Okoth, BEng (Environment & Bio-systems)	- Manager, Urban Investments (served up to 31 <sup>st</sup> March, 2017)
Mr. Fidelis Tamangani, BSc Natural Resources Management, MBA	- Manager, Result-Based Financing
Ms. Pricilla Kagure Kinyari, BSc Eng.(Agricultural), MSc(Environmental)	- Manager, Rural Investments
Eng. Rose Nyikuri, BEng (Civil), MSc (WREM), R. Eng., MIEK	- Manager, Water Resources Investments
Mrs. Ruth Nganga, BA (Theology), PGC, Ed	- Manager, Resource Mobilization & Corporate Communications
Ms. Virginia Nzioka, LL. B; PGDip – Law; ACI Arb	- Manager, Legal & Corporation Secretary

**CORPORATE INFORMATION (Continued)**

**REGISTERED OFFICES**

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

**BANKERS**

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

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

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

Co-operative Bank of Kenya Limited  
Upper Hill Branch  
P.O. Box 48231 - 00100  
Nairobi, Kenya.

**AUDITOR**

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

**LEGAL ADVISORS**

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

## BOARD OF TRUSTEES

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

### **Hon. Musikari N. Kombo, EGH - Chairman of the Board of Trustees**



Hon. Musikari Kombo joined the Fund as Chairman of the Board of Trustees in April 2015 for a period of 3 years. Hon. Kombo is a former Cabinet Minister in the Ministry of Regional Development and Local Government and served for a cumulative period of 5 years. He pioneered and made a significant contribution to the agenda of anti-corruption in Kenya.

During the 8th Parliament he played a significant role in institutionalizing the fight against corruption as well as in rejecting legislation that undermined the fight against corruption. In December 1997, the Kenya Anti-Corruption Authority (KACA) was established following an amendment to The Prevention of Corruption Act Cap 65, Laws of Kenya. In 1998, Hon. Musikari Kombo chaired a Parliamentary Committee that produced a report known as the "Kombo Report" the appendix to which was the even more famously known "List of Shame". He spearheaded a Bill in Parliament which was later on taken over by the Government and enacted as The Political Parties Act, 2011 (No11 of 2011). This Act of Parliament provided for registration, regulation and funding of political parties and for connected purposes. Hon. Kombo has also contributed, and has been recognized and acclaimed, for his contribution to the fight against corruption in Africa and globally. In this respect he contributed to the setting up of anti-corruption bodies of parliamentarians and served on them both as a resource person and board member. Hon. Kombo holds a BA Degree (Economics) from the University of East Africa. He has been a successful international businessman with companies in East Africa. He owned and managed groups of companies where he successively held the roles of Managing Director/ CEO and Board Chairman.

Hon. Kombo is an ardent reader and enjoys sports. He is currently a regular player of golf.

### **Mr. Ismail Fahmy M. Shaiye – Chief Executive Officer**

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



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



**BOARD OF TRUSTEES (Continued)**

**Prof. Fred Harun Kiptoon Segor, EGH – Principal Secretary, State Department of Water Services**



Prof Fred Harun Kiptoon Segor was born on 1st December, 1966 in Baringo County, Kenya.

After his early education at Tambach and Kakamega High School, Prof. Segor proceeded to the University of Nairobi (UoN) for his BSC and M.SC and finally got Deutscher Akademischer Austauschdienst (DAAD) scholarship where he obtained Ph.D. degree in the same University. He joined Moi University in 1996 where he taught Chemistry & Biochemistry for both undergraduate and postgraduate programmes.

Prof. Segor is currently the Principal Secretary (PS) in the Ministry of Water and Irrigation, State Department of Water Services; Patron, Chemical Association of Moi University (CAMU) and the University of Eldoret; Deputy Patron, Baringo County University Students Association. Previously, he was the PS for the State Department of Livestock where he facilitated and advocated for formation of Strategic food reserve from the strategic grain reserve where he oversaw initial injection of KShs 300 million out of required KShs 2 billion into the dairy sector to address milk glut thereby stabilizing milk prices hence contributing to significant growth and improved livelihood of farmers. He was also the PS in the Ministry of Health; the Chairman of Chepkoilel University College, the Departmental Building Committee and the DAAD Scholars Association, Moi University Chapter. He has also been a member of Examinations Irregularity Investigating Committee, Implementation prioritization of schools/units Committee, School of Science Bachelor of Sports Science curriculum Committee and University of Eldoret building committee, Conference, Seminars and Workshop Committee, Moi University Academic Affairs Committee of the Senate; the Vice Chairman Kenya Chemical Society and Kenya DAAD Scholars Association, Moi University Chapter; and Trustee, Moi University Academic Staff Union.

Prof. Segor is a member of many national and international scientific societies including the Kenya Chemical Society, Kenya DAAD Scholars Association (KDSA) and Kenya National Academy of Sciences among others.

Prof. Segor is a prolific writer having published 15 scientific publications and 11 papers mainly in the field of Chemistry; took special interest in scientific and industrial policy particularly in Development of industrial dye-waste water treatment methods using electro catalytic TiO<sub>2</sub>/FTO electrode and bio sorption; Phytochemical attractants and repellants from selected Kenyan varieties of mango (*Mangifera indica* L) as control tools for mango fruit fly Spp (Diptera: Tephritida)

**Dr. Kamau Thugge, EBS**

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



**BOARD OF TRUSTEES (Continued)**

**Ms. Margaret Wamuyu Kibui**

Ms. Margaret Wamuyu Kibui was appointed as Water Sector Trust Fund's alternate trustee to the Principal Secretary of the National Treasury in November 2015. She is a Certified Public Accountant and a Member of Institute of Certified Public Accountants of Kenya (ICPAK).

Ms. Kibui possesses a Master of Business Administration degree from the University of Nairobi and Bachelor of Commerce degree (First Class Honours) from KCA University. She is a Senior Government officer with a wealth of experience in Public Financial Management and works at the National Treasury.



**Mr. Daniel Kihara Mutune (Joined with effect from 16 September 2016)**

Mr. Daniel Kihara Mutune was appointed as Water Sector Trust Fund's alternate trustee to the Principal Secretary of the State Department of Water Services, Ministry of Water and Irrigation, in September 2016.

He is the current Ag. Chief Finance Officer at the State Department. He brings with him a wealth of experience in Public Finance Management (PFM) having worked in the Public Sector for a period of over 11 years, having worked previously in the Water Sector and the Ministry of Defence.

Mr. Mutune's experience in PFM includes, Finance policy formulation and guidance, strategic planning, budget preparation and expenditure management and donor funds management among others.

Mr. Mutune possesses a Master of Business Administration (MBA) degree from the University of Nairobi and Bachelor of Arts degree (Second Class Honours) from the same institution. He is a Certified Public Accountant (CPA-K) and a Member of Institute of Certified Public Accountants of Kenya (ICPAK).

**Mr. Calvin Shavanga (served up to 16 September 2016)**

Mr. Calvin Shavanga is the Alternate Trustee to the Principal Secretary, Ministry of Water and Irrigation Services where he is currently the Chief Finance Officer. He first served as a Finance Officer at the Ministry of Energy in 2000 and was later promoted to Deputy Chief Finance Officer while serving at the Public Service Commission in 2004.

Mr. Shavanga has served in several Ministries including Roads and Public Works, Provincial Administration, Special Programmes, Home Affairs and the Ministry of Public Service (now Directorate of Public Service Management in Devolution and Planning Ministry) in that order. It was while serving at the Special Programmes Ministry that he was promoted to Chief Finance Officer. Between 1998 and 2000, Mr. Shavanga worked as Project Accountant at the then Dutch Government funded Kenya Agricultural Biotechnology Program KABP. Mr. Shavanga holds a Bachelor of Commerce (Accounting) Degree from the University of Nairobi and is a Certified Public Accountant of Kenya.



**Mr. Geoffrey K. Kiringa Ruku (served up to 31<sup>st</sup> May 2017)**

Mr. Geoffrey K. Kiringa Ruku joined the Fund as a Trustee in April, 2015 for a period of 3 years. He is an Expert Assessor on monitoring, validating and verifying of low carbon projects in Kenya with Carbon Check, a Designated Operating Entity based in South Africa. He is also an independent contractor with Fair Climate Network Southern Africa based in Pretoria, South Africa. He has consulted in designing project protocols and conducting baseline studies and implementing of climate smart agriculture projects. Mr. Ruku is also a UNFCCC consultant on CDM (Clean Development Mechanisms) loan scheme.

He is the Founding Director of Climate Pal Ltd, a joint venture company (Carbon Manna Africa & Eco Act) which implements carbon emissions reduction projects in Kenya for green growth and development. He championed successful running of the company from inception to having fully operational projects as the Managing Director. Mr. Ruku is also the Founder of the Carbon Manna Africa Ltd. From 2006

to 2009, Mr. Ruku worked with the Israel Embassy as a Coordinator for Center for International Development and Cooperation, Mashav.

Currently, Mr. Ruku is pursuing a PhD in Environmental Management and Governance at Wangari Mathaai Institute of Peace and Environmental Studies and working on Low Carbon Economy as a research area. He holds Master of Business Administration (MBA) – Finance, Postgraduate Diploma in Diplomacy and International Relations, both from the University of Nairobi and Bachelor of Commerce Degree from the Catholic University of Eastern Africa.

### Mr. Stephen N. Gwandaru

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

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



### Mr. Adan Omar Enow

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

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



### Mr. Joel Onsare Gesuka

Joel Onsare Gesuka was appointed as a member of the board of trustees of Water Sector Trust Fund in November 2015. He is a specialist in marketing and accounts and holds a Bachelor's degree of Commerce from the University of Jabalpur, India. He also possesses a Postgraduate Diploma in Marketing Management from the University of New Delhi.

Mr. Gesuka is a career public servant having served as an accountant in different government institution for the last 21 years and he is a part-time lecturer at the Universal College, Nairobi.



**BOARD OF TRUSTEES (Continued)**

**Mr. Joseph Kotoine Nkaiwuatei**

Joseph Kotoine Nkaiwuatei was appointed as a member of the board of trustees of Water Sector Trust Fund in November 2015. He has over 12 years' experience in the development sector, mainly in the education sector, Water and Sanitation, Livelihoods and Economic development having implemented development projects and Programmes with GTZ, Netherlands Development Organisation (SNV), Concern Worldwide, Catharina Foundation, Action Aid International. He is currently with the Kenya Community Development Foundation, where he is the team leader for the Education Youth and Children Portfolio.



Mr. Nkaiwuatei's experience in education includes processes aimed at improved education access, equity and quality, improved stakeholder coordination in support of education in the arid and semi- arid areas, and the slums of Nairobi. Other areas of expertise include institutional strengthening, organisation development, strategic planning, capacity building facilitation and community mobilisation towards sustainability of community projects. He holds a Bachelor of Arts degree in Political Science and Sociology, and a Master's degree in Project Planning and Management, both awarded by the University of Nairobi.

**Eng. Onesmus Kipkirui Maritim**



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

Eng. Maritim is also serving as an Executive Director of Tim & Tims Engineering Solutions. He brings in a wealth of experience in corporate governance and engineering services to Water Sector Trust Fund having worked as an engineer for various companies for the last 35 years. The companies include Kenya Veterinary Production Institute, Agricultural Development Corporation, National Cereals and Produce Board and James Finlay Company Ltd. He has also served as a director for various institutions.

**Ms. Rose N. Kinuthia**

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

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



**BOARD OF TRUSTEES (Continued)**

**Ms. Sheila Murugi Mugo**



Sheila Murugi Mugo was appointed as a member of the board of trustees of Water Sector Trust Fund in November 2015. She is a lawyer by profession and an Advocate of the High Court of Kenya with over 15 years' experience. She is currently pursuing Masters in Women's Law at The University of Zimbabwe. She holds a bachelor's degree in law (LLB) from the University of Nairobi and a postgraduate diploma in law from Kenya School of Law. She also has qualifications in humanitarian studies from the University of Dar es Salaam's Centre for the Study of Forced Migration. She has also qualified in mediation from the Peacemakers Ministries International. She has worked in various firms and is currently the proprietor of Sheila Mugo & Company Advocates.

Ms. Mugo thrives in social justice has a passion for the right of the oppressed and marginalised. She has interrogated and written on gender issues relating to access, control and ownership of land, water and natural resources as well as climate change and gender. She is a member of The Law Society of Kenya, Christian Lawyers Fellowship, International Commission of Jurists (ICJ) Kenya Chapter, and serves in Medico-legal committee of the Law Society of Kenya.

Ms. Mugo is also in the board of management of Chief Mbogori Girls High School in Tharaka Nithi County.

**Ms. Virginia Nzioka, Manager, Legal Affairs & Corporation Secretary**

Ms. Virginia Nzioka (ACI Arb) joined the Fund in January, 2016 as a Manager, Legal/ Corporation Secretary. She is an Advocate of the High Court of Kenya with a post-admission legal practice experience of 10 years. She holds a PGDip in Law and advocacy from the Kenya School of Law and a Bachelor of Laws Degree (Hons.) from the University of Nairobi.

Previously, she worked with the Public Procurement Oversight Authority where she advised on legal and procurement processes. For three (3) years, she was the Committee Secretary for the PPOA Advisory Board's Capacity Building and Communication Committee where she ably provided board secretarial services and support.

Ms. Nzioka has immense managerial expertise having attended management training with ESAMI (Arusha-Tanzania), International Renaissance Centre (IRC - Kenya) and the Kenya School of Government. She is an Associate Member of the Chartered Institute of Arbitrators (K) Branch, a continuing ICPSK, and a Commissioner for Oaths. Her areas of specialization are: oversight and regulatory advisory, Board secretarial services, governance and compliance, contract management, procurement law and practice, and legal research.



**MANAGEMENT TEAM**



**Chief Executive Officer**

Mr. Ismail Fahmy M. Shaiye

**Mr. Ismail Fahmy M. Shaiye – Chief Executive Officer**

**BA (Global Studies –Environmental Governance), Masters in International Environmental Law and MSc (Natural Resource Management)**

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



**Chief Manager, Finance**

Mr. Bonface Wanyonyi, B.Com (Accounting), MBA, CPA (K)



**Chief Manager, Internal Audit & Risk Management**

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



**Chief Manager, Investments & Programmes**

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



**Chief Manager, Resource Mobilisation & Corporate Affairs**

Ms. Rosaita Mbukua, BSc (Natural Resources Management) MBA, Dip Project Management (served up to 08<sup>th</sup> May, 2017)



**Manager, Finance**

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



**Manager, ICT**

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

**MANAGEMENT TEAM (Continued)**



**Manager, Urban Investments**

Mr. Simon Onyango Okoth, BSc.  
Eng. (Environment & Bio-  
systems), PgMP), (served up to 31<sup>st</sup>  
May, 2017)



**Manager, Water Resources  
Investments**

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



**Manager, Rural Investments**

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



**Manager, Monitoring &  
Evaluation**

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



**Manager, Human Resources &  
Administration**

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



**Manager, Resource Mobilisation  
& Corporate Communications**

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



**Manager, Results-Based  
Financing**

Mr. Fidelis Tamangani, BSc  
Natural Resources Management,  
MBA



**Manager, Legal Affairs &  
Corporation Secretary**

Ms. Virginia Nzioka, LL.B; PGDip  
– Law; ACI Arb

## **CHAIRMAN'S REPORT**

I am delighted to present the annual report and financial statements for the Water Sector Trust Fund for the twelve months ended 30<sup>th</sup> June 2017.

### ***Water Sector Review***

During the year, the Water Act 2016 was operationalised transforming the Fund to Water Sector Trust Fund with enhanced mandate and clear corporate identity. The Fund changed from a financing mechanism to a financing institution with expanded mandate which include financing of water services, water resources management and research activities and provision of loans to Water Service Providers that can afford to re-pay among others

With the new Act the object of the Fund were clearly stated and include to provide conditional and unconditional grants to counties, in addition to the Equalization Fund and to assist in financing the development and management of water services in marginalized areas or any area which is considered by the Board of Trustees to be underserved that include ;

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

### **Partnerships**

The Water Sector Trust Fund draws the funding of its activities from the Government of Kenya and Development Partners. Over the past 5 years the development partners funding has averaged over 80%. The development partners are therefore key stakeholders to the Fund. To recognise this the Fund places great value on developing and nurturing partnerships as part of its resource mobilization activities and has included it as one of the strategies in the strategic objectives.

During the year, the Fund realized the following towards the management of new and existing partnerships; Several steering and bilateral meetings were held during the period. These included three (3) Rural Steering meetings, one (1) Joint Steering meeting and two (2) Joint six Programme (J6P) Steering meetings. All these meetings deliberated and sought to address pertinent issues such as programme progress, delayed co-funding by Counties, audit updates, financial reports and capacity development among others.

Bilateral meetings included: High level Ministerial meeting between the Royal Danish Embassy, Ministry of Water and Irrigation, The Fund and the Red Cross held to discuss Drought Emergency Response, meeting with the Stockholm International Water Institute (SIWI) Director, meeting between J6P Partners, The Fund and MWI, IFAD and The World Bank missions among others. The Fund had engagement with partners namely KfW, and the Gates Foundation. A sanitation stakeholder's workshop was carried out by the Fund and the Gates Foundation.

### **Strategic Plan**

Kenya has embarked on a process of transformation of the Water Sector through the implementation of the Water Act 2016 that seek to consolidate the lessons learned and gains made from the sector reforms emanating from the Water Act 2002. Section 113 of the Water Act 2016 establishes the Water Sector Trust Fund and mandates it to provide conditional and unconditional grants to Counties, in addition to the Equalization Fund and to assist in financing the development and management of water services in marginalized areas or any area which is considered by the Board of Trustees as being underserved

The Water Sector Trust Fund's Corporate Strategy is designed to place the Fund at the center of the Kenyan Water Sector transformation and improving the quality of lives of all Kenyan's through adequate access to water and sanitation services as well as improving the Water Resource Management. It aims at accelerating the Country's match to the Vision 2030 aspirations through mobilizing for and providing adequate financial resources for adequate access to water and sanitation services to all Kenyans



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**CHAIRMAN'S REPORT (Continued)**

The Strategy sets out ambitious targets in sector transformation and improving access to water services in Kenya, and their realization calls for re-engineering of business processes, resource mobilization strategies and investment mechanisms as well as enhancing areas of comparative strength

The Strategy sets out ambitious targets in sector transformation and improving access to water services in Kenya, and their realization calls for re-engineering of business processes, resource mobilization strategies and investment mechanisms as well as enhancing areas of comparative strength.

**Sustainability**

The Water Sector Trust Fund (WSTF) and its stakeholders are increasingly emphasizing on the need to ensure sustainability for both its investments and its resource mobilization and financing capabilities with an objective of ensuring that the Fund's going concern is secured

To finance its operations, the Fund has continuously relied on the management fees charged on grants received from development partners and the recurrent funds allocation from GoK. The two sources of income have remained below the Funds 'operating budget' over the years. The Fund has therefore been operating at sub-optimal level by scaling down important activities usually in the proposed budget. This has affected the effectiveness in projects supervision and monitoring with the twin effect of delays in project implementation and misapplication of resources by some implementing agents

The Fund has conducted a basic assessment of available options for feasible financing tools that would assure the Fund of its long term sustainability. The Fund has reviewed its current resource mobilization strategies and proposed feasible sustainability financing options. The Fund has proposed six medium-term to long-term strategies for institutional and programme sustainability as follows:

- a) Efficient Models of Financing
- b) Efficiency in Operational Expenditure
- c) Increase in GOK allocation for Recurrent and Development Funds
- d) Increase in the Management Fee on Development Partners' grants from 5% to 15%
- e) Building a new office complex for the Fund that will partly be rented out
- f) Establishment of an endowment and/or sustainability Fund
- g) Charging of Water Levy as detailed in the Water Act 2016

**Board and Management Changes**

During the year, one of the Trustees Mr. Geoffrey K. Ruku resigned to join politics.

The Board established a taskforce with the mandate to review and interrogate the adequacy and effectiveness of the WSTF organogram in carrying out its mandate and make recommendations. The taskforce carried out the assignment and made several recommendations key among them reorganisation of the department of resource mobilization and corporate affairs which rendered the position of Chief Manager, Resource Mobilization and Corporate Affairs redundant. Consequently, Ms Rosaita N. Mbukua, the occupant of the position was declared redundant and left the Fund in May 2017. The other major changes in the structure included delinking of Monitoring and Evaluation from Investment Department and planning and Research from Resource Mobilisation and Corporate Affairs to form the Planning, Research and M&E unit reporting to CEO. The ICT function was enhanced to include Corporate Affairs function, Communication and Public Relations also reporting directly to Chief Executive Officer (CEO). The organisation arrangement is expected to enhance efficiency in service delivery.

**Review of performance**

**Income**

The Fund earned revenues amounting to KShs. 1,522 million from the development partners, the Government of Kenya and other revenues from other exchange transactions. The Income from the Government of Kenya amounted to KShs. 449 million while KShs. 1,021 million was earned through support from development partners. Income from exchange transactions contributed KShs. 52 million. Overall income increased by 22%.

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**CHAIRMAN'S REPORT (Continued)**

The Fund disbursed KShs. 1,085 million to projects across its investments programmes. Projects implementation during the period were carried out as per the plan with the coordinated efforts by all stakeholders including the county governments and development partners among others. The performance was also attributed to a favourable opening cash balance of KShs. 737 million at the beginning the year.

**Expenditures**

The total expenditures during the period amounted to KShs. 1,548 million out of which the administration expenses amounted to KShs. 354 million and project expenses KShs. 1,193 million representing 23% and 77% of total expenditures respectively.

**Future outlook**

The outlook of the Fund for 2017/2018 looks brighter with the enactment and operationalisation of the Water Act 2016. The Act transformed the Fund from a mechanism to a financial institution and full parastatal with legal mandate. The Act enhanced the mandate of the Fund to finance the entire water sector and carry out research. The Act further expanded the sources of income for the Fund to include water levy and grants from the county government. It also allows the Fund to establish other funds like endowment/revolving funds. The Fund focus is to take advantage of the expanded mandate and provision of new income streams to build a robust and sustainable Fund with a motivated workforce and structures that enhance efficiency and effectiveness in the service delivery. With the global shift from grant to trade the Fund will seek to expand the Result Based Financing as an alternative to the traditional grant. The Fund looks forward to continued support from the Government and Development partners to the realization of its mandate.

**Appreciation**

I take this opportunity to express my sincere gratitude and appreciation to the Government, development partners, stakeholders, management, staff and fellow Trustees for their continued support which made us achieve these results.

I look forward to your continued support in the year 2017/2018.



**Hon. Musikari N. Kombo, EGH**  
**Board Chairman**

## CHIEF EXECUTIVE OFFICER'S STATEMENT

On behalf of the Management of Water Sector Trust Fund (WSTF), it gives me great pleasure to present to you our annual report and financial statements for the year ended 30 June 2017.

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

The financial year 2016/2017 ended with many great initiatives and achievements for WSTF. The organization undertook profound projects for the first time such as operations monitoring for all the Funds' projects since 2010, resulting in the first Maji Insight Report, holding the first Kenya Water Week and the first Water Sector Trust Fund Innovation Challenge (WICA 2016). The Fund trained and paid the WICA 2016 winners as a recognition for best innovation exhibited.

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

### (i) Drought Emergency Response

A funding proposal for drought emergency response was submitted to DANIDA and the Royal Danish Embassy committed to fund the programme to a tune of KShs 150 million. Monies were disbursed to target counties and implementation is ongoing.

The Government of Denmark committed additional support to the Fund towards drought resilience to include utilization of the balance from the no-cost project extension in the MTAP II water resources component, and allocation from a possible DKK 100 million (KShs 1.5 billion) towards handling humanitarian and climate change.

### (ii) Saudi Fund for Development

The Fund submitted a proposal to the Saudi Fund for Development for support to drilling and equipping of 42 boreholes in selected ASAL Counties of Wajir, Mandera and Garissa. The proposal has since been funded. A project Implementation Unit was formed at the Ministry of Water and Irrigation where the Fund is represented by the Manager, Rural Investments.

### (iii) Kenya Pooled Water Fund Reserve Funds

The Fund received KShs 250 million from the National Treasury as reserve funds under the Kenya Pooled Water Fund programme. A further KShs 250 million for the same is expected.

During the year, the Fund embarked in development of new proposals targeting prospective partners which were at various stages by the end of the financial year.

The process of signing the financing agreement for the European Union Climate Proofed Infrastructure Programme is at an advanced stage and the signing is expected to take place in FY2017/2018. The support is for KShs 2 billion with Stichting Nederlandse Vrijwilligers-Netherlands Development Organization (SNV) receiving KShs 200 million towards enhancing capacity for project management and Private Sector Participation.

The Fund engaged with representatives from the Global Environment and Technology Foundation (GETF). GETF is expected to fund Rainwater Harvesting as well as the Decentralized Treatment Facility (DTF) value chain process, focusing on economic re-use of treated waste.

The Fund and the Gates Foundation are working on a proposal to African Development Bank for construction of Fecal Sludge Management Treatment Facilities in 17 towns in Kenya. The process is being undertaken together with the Ministry of Irrigation.

Other proposals under negotiation include; Rain Water Harvesting Proposal to Safaricom Foundation, Result Based Financing proposal to Safaricom MPESA Foundation and Sanitation proposal to NIC bank.

The Fund is in the process of developing and submitting a proposal to the Green Climate Fund supported by the consultancy for the Climate Technology Centre and Network (CTCN). In the year under review, CTCN supported the consultancy for green technologies and Public Private Partnerships whose results were disseminated to the Fund and its stakeholders.

## **CHIEF EXECUTIVE OFFICER'S STATEMENT (Continued)**

### **BUSINESS PERFORMANCE**

#### **Revenue**

Water Sector Trust Fund earned revenues amounting to KShs 1,522 million from the development partners, The Government of Kenya and other revenues from exchange transactions. The Government of Kenya contributed KShs. 449 million, development partners KShs. 1,021 million while revenues from exchange transactions amounted to KShs. 52 million.

The Government of Kenya support to the Fund experienced an increase of 10% from previous year while the support from the development partners made significant impact in the performance that made the Fund earn funds amounting to KShs 1,021 million representing an increase of 30%. The Fund remained liquid throughout the year experiencing high liquidity towards the end of the financial year due to increased support from the development partners and the government. The Fund is projecting increased support from the development partners as well as the GOK.

#### **Cash flow**

The cash and cash equivalents increased from KShs 737 million as at 30 June 2016 to KShs 1,284 million as at 30 June 2017. There was significant cash inflow in form of funding of projects towards the end of the year from donors.

### **OPERATIONAL PERFORMANCE**

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

During the year, the Fund earned revenue of KShs. 1,470 million from GOK, Sweden, EU, KfW, IFAD, Finland, Denmark and The World Bank for water, sanitation and water resources projects. The fund received from the Government of Kenya represented support to operations and development to the rural and urban investments.

During the year Finnish Consulting Group (FCG) provided technical advisory support to Funds' Joint 6 Programme under rural investments; Kenya Market Trust (KMT) supported the Kenya Water Week (KWW) while Water and Sanitation for the Urban Poor (WSUP) supported in formulation of corporate strategy, investment policy and resource mobilization strategy.

Agile and Harmonised Assistance for Devolved Institutions (AHADI) provided short-term technical support towards the implementation of AHADI's programmatic interventions in the water sector in Garissa and Wajir counties. The county water profiling (CWP) exercise in the five counties of Garissa, Wajir, Marsabit, Isiolo and Turkana was designed with the aim of inventorying the distribution and status of water supplies.

SNV supported the development and publicising of Service Delivery Models (SDMs) aimed at professionalising management of rural water supply system. The achievements of each investment programme is summarized as follows;

#### **The Urban Investments**

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

The UPC investments focus on the extension of water supply and improvement of sanitation situation in public places while UBSUP investments targets household and plot level sanitation based on the principle of complete sanitation value chain. To date, the investments programme has financed 325 projects that included 284No. UPC projects and 41No. UBSUP projects costing a total of KShs. 3.71 billion and benefiting an estimated population of 1.79 million people.

## CHIEF EXECUTIVE OFFICER'S STATEMENT (Continued)

During the financial year 2016/2017, a total of 18 household sanitation projects targeting 131,000 people at a cost of KShs 150 million and 1 public sanitation projects targeting approximately 800 people at a cost of KShs. 5 million were completed. The Fund continued to finance 23 No. UBSUP projects during the year.

The Results Based Financing (RBF) program is supporting water utilities that are investing in water supply and sanitation improvement sub-projects benefiting households in low income areas. The investments are linked to the construction and expansion of water and sewer networks to reach unserved consumers, rehabilitation and improvement of existing networks such as non-revenue water (NRW) reduction program, water and sewer connections to households and public points and water and sewer treatment facilities.

The RBF program is financed by the Swedish International Development Agency (SIDA) through the World Bank Output Based Aid (OBA) program for US\$11.835 million and the German Development Bank (KfW) Aid on Delivery (AoD) program for Euros 1.36 million.

Since program inception in December 2014, the RBF program has supported five (5) water and sanitation improvement projects valued at KShs. 338 million. The five projects were pre-financed with commercial loans from domestic lenders to successful Water and Sewerage Companies namely; Embu (KShs. 79 million), Meru (KShs. 105 million), Nol Turesh (KShs. 100 million), Murang'a (KShs. 36 million) and Murang'a South (KShs. 18 million).

The program has also disbursed subsidies to the five projects for those that are ongoing and those fully completed totalling KShs. 69.5 million by 30 June 2017. 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.

The RBF program has reached out to a total of 15,003 households or 73,733 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 150,000 people with access to clean water and sanitation services by 30 June 2018.

### Rural Investment

Rural Investment Programme (RIP) finances increased access to water and sanitation services in the underserved areas across rural Kenya. The objectives are to ensure rural communities have access to improved water and sanitation services as well as to enhance the capacity of various implementing partners such as the County Governments, CBOs, Water Users Associations and Water Service Providers. Rural programmes are implemented through project cycle approach with the Fund providing financial, technical, advisory and capacity development support to the projects. The implementing partners; CBO, WSP and Rosa are involved in the preparation, planning, implementation and sustainability of their own projects. The Programme relies upon outsourced supportive services from the private sector to offer technical support and quality assurance whilst the County Government offer oversight and coordination support.

During the financial year, the following programmes were under implementation namely; the Joint-6-Programme (J6P) financed by the Governments of Kenya, Finland and Sweden; Drought Emergency Response financed by Danida; MTAP-II financed by the European Union and the Green Growth Employment Programme financed by Danida. In the FY 2016/17, the programme had a target to reach an additional 182,515 people in target counties under support of the ongoing programmes. 30 No. MTAP II water and sanitation projects were completed reaching 104,902 people.

In addition, the Rural Programme financed 34 new water projects and 25 new institutional sanitation projects to a tune of KShs 234 million, whose implementation is expected to be complete in the FY2017/2018. The programme facilitated various county engagement workshops, trainings of implementing partners and exchange visits all geared to strengthen the county level partnerships, enhance project implementation capacities and promote sustainability of the investments.

The water resources investment had a target to finance 85 projects (60 WRUAs and 25 CFAs). The actual number of projects financed were 85 No. (55 WRUAs and 30 CFAs) at an approximate cost of KShs. 137 million.

## **CHIEF EXECUTIVE OFFICER'S STATEMENT (Continued)**

### **Water Resources Investments (WRI)**

The WRI programme is financially supported through a collaboration between Government of Kenya, Government of Finland- GOF, Government of Sweden- GOS, International Fund for Agricultural Development- IFAD and the Danish International Development Agency- DANIDA.

The Water Resources Investment Programme also managed to undertake 8 capacity building workshops for its implementing agents with the main goal of empowering the WRUAs and CFAs in financial and project management skills, procurement procedures and proposal development. Approximately 292 members of CFAs and WRUAs were trained drawn from 14 counties namely; Murang'a, Kirinyaga, Meru, Nyeri, Embu, Tharaka Nithi, Wajir, Garissa, Marsabit, Isiolo, Laikipia, Narok, Migori and Kwale.

The Water Resource Investments unit internal staff with the support of the County Resident Monitors managed to monitor 63 projects countrywide.

On crosscutting issues, the unit scored high through the formulation of a climate change strategy that was approved by the Board. It also ensured eco-friendly compliance through mainstreaming of environmental sustainability within its various departments and submission of the quarterly compliance reports to the National Environmental Management Authority.

### **Employees**

Human capital is a critical ingredient towards ensuring realisation of our key strategic objectives and mandate. As our stakeholders increase their expectations, it is imperative to ensure adequate and motivated human resource capacity is available to provide services.

During the year, WSTF reviewed its organization structure that resulted to growth of staff from fifty three (53) to fifty eight (58) for increased efficiency and effectiveness to achieve the strategic objectives and expanded mandate of the Fund as per the Water Act 2016.

Through concerted team efforts by management and members of staff, the Fund attained an overall performance contractual rating of "Very Good" as at the end of the financial year. In the same period, staff satisfaction index which measures staff perceptions improved from 76% in the previous year to 78% in the year 2017/2018.

The above achievements were as a result of several key initiatives implemented by the Fund which included expanding staff experiences by rolling out of Human Resource Information System, online leave application and piloting of the 360 degrees appraisal.

The Fund introduced and implemented the national values and rewarding of the best staff on a quarterly basis that has played a pivotal role. In addition, there was increased budgetary allocation to training that enabled continuous staff development and capacity building for efficiency and good corporate governance. The Fund trained several Senior Managers on leadership, corporate governance and other professional development courses.

The Fund also embarked in enhanced staff sensitizations awareness campaigns on security, HIV/AIDs, and gender & disability and re-aligned the Human Resources Policy to the Human Resource Policies and Procedures Manual for Public Service. The policy was approved by the Board of Trustees in June 2017.

### **Conclusion**

The Water Sector has seen a sustained improvement in water service provision and sector governance following the implementation of Sector Reforms as a result of the Water Act 2002. The gains made under the water Act 2002 have laid a solid foundation for accelerating access. The Fund has realized steady growth from its nascent years and has cemented its place as a key sector player.

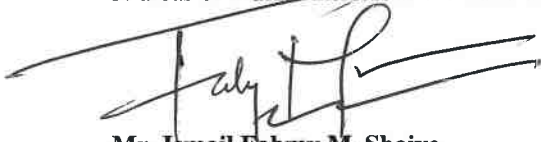
The promulgation of the constitution of Kenya in 2010 presented the Sector with a huge challenge of ensuring access to adequate water and sanitation services as a basic right. This calls for a strategic shift in the approaches and mechanisms in water and sanitation service provision.

**CHIEF EXECUTIVE OFFICER'S STATEMENT (Continued)**

The Water Act 2016 has reviewed the Kenya Water Sector to align it to the requirements of the Constitution and guide operations under devolution. Kenya has embarked on a process of transformation of the Water Sector through the implementation of the Water Act 2016 which seeks to consolidate the lessons learned and gains made from the sector reforms emanating from the Water Act 2002. Section 113 of the Water Act 2016 establishes the Water Sector Trust Fund and mandates it to provide conditional and unconditional grants to Counties, in addition to the Equalization Fund and to assist in financing the development and management of water services in marginalized areas or any area which is considered by the Board of Trustees as being underserved.

The realization of this mandate calls for enhanced efficiency in resource use, re-thinking of the resource mobilization strategies and review of the financing mechanisms. The Fund is really proud of being part of this transformation story.

We appreciate the unrelenting support from the Board of Trustees, management, staff, development partners, implementing partners and all the key stakeholders. We look forward to the continued partnerships and cooperation in areas of mutual interest as the Fund addresses formidable challenges posed by the Water Act, 2016.



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

## STATEMENT OF CORPORATE GOVERNANCE

### THE BOARD

Water Sector Trust Fund is established under Section 113 of the Water Act, 2016 (formerly was Water Services Trust Fund under the now repealed Water Act, 2002) as a Trust Fund mandated to provide financing access to water and sanitation in underserved areas. The Fund is committed to ensuring compliance with the provisions of Water Act, 2016, among other regulatory and supervisory corporate governance requirements. Essential to the establishment of a corporate governance framework in the Fund is a formal governance structure with the Board of Trustees at its apex. The operations of the Fund are governed by a Trust Deed made on 26<sup>th</sup> April, 2004, expected to be replaced by a new Trust Deed as provided for under the Water Act, 2016. The structure is designed to ensure an informed decision making process based on accurate reporting to the Board.

### THE BOARD OF TRUSTEES

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

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

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

### BOARD MEETINGS

The Board of Trustees meets quarterly or as required in order to monitor the implementation of the Fund's Strategic Plan and achievement of the targets in the Performance Contract signed with the Government. The Board of Trustees also plays an oversight role over all other financial and operational issues. The Trustees held seven full Board and two Special Board meetings during the Financial Year 2016/2017.

In ensuring that corporate governance and integrity is enhanced in between the governance of the Fund, the Board of Trustees has established three Committees namely: -

#### i) Investment & Monitoring Committee

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

S/No.	Name	Position in committee	Period Served
1	Mr. Geoffrey Ruku	Chairman	1 <sup>st</sup> July, 2016 to 31 <sup>st</sup> May, 2017
2	Mr. Daniel Kihara	Member	16 <sup>th</sup> September 2016 to 30 <sup>th</sup> June 2017
3	Ms. Margaret Wamuyu	Member	1 <sup>st</sup> July, 2016 to 30 <sup>th</sup> June 2017
4	Eng. Onesmus Maritim	Member	1 <sup>st</sup> July 2016 to 30 <sup>th</sup> June 2017
5	Ms. Rose Nyambura Kinuthia	Member	1 <sup>st</sup> July, 2016 to 30 <sup>th</sup> June 2017



## STATEMENT OF CORPORATE GOVERNANCE (Continued)

### ii) Finance & General Purposes Committee

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

S/No.	Name	Position in committee	Period Served
1	Ms. Sheila Murugi Mugo	Chairperson	1 <sup>st</sup> July 2016 to 30 <sup>th</sup> June 2017
2	Mr. Daniel Kihara	Member	16 <sup>th</sup> September 2016 to 30 <sup>th</sup> June 2017
3	Ms. Margaret Wamuyu	Member	1 <sup>st</sup> July, 2016 to 30 <sup>th</sup> June 2017
4	Mr. Adan Omar Enow	Member	1 <sup>st</sup> July, 2016 to 30 <sup>th</sup> June 2017
5	Mr. Joseph Kotoine Nkaiwuatei	Member	1 <sup>st</sup> July, 2016 to 30 <sup>th</sup> June 2017

### iii) Audit and Risk Committee

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

S/No.	Name	Position in committee	Period Served
1	Mr. Joel Gesuka	Chairperson	1 <sup>st</sup> July 2016 to 30 <sup>th</sup> June 2017
2	Mr. Daniel Kihara	Member	16 <sup>th</sup> September 2016 to 30 <sup>th</sup> June 2017
3	Ms. Margaret Wamuyu	Member	1 <sup>st</sup> July, 2016 to 30 <sup>th</sup> June 2017
4	Mr. Stephen Njoroge Gwandaru	Member	1 <sup>st</sup> July, 2016 to 30 <sup>th</sup> June 2017
5	Mr. Joseph Kotoine Nkaiwuatei	Member	1 <sup>st</sup> July, 2016 to 30 <sup>th</sup> June 2017

## COMMUNICATION WITH STAKEHOLDERS

The Fund is committed to ensuring that all its stakeholders are provided with full and timely information about its programmes and performance. They are also given an opportunity to give feedback. This is usually done through quarterly Steering Committee meetings and the Annual Stakeholders Conference.

## STATEMENT OF COMPLIANCE

The Board of Trustees confirms that Water Sector Trust Fund has throughout the FY2015/2016 complied with all statutory and Regulatory requirements and that the Fund has been managed in accordance with the principles of good corporate governance.

The Fund conducted an external legal audit which confirmed that the institution had complied with all relevant laws, regulations and requirements.

With regard to compliance with Mwongozo, the following requirements have not been met fully during the period:

- (i) That Board of Trustees ought to be between seven and nine in number; the Fund has informed the appointing authority on this requirement.
- (ii) The Trust Fund did not conduct annual board evaluation because SCAC indicated that the Fund was (prior to the enactment of the Water Act, 2016 in April, 2017) not a state corporation and thus it could not facilitate the annual board evaluation. Board evaluation is scheduled in the next financial year.

## **STATEMENT OF CORPORATE GOVERNANCE (Continued)**

### **INTERNAL CONTROL AND RISK MANAGEMENT**

#### **Internal Control**

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

#### **Standing Instructions**

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

#### **Organization Structure**

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

#### **Strategic Plan**

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

#### **Internal Control Framework**

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

The Audit and Risk Committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Board. Where weaknesses are identified, the Committee ensures that management takes appropriate action. No significant failings or weaknesses were identified during 2016.

#### **Risk Management**

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

#### **Management Team**

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

## STATEMENT OF CORPORATE GOVERNANCE (Continued)

### Auditor

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

### CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Fund undertook two (2) Corporate Social Responsibility (CSR) activities in support of worthy causes to the community. These included participation in the Ndakaini and Kakamega half marathons which are organized annually for the protection of the sub-catchments in which the Ndakaini and Kakamega dams are situated. WSTF sponsored the two events at a total amount of KShs 550,000. The activity contributes towards WSTF's work in water resources management for improved access to water of quality and quantity.

Secondly, through its Human Resource function, WSTF offered job attachment to several students from various academic institutions within the country in order to help them acquire practical capacities and skills that are relevant to the job market.

## REPORT OF THE TRUSTEES

The Trustees submit their report together with the audited financial statements for the year ended 30 June 2017.

## REGISTRATION

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

## PRINCIPAL ACTIVITIES

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

## RESULTS

	KShs
Income	1,522,221,665
Expenditure	(1,547,938,343)
	<hr/>
Deficit for the year	<b><u><u>(25,716,678)</u></u></b>

## TRUSTEES

The Trustees who served during the year are shown on page 2.


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

- Mr. Calvin Shavanga (served up to 16 September 2016)
- Mr. Geoffrey Kiringa Ruku (served up to 31 May 2017)
- Mr. Daniel Kihara (Joined on 16 September 2016)

## AUDITOR

The Auditor General is responsible for the statutory audit of the Trust Fund's books of account. In accordance with Sections 23 of the Public Audit Act, 2015 which empowers the Auditor General to outsource other auditors to carry out the audit on his behalf, PricewaterhouseCoopers (PwC) were appointed as the auditors of the Trust Fund to conduct the statutory audit for the year ended 30 June 2017.

## FOR AND ON BEHALF OF THE BOARD OF TRUSTEES

  
4/12/2017 2017

Nairobi

**STATEMENT OF TRUSTEES' RESPONSIBILITIES**

Section 82 of the Public Finance Management (PFM) Act, 2012, Section 14 of the State Corporations Act, and the Water Sector Trust Deed, require the Trustees to prepare financial statements in respect of the Trust Fund, which give a true and fair view of the financial position of the of the Trust Fund at the end of the financial year and its financial performance for the year then ended. The Trustees are responsible for ensuring that the Trust Fund keeps proper accounting records that are sufficient to show and explain the transactions of the Trust Fund; disclose with reasonable accuracy at any time the financial position of the Trust Fund; and that enables them to prepare financial statements of the Trust Fund that comply with prescribed financial reporting standards and the requirements of the Section 82 of the Public Finance Management Act and Revised 2015 and Section 14 of the State Corporations Act. They are also responsible for safeguarding the assets of the Trust Fund and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

In preparing the financial statements, the Trustees have assessed the Trust Fund's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the Trustees to indicate that the Trust Fund will not remain a going concern for at least the next twelve months from the date of this statement.

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

The Trust Fund's financial statements were approved by the Board of Trustees on 04/12/2017 2017 and signed on its behalf by:



**Hon. Musikari N. Kombo, EGH**  
Board Chairman



**Mr. Ismail Fahmy M. Shaiye**  
Chief Executive Officer

# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-mail: oag@oagkenya.go.ke  
Website: www.kenao.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON WATER SECTOR TRUST FUND FOR THE YEAR ENDED 30 JUNE 2017

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#### REPORT ON THE FINANCIAL STATEMENTS

##### Opinion

The accompanying financial statements of Water Sector Trust Fund set out on pages 29 to 62, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by PricewaterhouseCoopers, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Water Sector Trust Fund as at 30 June 2017, 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 Water Sector Trust Deed.

Further, as required by Article 229(6) of the Constitution, except for the matter described in the Emphasis of Matter Section of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

##### Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Water Sector Trust Fund in accordance with ISSAI 30 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 obtained is sufficient and appropriate to provide a basis for my opinion.

##### Emphasis of Matter

During the year under review, there were questioned costs from current and past audits amounting to Kshs. 25,691,157 (2016: Kshs. 30,515,207) which have not been cleared.

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*Report of the Auditor-General on the Financial Statements of Water Sector Trust Fund for the year ended 30 June 2017*

Though these have been disclosed as contingent liabilities in the financial statements, it is not clear whether or not these will eventually crystallize.

### **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 of the current year. There were no Key Audit Matters to report in the year under review.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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 such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund'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 the management either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

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.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Fund's 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 that may cast significant doubt on the Fund'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 Fund 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 Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

#### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS - COMPLIANCE WITH THE WATER SECTOR TRUST DEED (WSTD)

As required by the Water Sector Trust Deed I report based on the audit by PricewaterhouseCoopers, that:



- i. Proper books of accounts have been kept by the Fund, so far as appears from the audit of those books;
- ii. The Fund accounted for donor funds separately in accordance with the applicable Development Partner Agreements.



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

**Nairobi**

**09 February 2018**

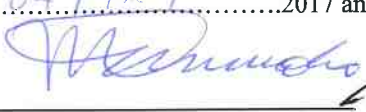
**STATEMENT OF FINANCIAL PERFORMANCE**

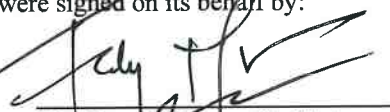
	Notes	2017 KShs	2016 Restated KShs
<b>REVENUE</b>			
<b>Revenue from non-exchange transactions</b>			
Government of Kenya grants	4	449,000,000	406,750,000
Restricted donor funds	5	1,021,449,644	788,607,900
		<u>1,470,449,644</u>	<u>1,195,357,900</u>
<b>Revenue from exchange transactions</b>			
Miscellaneous income	6	39,830,878	22,699,438
Finance income	7	11,941,143	30,748,808
		<u>51,772,021</u>	<u>53,448,246</u>
<b>Total revenue</b>		<u>1,522,221,665</u>	<u>1,248,806,146</u>
<b>EXPENDITURE</b>			
Administration expenses	8	(354,276,434)	(307,017,673)
Project expenses	10	(1,193,661,909)	(890,846,500)
<b>Total expenditure</b>		<u>(1,547,938,343)</u>	<u>(1,197,864,173)</u>
<b>(Deficit)/ Surplus for the year</b>		<u>(25,716,678)</u>	<u>50,941,973</u>

**STATEMENT OF FINANCIAL POSITION**

	Notes	2017 KShs	Restated 2016 KShs	Restated 2015 KShs
<b>ASSETS</b>				
<b>Non - current assets</b>				
Property and equipment	11	30,102,948	42,400,173	30,702,477
Intangible assets	12	6,900,841	137,740	3,066,666
		<u>37,003,789</u>	<u>42,537,913</u>	<u>33,769,143</u>
<b>Current assets</b>				
Inventories	13	490,648	448,212	469,975
Receivables from non-exchange transactions	14	501,832,181	572,000,817	127,316,396
Cash and cash equivalents	15	1,284,512,606	736,802,229	1,165,249,099
		<u>1,786,835,435</u>	<u>1,309,251,258</u>	<u>1,293,035,470</u>
<b>TOTAL ASSETS</b>		<u><b>1,823,839,224</b></u>	<u><b>1,351,789,171</b></u>	<u><b>1,326,804,613</b></u>
<b>NET ASSETS AND LIABILITIES</b>				
<b>Net assets</b>				
Accumulated surplus	16	486,655,536	512,372,214	461,430,241
Unexpended grants	17	880,066,188	742,832,559	813,934,541
<b>Non-current liabilities</b>				
Deferred income from capital grants	18	9,445,782	7,910,352	1,311,500
Staff gratuity	19	19,680,067	16,367,036	12,008,543
		<u>29,125,849</u>	<u>24,277,388</u>	<u>13,320,043</u>
<b>Current liabilities</b>				
Deferred income from capital grants	18	354,649,145	3,441,310	638,234
Staff gratuity	19	18,301,324	8,306,640	3,849,307
Trade and other payables	20	55,041,182	60,559,060	33,632,247
		<u>427,991,651</u>	<u>72,307,010</u>	<u>38,119,788</u>
<b>TOTAL RESERVES AND LIABILITIES</b>		<u><b>1,823,839,224</b></u>	<u><b>1,351,789,171</b></u>	<u><b>1,326,804,613</b></u>

The financial statements on pages 29 to 62 were approved and authorized for issue by the Board of Trustees on 04/1/2017 and were signed on its behalf by:

  
Hon. Musikari N. Kombo, EGH  
Board Chairman

  
Mr. Ismail Fahmy M. Shaiye  
Chief Executive Officer

  
Mr. Bonface Wanyonyi  
Chief Manager, Finance  
ICPAK member No.2753

Water Sector Trust Fund  
Annual report and financial statements  
For the year ended 30 June 2017  
Statement of Changes In Net Assets

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**STATEMENT OF CHANGES IN NET ASSETS**

**Revenue reserves**

	<b>KShs</b>
As at 30 June 2015 (as previously stated)	547,724,964
Prior period adjustments	<u>(86,294,723)</u>
<b>Restated as at 1 July 2015</b>	<b>461,430,241</b>
Surplus for the year as restated	<u>50,941,973</u>
<b>Restated as at 30 June 2016</b>	<b><u>512,372,214</u></b>
At 1 July 2016	512,372,214
Deficit for the year	<u>(25,716,678)</u>
<b>As at 30 June 2017</b>	<b><u>486,655,536</u></b>

The notes on page 34 to 62 are an integral part of these financial statements

**STATEMENT OF CASH FLOWS**

	Notes	2017 KShs	2016 KShs
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net cash generated from operations	21	557,596,961	(403,203,448)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	11	(3,787,133)	(25,457,923)
Purchase of intangible assets	12	(8,264,427)	-
Proceeds on disposal of property and equipment		2,164,976	214,501
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(9,886,584)</b>	<b>(25,243,422)</b>
Net increase /(decrease) in cash and cash equivalents		547,710,377	(428,446,870)
Cash and cash equivalents as at the beginning of the year		736,802,229	1,165,249,099
<b>Cash and cash equivalents as at the end of the year</b>	15	<b>1,284,512,606</b>	<b>736,802,229</b>

Water Sector Trust Fund  
Annual report and financial statements  
For the year ended 30 June 2017  
Statement of Comparison of Budget and Actual Amounts

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

	Original budget		Adjustments		Final Budget		Actual		Performance difference		Notes
	2016/2017 KShs	2016/2017 KShs	2016/2017 KShs	2016/2017 KShs	2016/2017 KShs	2016/2017 KShs	2016/2017 KShs	2016/2017 KShs			
<b>REVENUE FROM NON-EXCHANGE TRANSACTIONS</b>											
Government of Kenya grants	712,070,185		(215,570,185)		496,500,000		449,000,000		47,500,000		
Donor funds	4,644,100,000		(2,865,939,600)		1,778,160,400		1,021,449,644		756,710,756		(a)
<b>REVENUE FROM NON-EXCHANGE TRANSACTIONS</b>											
Miscellaneous income	66,900,000		(19,174,280)		47,725,720		39,830,878		7,894,842		
Finance income - external investments	2,000,000		8,000,000		10,000,000		11,941,143		(1,941,143)		
<b>Total Revenue</b>	<b>5,425,070,185</b>		<b>(3,092,684,065)</b>		<b>2,332,386,120</b>		<b>1,522,221,665</b>		<b>810,164,455</b>		
<b>EXPENSES</b>											
Administration expenses	(580,970,185)		209,733,465		(371,236,720)		(354,276,434)		(16,960,286)		(b)
Project expenses	(4,844,100,000)		2,882,950,600		(1,961,149,400)		(1,193,661,909)		(767,487,491)		(c)
<b>Total expenses</b>	<b>(5,425,070,185)</b>		<b>(3,092,684,065)</b>		<b>(2,332,386,120)</b>		<b>(1,547,938,343)</b>		<b>(784,447,777)</b>		
<b>Deficit for the period</b>	<b>-</b>		<b>-</b>		<b>-</b>		<b>(25,716,678)</b>		<b>25,716,678</b>		(d)

- a) WSTF had budgeted to finance projects to the tune of KShs 1,778,160,400 using development partner funds. This target was however not met because not all of the funds anticipated from development partners were received during the year. The actual amounts received from development partners in the year was KShs 639,087,745. Project funds held at Central Bank of Kenya amounted to Ksh. 519,595,528 and have been recognized as cash-in-transit. WSTF's policy is to recognize funds from development partners as income when utilized for project expenditure hence funds disbursed at the end of the year were not recognized as expenditure for the year because the projects had not accounted for the use of these funds. They were recognized as receivables. Total project expenditure for the year amounted to KShs 1,193,661,909; of this KShs 1,021,449,644 was financed by development partners, KShs 153,600,000 being financed by the Government of Kenya (GoK) counterpart funding and KShs 18,612,264 being financed directly by GoK funding to WSTF.
- b) The favourable variance between budget and actual administrative was a result of efficiency in use of resources hence keeping costs lower than budget. The Trust Fund intends to keep these costs at low levels so as to free more funds for project financing.
- c) The variance between budget and actual project expenses is as a result of factors explained in a) above.
- d) The deficit for the year is over utilized funds from the Government of Kenya.

**Notes**

**1 LEGAL STATUS AND OBJECTIVES**

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

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

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

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

**2 ACCOUNTING POLICIES**

**Statement of compliance**

The financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) and Section 82 of the Public Finance Management Act, 2012 and section 129 of the Water Act 2016 and Trust Deed.

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

**Changes in accounting policy and disclosures**

**(i) New and amended standards adopted by the Organisation**

Amendment to IPSAS 15, 'Financial Instruments: Disclosure and Presentation' which was superseded by IPSAS 28 and IPSAS 30. The standard establishes principles for presenting financial instruments as liabilities or as net assets/equity and for offsetting financial assets and financial liabilities. IPSAS 29 deals with the measurement of financial instruments and IPSAS 30 deals with the disclosures relating to financial instruments. It also deals with offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Organisation's financial statements.

**(ii) New standards and interpretations not yet adopted**

IPSAS 34 'Separate Financial Statements'. The requirements for separate financial statements in IPSAS 34 are very similar to the current requirements for separate financial statements in IPSAS 6. Its effective date is annual financial statements covering periods beginning on or after January 1, 2017.

**Notes (continued)**

**2 ACCOUNTING POLICIES (continued)**

IPSAS 35, 'consolidated financial statements'. The standard supersedes the requirements in IPSAS 6 regarding consolidated financial statements. IPSAS 35 still requires that control be assessed having regard to benefits and power, but the definition of control has changed and the standard now provides considerably more guidance on assessing control. The definition of control focuses on an entity's ability to influence the nature and amount of benefits through its power over another entity. This new definition of control may impact previous assessments of control, and therefore whether certain entities should be consolidated.

IPSAS 35 also introduces the concept of "investment entities," which may be applicable to some sovereign wealth funds. Generally, an investment entity measures its investments in controlled entities at fair value through surplus or deficit. After thorough consultation, the IPSASB decided, for public sector specific reasons, that an entity which controls an investment entity should retain this method of accounting for an investment entity's investments in its consolidated financial statements, regardless of whether it is itself an investment entity. In contrast with IPSAS 6, IPSAS 35 no longer permits an exemption from consolidation for temporarily controlled entities. Consistent with the IPSASB's policy of reducing unnecessary differences between IPSASs and Government Finance Statistics reporting guidelines, the IPSASB has aligned the principles in IPSAS 35 with the Government Finance Statistics Manual 2014 (pre-publication draft) where feasible. Its effective date is annual financial statements covering periods beginning on or after January 1, 2017.

IPSAS 36 'Investments in Associates and Joint Ventures' explains the application of the equity method of accounting, which is used to account for investments in associates and joint ventures. The requirements are very similar to the current guidance in IPSAS 7. Because equity accounting must now be used when accounting for joint ventures, the title of the standard now also refers to joint ventures. In contrast with IPSAS 7, IPSAS 36 does not permit a different accounting treatment for temporary investments. Its effective date is annual financial statements covering periods beginning on or after January 1, 2017.

IPSAS 37 'Joint Arrangements'. The standard establishes requirements for classifying joint arrangements and accounting for those different types of joint arrangements. Joint arrangements are classified as either joint operations or joint ventures. In a joint operation, the parties to the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement. These classifications differ from IPSAS 8, which referred to three types of arrangements (jointly controlled entities, jointly controlled operations, and jointly controlled assets). IPSAS 37 requires that an entity account for its interest in a joint operation by recognizing its share of the assets, liabilities, revenue, and expenses of the joint arrangement. It also requires that joint ventures be accounted for using the equity method. Previously, IPSAS 8 permitted jointly controlled entities to be accounted for using either the equity method or proportionate consolidation. Its effective date is annual financial statements covering periods beginning on or after January 1, 2017.

IPSAS 38 'Disclosure of Interests in other Entities'. The standard brings together the disclosures previously included in IPSASs 6-8. It also introduces new disclosure requirements, including those related to structured entities that are not consolidated and controlling interests acquired with the intention of disposal.

Its effective date is annual financial statements covering periods beginning on or after January 1, 2017.

IPSAS 39 'Employee benefits'. This will replace IPSAS 25, Employee Benefits, on January 1, 2018, with earlier adoption encouraged this limited-scope project was part of the IPSASB's strategy to maintain its existing standards. IPSAS 39 reflects amendments made by the International Accounting Standards Board to its equivalent standard, International Accounting Standard (IAS) 19, Employee Benefits, up to December 2015. The main differences between IPSAS 39 and IPSAS 25 are:

- Removal of an option that allowed an entity to defer the recognition of changes in the net defined benefit liability (the "corridor approach");
- Introduction of the net interest approach for defined benefit plans;
- Amendment of certain disclosure requirements for defined benefit plans and multi-employer plans;
- Simplification of the requirements for contributions from employees or third parties to a defined benefit plan when those contributions are applied to a simple contributory plan that is linked to service; and
- Removal of the requirements for Composite Social Security Programs.

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



**Notes (continued)**

**2 ACCOUNTING POLICIES (Continued)**

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 3.

**Foreign currency translation**

**(i) Functional and presentation currency**

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

**(ii) Transactions and balances**

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

**Revenue recognition**

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

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

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

**Expenditure**

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

**Inventories**

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

**Notes (continued)**

**2 ACCOUNTING POLICIES (Continued)**

**Property and equipment**

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

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

**Depreciation**

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

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

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

**Intangible assets**

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

**Impairment of tangible and intangible assets**

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

**Deferred income**

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

**Budget information**

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

**Notes (continued)**

**2. ACCOUNTING POLICIES (Continued)**

**Taxation**

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

**Cash and cash equivalents**

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

**Provisions**

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

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

**Contingent liabilities**

The Entity 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 Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.

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

**Notes (continued)**

**2 ACCOUNTING POLICIES (Continued)**

**Employee benefits**

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

- Short-term employee benefits (such as wages, salaries and paid leave) and non-monetary benefits (such as medical care) for current employees;
- Post-employment benefits such as gratuity and accrued leave pay.
  - i. Short-term employee benefits  
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.
  - ii. Other post-employment benefits  
Employees on three-year employment contracts are entitled to service gratuity at 31% of their annual salary. Service gratuity and outstanding leave days are recognized when they accrue to employees. A provision is made for the estimated liability for services rendered by employees up to end of the reporting period. The estimated monetary liability for employees' accrued leave and service gratuity entitlements at the end of reporting period is recognized as an expense accrual. Service gratuity is paid at the end of the employment contract.

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

**Financial Instruments**

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

**Financial assets**

*Receivables*

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

*Payables*

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

*Impairment of financial assets*

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

**Financial liabilities**

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

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**Notes (continued)**

**2 ACCOUNTING POLICIES (Continued)**

**De-recognition of financial assets**

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

**Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the Financial statements for the year ended 30 June 2017.

**Changes in accounting policies**

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

**Comparative balances**

The comparative balances included in the financial statements are for the audited period 1 July 2015 to 30 June 2016, and for the year 1 July 2014 to 30 June 2015 for the statement of financial position. The comparative numbers have been restated to recognize the GoK counterpart contribution on actual cash received and not budget amounts of the financial years ended 30 June 2015 & 2016. The reconciliations of the restated balances are presented in note 28 of these financial statements.

**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE TRUST FUND'S ACCOUNTING POLICIES**

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

**(i) Critical judgments in applying the fund's accounting policies**

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

**(ii) Key sources of estimation uncertainty**

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

*Property and equipment*

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

*Intangible assets*

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

Notes (Continued)

4 GOVERNMENT OF KENYA GRANTS

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

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

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

	2017 KShs	2016 KShs
Development	422,000,000	380,000,000
Recurrent	27,000,000	26,750,000
	<b>449,000,000</b>	<b>406,750,000</b>
<b>Government of Kenya – Deferred grants (transferred to deferred income)</b>		
Kenya Pool Water Fund	250,000,000	-
GoK priority project - Ijara	100,000,000	-
	<b>350,000,000</b>	<b>-</b>
	<b>799,000,000</b>	<b>406,750,000</b>

**Notes (Continued)**

**5 RESTRICTED DONOR FUNDS**

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

	<b>2017</b>	<b>2016</b>
	<b>KShs</b>	<b>KShs</b>
Government of Sweden	29,081,309	10,452,474
United Nations International Children Emergency Fund (UNICEF)	756,673	4,767,786
European Union	184,291,954	165,348,772
Government of Germany – KfW	421,770,576	290,491,159
Bill and Melinda Gates foundation	-	151,930,797
Government of Finland – GoF	84,669,912	-17,729,704
Government of Denmark	117,031,769	102,124,625
International Fund for Agricultural Development - IFAD	65,333,456	36,627,477
World Bank	118,513,996	44,594,514
<b>Total (Note 17)</b>	<b><u>1,021,449,644</u></b>	<b><u>788,607,900</u></b>

Notes (continued)

6 MISCELLANEOUS INCOME

	2017 KShs	2016 KShs
Management fee earned on disbursement to some projects*	5,056,097	19,714,927
Deferred income recognized (note 18)	5,521,162	2,737,462
Other income **	26,926,145	32,548
Net gain from disposal of assets	1,431,532	214,501
Net foreign exchange gain/(loss)	895,942	-
	<u>39,830,878</u>	<u>22,699,438</u>

\*Management fee represents the administration cost recovered as a percentage of funds disbursed to projects as per the respective donor agreements currently at 5% of funds. Currently only three (3) donor agreements provide for the management fees. Management fee earned from the development partners is as tabulated below:

	2017 KShs	2016 KShs
DANIDA	874,050	5,341,512
European Union (EU)	824,977	14,373,415
Sweden	3,357,070	-
	<u>5,056,097</u>	<u>19,714,927</u>

\*\* Current year other income represent revenue received from the Kenya Water Week, Kenya Water and Sanitation Programme(KWSP) project refunds and a staff insurance charge on premiums remitted on their behalf through the payroll as tabulated below:

	2017 KShs
Kenya Water Week	25,574,558
Kenya Water and Sanitation Programme(KWSP) project refunds	1,093,370
Staff insurance charge	258,217
	<u>26,926,145</u>

7 FINANCE INCOME

	2017 KShs	2016 KShs
Bank interest	<u>11,941,143</u>	<u>30,748,808</u>

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



Notes (continued)

8 ADMINISTRATION EXPENSES

	2017 KShs	2016 KShs
Staff costs (note 9)	164,465,187	136,642,948
Board expenses	39,690,240	38,826,599
Communication expenses	3,916,274	3,659,635
Printing and stationery	1,436,910	1,263,322
Resource centre expenses	381,282	317,300
Travelling and accommodation	9,704,259	11,896,188
Motor vehicle expenses	10,756,932	7,261,311
Computer expenses	4,677,708	2,729,248
Consultancy and professional fees	5,451,122	2,780,976
Audit fee	7,610,870	4,954,740
Research and development	396,960	-
Resource mobilization expenses	5,871,537	5,298,924
Planning	4,984,451	-
Advocacy	5,099,112	10,356,360
Office running expenses	3,355,940	3,693,996
Insurance	9,962,966	7,187,107
Office rent and land rates	16,973,054	15,053,227
Maintenance and repairs	770,431	381,640
Bank charges	370,169	299,500
Depreciation on property and equipment (note 11)	14,560,693	13,760,227
Amortization expense on intangible assets (note 12)	1,501,326	2,928,926
Movement in provision for bad and doubtful debts (note 14)	(1,081,921)	8,858,320
Impairment loss (Net loss from write off of assets)	790,221	-
Net foreign exchange loss	-	188,585
Payment to Royal Danish Embassy in respect of questioned costs	-	28,678,594
Kenya Water week	42,630,711	-
	<b>354,276,434</b>	<b>307,017,673</b>

9 STAFF COSTS

Salaries and wages	125,974,957	109,950,731
Staff gratuity	22,197,915	17,950,503
Staff training expenses	10,718,802	4,992,359
NSSF contribution	134,400	124,000
Other staff expenses	5,439,113	3,625,355
	<b>164,465,187</b>	<b>136,642,948</b>

Notes (continued)

10 PROJECT EXPENSES

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

	2017 KShs	2016 KShs
<b>Rural Programme</b>		
Water and Sanitation	275,305,660	240,310,143
Water Resources	131,588,074	138,752,102
Water Sanitation and Hygiene (WASH)	170,971,339	4,767,786
<b>Note 17 (b)</b>	<b>577,865,073</b>	<b>383,830,031</b>
Water and Sanitation - Direct funding from GOK	18,612,264	
<b>Total Rural Programme</b>	<b>596,477,337</b>	
<b>Urban Programme</b>		
Water and Sanitation	443,359,287	310,491,159
Up-scaling Basic Sanitation for the Urban Poor (UBSUP)- Bill & Melinda Gates Foundation (BMGF)	35,311,289	151,930,797
OBA (World Bank)	118,513,996	44,594,513
<b>Note 17(a)</b>	<b>597,184,572</b>	<b>507,016,469</b>
<b>Project expenses</b>	<b>1,193,661,909</b>	<b>890,846,500</b>

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

	2017 KShs	2015 KShs
Development partners' funds (notes 5 and 17)	1,021,449,645	781,337,604
Government of Kenya counterpart – urban (note 17 a)	56,900,000	40,000,000
Government of Kenya counterpart – rural (note 17 b)	96,700,000	69,508,896
Water and Sanitation - Direct funding from GOK*	18,612,264	-
	<b>1,193,661,909</b>	<b>890,846,500</b>

\*This relates to project expenses for which costs are incurred from the WSTF development budget allocation and no direct funding is obtained for the same from development partners.

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11 PROPERTY AND EQUIPMENT

	Furniture KShs	Motor Vehicle KShs	Computer Equipment KShs	Office Equipment KShs	Field Equipment KShs	Fixtures and Fittings KShs	Total KShs
<b>COST</b>							
At 1 July 2015-Not Fully Depreciated	929,937	17,395,912	7,350,881	2,036,308	-	908,770	28,621,808
At 1 July 2015-Fully depreciated	4,192,890	32,030,060	8,422,831	1,533,463	892,398	7,457,464	54,529,106
Additions	2,682,745	9,270,000	4,449,247	2,106,640	-	6,949,291	25,457,923
Disposal	(1,171,539)	-	(4,131,684)	(275,990)	-	-	(5,579,213)
<b>At 30 June 2016</b>	<b>6,634,033</b>	<b>58,695,972</b>	<b>16,091,275</b>	<b>5,400,421</b>	<b>892,398</b>	<b>15,315,525</b>	<b>103,029,624</b>
At 1 July 2016-Not Fully Depreciated	3,537,036	35,998,486	5,595,981	3,466,769	-	7,858,061	56,456,333
At 1 July 2016-Fully depreciated	3,096,997	22,697,486	10,495,294	1,933,652	892,398	7,457,464	46,573,291
Additions	353,165	-	3,433,968	-	-	-	3,787,133
Disposal	-	(6,305,813)	-	-	-	-	(6,305,813)
Adjustment*	(711,891)	-	(4,188,364)	(162,612)	(892,398)	-	(5,955,265)
<b>At 30 June 2017</b>	<b>6,275,307</b>	<b>52,390,159</b>	<b>15,336,879</b>	<b>5,237,809</b>	<b>-</b>	<b>15,315,525</b>	<b>94,555,679</b>
<b>DEPRECIATION</b>							
At 1 July 2015	4,642,005	23,998,061	12,114,392	2,501,168	887,621	8,305,190	52,448,437
Charge for the year	566,733	8,715,248	2,706,856	749,263	-	1,022,127	13,760,227
Disposal	(1,171,539)	-	(4,131,684)	(275,990)	-	-	(5,579,213)
<b>At 30 June 2016</b>	<b>4,037,199</b>	<b>32,713,309</b>	<b>10,689,564</b>	<b>2,974,441</b>	<b>887,621</b>	<b>9,327,317</b>	<b>60,629,451</b>
At 1 July 2016	4,037,199	32,713,309	10,689,564	2,974,441	887,621	9,327,317	60,629,451
Charge for the year	708,088	9,118,238	2,517,616	888,956	4777	1,323,018	14,560,693
Disposal	-	(6,305,813)	-	-	-	-	(6,305,813)
Adjustment*	(711,901)	733,402	(4,188,364)	(162,612)	(892,398)	-	(5,955,275)
Impairment	51,293	-	5,526	-	-	-	790,221
Adjustments for prior year**	-	43	733,411	-	-	-	733,454
<b>At 30 June 2017</b>	<b>4,084,679</b>	<b>36,259,179</b>	<b>9,757,753</b>	<b>3,700,785</b>	<b>-</b>	<b>10,650,335</b>	<b>64,452,731</b>

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NET BOOK VALUE	2,548,824	26,084,545	5,401,711	2,425,980	4,777	5,934,337	42,400,173
At 30 June 2016							
At 30 June 2017	2,190,628	16,130,980	5,579,126	1,537,024	-	4,665,190	30,102,948

\*The assets write off relates removal of assets from the asset register either because they could not be traced by management or were obsolete. These assets in the financial year 2016/17 were fully depreciated.

\*\* This relates to adjustments for assets disposed in the prior year, however the corresponding depreciation had not been accurately adjusted for.

12 INTANGIBLE ASSETS

Computer software	SAP Kshs	PROMIS Kshs	UPCIS Kshs	Q-PULSE Kshs	PMIS Software Kshs	Total Kshs
<b>COST</b>						
At 1 July 2016-Not fully depreciated	3,749,392	-	12,729,739	588,312	-	17,067,443
At 1 July 2016-Fully depreciated	-	3,247,436	-	-	-	3,247,436
Additions	-	-	-	-	-	-
<b>At 30 June 2016</b>	<b>3,749,392</b>	<b>3,247,436</b>	<b>12,729,739</b>	<b>588,312</b>	<b>-</b>	<b>20,314,879</b>
At 1 July 2016-Not fully depreciated	3,749,392	-	-	588,312	-	4,337,704
At 1 July 2016-Fully depreciated	-	3,247,436	12,729,739	-	-	15,977,175
Additions	-	-	-	-	8,264,427	8,264,427
Write off*	-	(3,247,436)	-	-	-	(3,247,436)
<b>At 30 June 2017</b>	<b>3,749,392</b>	<b>-</b>	<b>12,729,739</b>	<b>588,312</b>	<b>8,264,427</b>	<b>25,331,870</b>

Notes (continued)

12 INTANGIBLE ASSETS  
(continued)

AMORTIZATION	SAP Kshs	PROMIS Kshs	UPCIS Kshs	Q-PULSE Kshs	PMIS Software Kshs	Total Kshs
At 1 July 2015	3,395,045	3,247,436	10,174,303	431,429	-	17,248,213
Charge for the year	255,826	-	2,555,436	117,664	-	2,928,926
<b>At 30 June 2016</b>	<b>3,650,871</b>	<b>3,247,436</b>	<b>12,729,739</b>	<b>549,093</b>	-	<b>20,177,139</b>
At 1 July 2016	3,650,871	3,247,436	12,729,739	549,093	-	20,177,139
Charge for the year	84,705	-	-	39,219	1,377,402	1,501,326
Write off	-	(3,247,436)	-	-	-	(3,247,436)
<b>At 30 June 2017</b>	<b>3,735,576</b>	<b>-</b>	<b>12,729,739</b>	<b>588,312</b>	<b>1,377,402</b>	<b>18,431,029</b>
<b>CARRYING VALUE</b>						
At 30 June 2017	13,816	-	-	-	6,887,025	6,900,841
At 30 June 2016	98,521	-	-	39,219	-	137,740

\*The system was obsolete as it was replaced with the PMIS system.

Notes (continued)

13 INVENTORIES

	2017 KShs	2016 KShs
Office stationery	<u>490,648</u>	<u>448,212</u>

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

14 RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2017 KShs	2016 KShs
Project receivables – Urban Investments	208,505,411	116,588,588
- Rural Investments	287,981,303	460,406,979
Prepayments	9,889,336	7,280,731
Staff receivables	4,241,873	1,776,342
Other Trade Debtors	3,796,519	-
Provision for Bad Debts	(12,582,261)	(14,051,823)
	<u>501,832,181</u>	<u>572,000,817</u>

Urban project receivables relate to unaccounted for disbursements by the Water Service Providers carrying out the implementation of the Urban Project Investments. Rural project receivables relate to unaccounted for funds by various partners under the Rural Investments. The project disbursements are expected to be accounted for within one year. Staff receivables represent funds given to staff as imprest.

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

	2017 KShs	2016 KShs
At start of year	14,051,823	5,193,503
Provision in the year	9,981,433	11,511,833
Amounts recovered/accounted for	(11,450,995)	(2,653,513)
<b>At end of year</b>	<u>12,582,261</u>	<u>14,051,823</u>

Notes (continued)

15 CASH AND CASH EQUIVALENTS

National Bank of Kenya Limited – Recurrent	27,672	2,206,683
National Bank of Kenya Limited – OBA	73,685	533,311
National Bank of Kenya Limited – OBA	7,714,606	54,897,140
Kenya Commercial Bank Limited - Recurrent	110,977,893	23,595,957
Short Term Deposits – Kenya Commercial Bank	250,000,000	-
NIC KFW PHASE KES	4,144,116	88,893,745
NIC KFW PHASE EURO	11,716,652	176,654
NIC BMGF KES	219,608	18,921,406
NIC BMGF USD	1,102,697	1,070,558
Co-operative Bank Limited – UNICEF	626,037	14,009,794
Kenya Commercial Bank Limited - GoF Euro	13,525	18,715
Kenya Commercial Bank Limited - GoF KES	45,910,165	90,230,268
NIC Bank Limited-SIDA	95,932,680	71,395,029
Kenya Commercial Bank Limited -MTAP	75,871	75,461
National Bank of Kenya – IFAD	6,910,903	4,837,816
Kenya Commercial Bank-STAFF	106,318,755	48,114,063
NIC Bank Limited-MTAP	100,235,006	121,775,850
NIC Bank – EU SHARE	68,905	13,967,793
NIC Bank – GGEP	16,564,145	-
Cash on hand*	34,157	81,986
Cash in transit**	525,845,528	182,000,000
	<b>1,284,512,606</b>	<b>736,802,229</b>

\*Cash on hand includes amounts received from staff after surrender of imprest totalling to KShs 34,157.

\*\* Cash in transit represents funds released by the donors at year end and were held at projects designated bank accounts at the Central Bank of Kenya. These funds had not reflected in WSTF's account as at the end of the year.

16 ACCUMULATED SURPLUS

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

	2017 KShs	2016 Restated KShs	2015 Restated KShs
Opening accumulated surplus	512,372,214	461,430,241	310,987,723
(Deficit)/ Surplus for the year	(25,716,678)	50,941,973	150,442,518
<b>Closing accumulated surplus</b>	<b>486,655,536</b>	<b>512,372,214</b>	<b>461,430,241</b>

Notes (continued)

17 UNEXPENDED GRANTS

	2017 KShs	2016 Restated KShs	2015 Restated KShs
Unexpended grants – Urban Investments	73,910,233	123,817,068	287,749,079
Unexpended grants – Rural Investments	806,155,954	619,015,490	526,185,463
	<b>880,066,187</b>	<b>742,832,558</b>	<b>813,934,542</b>

The unexpended grants movement for each investment is presented below:

(a) Unexpended Grants - (Urban investments and others)

	Government of Germany-KfW/BMFG	World Bank	Total
As at 1 July 2015	287,749,078	-	287,749,078
Funds received from development partners	222,294,949	100,789,510	323,084,459
GoK Counterpart funding	20,000,000	-	20,000,000
Total project Expenditure	(462,421,956)	(44,594,513)	(507,016,469)
<b>As at 30 June 2016</b>	<b>67,622,071</b>	<b>56,194,997</b>	<b>123,817,068</b>
As at 1 July 2016	67,622,071	56,194,997	123,817,068
Funds received from development partners	390,979,102	99,398,635	490,377,737
GoK Counterpart funding	56,900,000	-	56,900,000
Total project Expenditure	(478,670,576)	(118,513,996)	(597,184,572)
<b>As at 30 June 2017</b>	<b>36,830,597</b>	<b>37,079,636</b>	<b>73,910,233</b>

Donor income recognized in the year (note 5) - Total project expenditure less GoK counterpart funding

2016	442,421,956	44,594,513	487,016,469
2017	421,770,576	118,513,996	540,284,572



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(b) UNEXPENDED GRANTS (Rural investments)

	Government of Sweden	UNICEF	Government of Finland-GoF	European Union-EU (Rural)	Government of Denmark	IFAD	Total
As at 1 July 2015	164,924,315	21,336,907	181,536,997	141,745,928	12,946,966	3,694,350	526,185,463
Funds received from development partners	-	-	-	190,000,000	135,000,000	64,696,774	389,696,774
GoK Counterpart funding	40,000,000	-	42,238,600	-	-	-	82,238,600
Refund from projects	-	4,724,684	-	-	-	-	4,724,684
Total project Expenditure	(50,452,474)	(4,767,787)	(24,508,896)	(165,348,772)	(102,124,625)	(36,627,477)	(383,830,031)
<b>As at 30 June 2016</b>	<b>154,471,841</b>	<b>21,293,804</b>	<b>199,266,701</b>	<b>166,397,156</b>	<b>45,822,341</b>	<b>31,763,647</b>	<b>619,015,490</b>
As at 1 July 2016	154,471,841	21,293,804	199,266,701	166,397,156	45,822,341	31,763,647	619,015,490
Funds received from development partners	165,074,283	-	-	208,702,138	216,653,000	77,876,116	668,305,537
GoK Counterpart funding	48,500,000	-	48,200,000	-	-	-	96,700,000
Total project Expenditure	(77,581,309)	(756,673)	(132,869,912)	(184,291,954)	(117,031,769)	(65,333,456)	(577,865,073)
<b>As at 30 June 2017</b>	<b>290,464,815</b>	<b>20,537,131</b>	<b>114,596,789</b>	<b>190,807,340</b>	<b>145,443,572</b>	<b>44,306,307</b>	<b>806,155,954</b>
<b>Donor income recognized in the year (note 5) - Total project expenditure less GoK counterpart funding</b>							
<b>2016</b>	<b>5,452,474</b>	<b>4,767,787</b>	<b>(17,729,704)</b>	<b>165,348,772</b>	<b>102,124,625</b>	<b>36,627,477</b>	<b>301,591,431</b>
<b>2017</b>	<b>29,081,309</b>	<b>756,673</b>	<b>84,669,912</b>	<b>184,291,954</b>	<b>117,031,769</b>	<b>65,333,456</b>	<b>481,165,073</b>

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The opening balances for the unexpended grant were restated to in line with the new policy for recognising GoK counterpart funding as shown in the tables below:

Donor	As at 1 July 2016	GoK Counterpart funding based on budget 2016	GoK Counterpart funding based on actual 2016	Net impact from 2015	As at 1 July 2016 Restated
Government of Sweden	152,789,604	(45,000,000)	40,000,000	6,682,237	154,471,841
UNICEF	8,431,319			12,862,485	21,293,804
European Union-EU	(23,602,844)				(23,602,844)
Government of Germany-KfW	27,622,071	(40,000,000)	20,000,000	60,000,000	67,622,071
Government of Finland-GoF	174,786,997	(24,508,896)	42,238,600	6,750,000	199,266,701
Government of Denmark	235,822,341				235,822,341
IFAD	31,763,647				31,763,647
World bank	56,194,997				56,194,997
<b>Total</b>	<b>663,808,132</b>	<b>(109,508,896)</b>	<b>102,238,600</b>	<b>86,294,722</b>	<b>742,832,558</b>

Donor	As at 1 July 2015	GoK Counterpart funding based on budget 2015	GoK Counterpart funding based on actual 2015	Net movement	As at 1 July 2015 Restated
Government of Sweden	158,242,078	(4,517,763)	11,200,000	6,682,237	164,924,315
UNICEF	8,474,422	(21,345,246)	34,207,731	12,862,485	21,336,907
Govt of Finland - GoF	174,786,997	(6,750,000)	13,500,000	6,750,000	181,536,997
European Union - EU	141,745,928	-	-	-	141,745,928
Govt of Denmark	12,946,966	-	-	-	12,946,966
IFAD	3,694,350	-	-	-	3,694,350
KfW	227,749,079	-	60,000,000	60,000,000	287,749,079
<b>Total</b>	<b>727,639,820</b>	<b>(32,613,009)</b>	<b>118,907,731</b>	<b>86,294,722</b>	<b>813,934,542</b>

Notes (continued)

**18 DEFERRED INCOME**

	<b>2017</b>	<b>2016</b>
	<b>KShs</b>	<b>KShs</b>
As at 1 July	11,351,662	1,949,734
Received during the year	358,264,427	12,139,390
Transfer to income (note 6)	(5,521,162)	(2,737,462)
<b>As at 30 June</b>	<b>364,094,927</b>	<b>11,351,662</b>
Current	354,649,145	3,441,310
Non – current	9,445,782	7,910,352
<b>As at 30 June</b>	<b>364,094,927</b>	<b>11,351,662</b>

Deferred income as at 30 June represents the net book value of donated assets and unused income from GoK for two specific projects as detailed in the table below. The portion transferred to income statement represents depreciation charge for 12 months at year end on the donated assets. Deferred income received during the year of KShs. 350,000,000 was by the Government of Kenya. We have provided details in the table below:

	<b>2017</b>	<b>2016</b>
	<b>KShs</b>	<b>KShs</b>
<b>Government of Kenya – Deferred grants</b>		
Kenya Pool Water Fund	250,000,000	-
GoK priority project - Ijara	100,000,000	-
<b>Sub total</b>	<b>350,000,000</b>	<b>-</b>
Donated assets	8,264,427	12,139,390
<b>Total</b>	<b>358,264,427</b>	<b>12,139,390</b>

The amount of KShs.350, 000,000 from the government of Kenya is expected to be utilised on the above projects in the financial year 2017-2018.

**19 STAFF GRATUITY**

	<b>2017</b>	<b>2016</b>
	<b>KShs</b>	<b>KShs</b>
At start of year	24,673,676	15,857,850
Provision for the year	22,197,915	17,950,503
Paid during the year	(8,890,200)	(9,134,677)
<b>At end of year</b>	<b>37,981,391</b>	<b>24,673,676</b>
Current	18,301,324	8,306,640
Non-current	19,680,067	16,367,036
<b>At end of year</b>	<b>37,981,391</b>	<b>24,673,676</b>

**Notes (continued)**

This refers to the estimated monetary liability for contractual employees' accrued service gratuity entitlement at the end of the reporting period. Gratuity is accrued at the rate of 31% of annual basic salary. The non-current portion is payable within the next 3 years.

**20 TRADE AND OTHER PAYABLES**

	<b>2017</b>	<b>2016</b>
	<b>KShs</b>	<b>KShs</b>
Trade payables	43,514,799	28,475,100
Interest payable to Government of Sweden	-	23,979,275
Staff leave accrual	2,581,994	2,420,573
Withholding tax payable	5,174,605	5,684,112
Salaries payables - CRMs	3,769,784	-
	<u>55,041,182</u>	<u>60,559,060</u>

**21 CASH GENERATED FROM OPERATIONS**

Reconciliation of surplus for the year to cash generated from operations

	<b>Note</b>	<b>2017</b>	<b>2016</b>
		<b>KShs</b>	<b>KShs</b>
(Deficit)/Surplus for the year		(25,716,678)	50,941,973
<b>Adjustments for:</b>			
Depreciation of property and equipment	11	14,560,693	13,760,227
Amortization of intangible assets	12	1,501,326	2,928,926
Gain on disposal of assets		(698,130)	(214,501)
Impairment loss		56,819	-
		<u>(10,295,970)</u>	<u>67,416,625</u>
<b>Working capital changes</b>			
(Increase)/decrease in inventories		(42,436)	21,763
(Increase)/decrease in receivables from non-exchange transactions		70,168,636	(444,684,421)
(Increase)/decrease in unexpended grants		137,233,629	(71,101,983)
Increase in deferred income		352,743,265	9,401,929
Increase in staff gratuity		13,307,715	8,815,825
Decrease/Increase in trade and other payables		(5,517,878)	26,926,814
<b>Net cash generated/(used) in/from operations</b>		<u>557,596,961</u>	<u>(403,203,448)</u>

Notes (continued)

22 COMMITMENTS

Capital Assets Commitments

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

	2017 KShs	2016 KShs
Budgeted	19,212,000	7,212,000

Project commitments

The Fund has committed to fund projects to the tune of KShs. 1,947 Million (2016: KShs 2,794 Million) for subsequent disbursement requests which become due on the submission of acceptable reports. As at the end of reporting period, the projects were at different stages of implementation. This amount is expected to fall due during the next financial year.

The project commitments are as follows:

	2017 KShs	2016 KShs
Water and sanitation – Rural	621,363,680	843,005,060
Water Resources	419,140,000	547,832,500
Water and sanitation - Urban	906,910,000	1,403,900,000
	<u>1,947,413,680</u>	<u>2,794,737,560</u>

23 OPERATING LEASE ARRANGEMENTS

	2017 KShs	2016 KShs
Minimum lease payments under operating leases recognised through Statement of financial performance	16,973,054	15,053,228

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

	2017 KShs	2016 KShs
Within one year	17,876,821	16,400,753
In the second to fifth years inclusive	50,875,168	67,635,667
After five years	-	-
	<u>68,751,989</u>	<u>84,036,420</u>

Operating lease payments represent rentals payable by the Trust Fund for its office premises.

Notes (continued)

**24 RELATED PARTY TRANSACTIONS**

**i) Key management compensation**

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

	<b>2017</b>	<b>2016</b>
	<b>KShs</b>	<b>KShs</b>
Salaries and other short term benefits	26,058,600	21,932,594
Gratuity	5,170,800	4,753,664
NSSF	14,400	12,400
	<u><b>31,243,800</b></u>	<u><b>26,698,658</b></u>
Trustees emoluments	10,962,000	12,458,000
Other emoluments (included in key management compensation above)	5,010,000	4,594,194

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

**25 CONTINGENCIES**

In the normal course of funding projects, funds totalling KShs 25,691,157 (2016: KShs 30,515,207) cumulatively, were not adequately accounted for by Project Implementing Organizations in the prior years, the issues relating to these funds are being dealt with legally and administratively. The project funds were recognized as project costs in the statement of financial performance, in prior years.

In 2017, a former employee of the Trust filed a case against the trust for her termination of service in which is claiming KShs 14,061,998. A provision has been made in relation to her terminal dues that had not been paid as at the end of the financial year. No additional provisions have been made as the trustees are confident that no additional liability will crystallize.

A case between WSTF vs Water and Sanitation for Poverty Reduction was withdrawn on 19 October 2016 has resulted to the latter filling a bill of KShs 3,216,487 against WSTF. No provision has been made for this liability in the financial statements as the trustees are confident that no liability will crystallize.

**26 FINANCIAL RISK MANAGEMENT POLICIES**

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

**(a) Significant accounting policies**

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

**(b) Financial risk management objectives**

The Trust Fund's activities expose it to a variety of financial risks including credit and liquidity risks and the effects of changes in foreign currency. The fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect

## 26 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

### (b) Financial risk management objectives (continued)

of such risks on its performance by setting acceptable levels of risk. In the current year the management met and drafted a risk management manual that will guide in the management of the risks affecting the fund.

### (c) Credit risk

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

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

	Fully performing KShs	Past due KShs	Impaired KShs	Total KShs
<b>At 30 June 2016</b>				
Cash at bank	736,802,229	-	-	736,802,229
Project receivables	576,995,567	-	(14,051,823)	562,943,744
Staff receivables	1,776,342	-	-	1,776,342
	<u>1,315,574,138</u>	<u>-</u>	<u>(14,051,823)</u>	<u>1,301,522,315</u>
<b>At 30 June 2017</b>				
Cash at bank	1,284,512,606	-	-	1,284,512,606
Project receivables	496,486,714	-	(12,582,261)	483,904,453
Staff receivables	4,241,873	-	-	4,241,873
Other receivables	3,796,519	-	-	3,796,519
	<u>1,789,037,712</u>	<u>-</u>	<u>(12,582,261)</u>	<u>1,776,455,451</u>

### (d) Liquidity risk management

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

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

	Less than 1 month KShs	Between 1-3months KShs	Over 3 Months KShs	Total KShs
<b>At 30 June 2016</b>				
Trade payables	28,475,101	-	-	28,475,101
Interest payable to Government of Sweden	23,979,275	-	-	23,979,275
Withholding tax payable	5,684,112	-	-	5,684,112
	<u>58,138,488</u>	<u>-</u>	<u>-</u>	<u>58,138,488</u>

**Notes (continued)**

**26 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

**(d) Liquidity risk management (continued)**

**At 30 June 2017**

Trade payables	43,514,799	-	-	43,514,799
Withholding tax payable	5,174,605			5,174,605
Salaries payables - CRMs	3,769,784			3,769,784
	<u>52,459,188</u>	<u>-</u>	<u>-</u>	<u>52,459,188</u>

**(e) Market risk management**

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

***Currency Risk***

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

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

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

<b>Foreign currency Denominated Balances</b>	<b>2017</b>	<b>2016</b>
	<b>EURO</b>	<b>EURO</b>
Kenya Commercial Bank - GOF Euro	114	167
NIC Bank- KfW Phase II Euro	99,033	1,573
	<u>99,147</u>	<u>1,740</u>
	<b>USD</b>	<b>USD</b>
NIC Bank – KFW USD	<u>10,632</u>	<u>10,589</u>

**27 CAPITAL RISK MANAGEMENT**

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

The capital structure of the Fund consists of revenue reserves and the Fund was not geared as at 30 June 2017 and 30 June 2016.



Notes (continued)

28 RESTATEMENT OF COMPARATIVE BALANCES

RECONCILIATION OF THE RESTATED BALANCES: STATEMENT OF FINANCIAL PERFORMANCE

	Notes	2016 As previously stated KShs	Adjustments KShs	2016 Restated KShs
<b>REVENUE</b>				
<b>Revenue from non-exchange transactions</b>				
Government of Kenya grants	4	406,750,000		406,750,000
Restricted donor funds	5	781,337,604	7,270,296	788,607,900
		<u>1,188,087,604</u>	<u>7,270,296</u>	<u>1,195,357,900</u>
<b>Revenue from exchange transactions</b>				
Miscellaneous income	6	22,699,438		22,699,438
Finance income	7	30,748,808		30,748,808
		<u>53,448,246</u>		<u>53,448,246</u>
<b>Total revenue</b>		<u>1,241,535,850</u>	<u>7,270,296</u>	<u>1,248,806,146</u>
<b>EXPENDITURE</b>				
Administration expenses	8	(307,017,673)		(307,017,673)
Project expenses	10	(890,846,500)		(890,846,500)
<b>Total expenditure</b>		<u>(1,197,864,173)</u>		<u>(1,197,864,173)</u>
<b>SURPLUS FOR THE YEAR</b>		<u>43,671,677</u>	<u>7,270,296</u>	<u>50,941,973</u>

Notes (continued)

28 RESTATEMENT OF COMPARATIVE BALANCES (Continued)

RECONCILIATION OF THE RESTATED BALANCES STATEMENT OF FINANCIAL POSITION

	Notes	2015 As previously stated KShs	Adjustments KShs	2015 Restated KShs
<b>ASSETS</b>				
<b>Non - current assets</b>				
Property and equipment	11	30,702,477		30,702,477
Intangible assets	12	3,066,666		3,066,666
		<u>33,769,143</u>		<u>33,769,143</u>
<b>Current assets</b>				
Inventories	13	469,975		469,975
Receivables from non-exchange transactions	14	127,316,396		127,316,396
Cash and cash equivalents	15	1,165,249,099		1,165,249,099
		<u>1,293,035,470</u>	-	<u>1,293,035,470</u>
<b>TOTAL ASSETS</b>		<u><b>1,326,804,613</b></u>	-	<u><b>1,326,804,613</b></u>
<b>NET ASSETS AND LIABILITIES</b>				
<b>Net assets</b>				
Accumulated surplus	16	547,724,964	(86,294,723)	461,430,241
Unexpended grants	17	727,639,819	86,294,723	813,934,540
<b>Non-current liabilities</b>				
Deferred income from capital grants	18	1,311,500		1,311,500
Staff gratuity	19	12,008,543		12,008,543
		<u>13,320,043</u>	-	<u>13,320,043</u>
<b>Current liabilities</b>				
Deferred income from capital grants	18	638,234		638,234
Staff gratuity	19	3,849,307		3,849,307
Trade and other payables	20	33,632,247		33,632,247
		<u>38,119,788</u>	-	<u>38,119,788</u>
<b>TOTAL RESERVES AND LIABILITIES</b>		<u><b>1,326,804,613</b></u>	-	<u><b>1,326,804,613</b></u>

Notes (continued)

28 RESTATEMENT OF COMPARATIVE BALANCES (Continued)

RECONCILIATION OF THE RESTATED BALANCES STATEMENT OF FINANCIAL POSITION

	Notes	2016 As previously stated KShs	Adjustments KShs	2016 Restated KShs
<b>ASSETS</b>				
<b>Non - current assets</b>				
Property and equipment	11	42,400,173		42,400,173
Intangible assets	12	137,740		137,740
		<u>42,537,913</u>		<u>42,537,913</u>
<b>Current assets</b>				
Inventories	13	448,212		448,212
Receivables from non-exchange transactions	14	572,000,817		572,000,817
Cash and cash equivalents	15	736,802,229		736,802,229
		<u>1,309,251,258</u>	-	<u>1,309,251,258</u>
<b>TOTAL ASSETS</b>		<u>1,351,789,171</u>	-	<u>1,351,789,171</u>
<b>NET ASSETS AND LIABILITIES</b>				
<b>Net assets</b>				
Accumulated surplus	16	591,396,641	(79,024,427)	512,372,214
Unexpended grants	17	663,808,132	79,024,427	742,832,559
<b>Non-current liabilities</b>				
Deferred income from capital grants	18	7,910,352		7,910,352
Staff gratuity	19	16,367,036		16,367,036
		<u>24,277,388</u>	-	<u>24,277,388</u>
<b>Current liabilities</b>				
Deferred income from capital grants	18	3,441,310		3,441,310
Staff gratuity	19	8,306,640		8,306,640
Trade and other payables	20	60,559,060		60,559,060
		<u>72,307,010</u>	-	<u>72,307,010</u>
<b>TOTAL RESERVES AND LIABILITIES</b>		<u>1,351,789,171</u>	-	<u>1,351,789,171</u>

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Water Sector Trust Fund  
Appendix 1 – Inter Entity Transfer

ENTITY NAME:		Water Sector Trust Fund	
Break down of Transfers from the State Department of Water			
FY 2016/2017			
a.	Recurrent Grants		
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>
	GOK	13.07.2016	2,000,000.00
	GOK	09.09.2016	4,500,000.00
	GOK	24.10.2016	2,250,000.00
	GOK	09.11.2016	2,250,000.00
	GOK	19.12.2016	2,250,000.00
	GOK	04.01.2017	2,250,000.00
	GOK	02.02.2017	2,250,000.00
	GOK	06.03.2017	2,250,000.00
	GOK	07.04.2017	2,250,000.00
	GOK	08.05.2017	2,250,000.00
	GOK	19.06.2017	2,250,000.00
	GOK	30.06.2017	2,250,000.00
		<b>Total</b>	<b>29,000,000.00</b>
b.	Development Grants		
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>
	GOK	01.07.2016	180,000,000.00
	GOK	11.10.2016	111,750,000.00
	GOK	23.11.2016	93,000,000.00
	GOK	23.03.2017	6,250,000.00
	GOK	12.04.2017	99,250,000.00
	GOK	11.05.2017	250,000,000.00
	GOK	28.06.2017	105,500,000.00
	GOK	30.06.2017	100,000,000.00
		<b>Total</b>	<b>945,750,000</b>
c.	Direct Payments		
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>
	NONE	NONE	NONE
d.	Donor Receipts		
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>
	World Bank	28.11.2016	40,480,000.00
	World Bank	26.04.2017	23,096,110.00
	World Bank	08.05.2017	5,550,417.50
	K/W	17.10.2016	185,758,701.75
	K/W	24.01.2017	205,220,400.00
	IFAD	27.09.2016	846,100.00
	IFAD	06.10.2016	25,000,000.00
	IFAD	21.11.2016	5,030,016.00
	IFAD	28.04.2017	47,000,000.00
	DANIDA		101,106,000.00
		<b>Total</b>	<b>639,087,745.25</b>

**APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS**

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
2.1	Unrecoverable staff debtors; We noted that the staff receivable balance as at 30 June 2016 consisted of amounts totalling to KShs. 329,169 which relate to unaccounted for imprests by staff who had left WSTF.	Management should write off the balances from the accounting records. Additionally, management should institute procedures to ensure that staff account for imprests within 48 working hours of returning from an assignment as per policy; or recover the amount from the subsequent payroll. Management should also ensure that before staff are cleared upon resignation or termination, they obtain clearance from the finance team.	The management has presented the request to write-off the debts to the Board of Trustees. The Board referred the matter to the Legal Department for the opinion with instructions to investigate each account that is outstanding. Measures are in place to ensure that staff surrender within 48 hours upon arrival from the field	Chief Manager, Finance	Open. The management reversed the write off and are following up with the National Treasury for the necessary approvals to write off the unrecoverable amounts.	FY 2017/18
2.2	Provision for long outstanding project receivables; We noted that there were accounts receivable balances outstanding for more than one year totalling to KShs. 13,682,100 (excluding the staff receivable described in section 2.1 above) relating to amounts due from project implementing partners. The balance is comprised of program receivables for various projects which have since come to an end.	Management should make a provision for doubtful debts against these amounts and follow up with the concerned implementing partners at project level for subsequent accounting	The management has embraced accountability by projects through engagement of all stakeholders in project implementation.	Chief Manager, Finance	Partially resolved and continuous follow up will be undertaken in future.	Partially resolved. Provision has been made in the current year's

**APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS**

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
		<p>and/or refund of the funds in excess of project expenditure. If management follow up reveals that the amounts are not recoverable, a write-off should then be effected.</p>	<p>The county governments sign contracts as well and provide oversight on use of funds and procurement. The roles of the implementing partner and WSTF are clearly stipulated WSTF has engaged the services of county resident monitors (CRMs) who have a duty to ensure that projects account for funds. WSTF is also engaging the development partners to give approval to write off balances that are KShs 10,000 and below.</p>			<p>financial statements. WSTF sought and obtained development partner approval to write off long outstanding balances that were below KShs 10,000.</p>

**APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS**

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe								
2.3	<p>Failure to maintain an updated fixed assets register</p> <p>From the physical asset verification carried out on a sample basis, we noted the following weaknesses in asset management:</p> <p>a) The asset register included assets which were disposed-off several years ago;</p> <p>b) Some of the assets did not have asset code numbers in the system; and</p> <p>c) Some of the assets were not tagged.</p>	<p>The organisation should ensure the following:</p> <p>a) All disposed-off assets should be removed from the register.</p> <p>b) The fixed assets register should contain all the required details.</p> <p>c) All assets owned by WSTF are appropriately tagged.</p>	<p>WSTF updates the asset register on a quarterly basis. It is noted that some items were not updated at the time of the audit. The Management has since updated the register and will ensure that the register is comprehensive.</p>	Chief Manager, Finance	Resolved as the asset register was updated.	Resolved								
2.4	<p>Failure to prepare bank reconciliations</p> <p>We noted and instance where bank reconciliations were not prepared for the following bank account:</p> <table border="1" data-bbox="890 1281 1161 1960"> <thead> <tr> <th>Account no.</th> <th>Account Name</th> <th>Cash book balance as at 30 June 2016 (KShs)</th> <th>Exceptions noted</th> </tr> </thead> <tbody> <tr> <td>3311000</td> <td>National Bank of Kenya</td> <td>2,213,520</td> <td>Bank reconciliations of this account were not prepared during the year</td> </tr> </tbody> </table>	Account no.	Account Name	Cash book balance as at 30 June 2016 (KShs)	Exceptions noted	3311000	National Bank of Kenya	2,213,520	Bank reconciliations of this account were not prepared during the year	<p>Management should prepare bank reconciliations for all accounts held by WSTF whether active or dormant. Dormant accounts should be closed if it is anticipated that they shall not be used in future.</p>	<p>Management has noted this recommendation. The bank reconciliations for this account were not being prepared because the account was dormant. The account was reactivated in August 2016 in order to access bank statements. The bank reconciliations for the year ended 30 June 2016 were</p>	Chief Manager, Finance	Resolved. All bank reconciliations were appropriately prepared.	Resolved
Account no.	Account Name	Cash book balance as at 30 June 2016 (KShs)	Exceptions noted											
3311000	National Bank of Kenya	2,213,520	Bank reconciliations of this account were not prepared during the year											

**APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS**

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
2.5	Delays in the transfer of Government of Kenya (GoK) counterpart funds to the respective investments' bank accounts Project expenditure is funded by development partner and GoK counterpart funds as agreed in the funding agreements. We noted that management transferred some of the budgeted GoK counterpart funds for the year ended 30 June 2016 to the respective investments' bank accounts in July 2016.	Management should ensure that GoK counterpart funds are transferred to the projects' bank accounts once received. In case of delays in receipt of funding from the GoK, management should follow up with the ministry to secure timely release of funds. Delays in receipt of GoK funding should be communicated to the development partners once this eventuality is foreseen.	subsequently prepared and reviewed in August 2016 after the auditors raised this matter. The management has noted the recommendation. The Finance and investments departments intend to; i) Provide work plans for the counterpart funding; and ii) Monitoring expenditures and budget for the counterpart funding. The implementation of the recommendation is subject to timely receipt of GoK counterpart funds from the government in	Chief Manager, Finance	Resolved, as all the GoK funding was received within the year and the counterpart funding transferred to the investments' bank accounts.	Resolved



**APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS**

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
2.6	Late submission of reports to development partners We noted instances where WSTF was late in submitting the quarterly and the annual reports to the development partners under both the urban and rural investments.	Management should ensure that reports are submitted in a timely manner to the development partners.	order to allocate and transfer the GoK counterpart funds in a timely manner.  The management has noted the recommendation and require to deal with factors on level of control to that can be exercised as WSTF is not a direct implementer of projects. The management will consult widely with both the CRMs and the implementing partners in addressing the anomaly. There has been changes in the reporting formats and templates that significantly affected the timelines	Chief Manager, Finance and Chief Manager, Investments	Not Resolved. There were instances of late submission of reports to development partners in the year under review.	Not resolved

**APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS**

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
2.7	Posting of project expenditure related to funding from various development partners and WSTF in one ledger account We noted that one of the project expenditure general ledger (GL) accounts contained transactions relating to UNICEF, DANIDA and WSTF administration expenses.	Management should ensure that posting of project expenditure transactions is done to the specific general ledger account of the project.	Management appreciates the expansion of the scale of operations for projects and shall consider re-evaluating the timelines with the development partners to make it realistic.  Management has noted this recommendation and shall ensure that project expenditure transactions are posted to the correct general ledger.	Chief Manager, Finance	Resolved with the guidance from the external auditor	Resolved.
<b>Information Technology Issues</b>						
3.1	Outdated ICT Policy From our review, we noted that WSTF ICT policy is outdated. As at the time of our review, the existing ICT policy was last updated in 2012. Best practice requires that the ICT policy be updated in line with the frequent developments in the ever changing ICT sector, preferably annually.	The ICT Policy should be updated annually in line with the ever changing ICT environments to cover all manners in which	Management has noted this recommendation. Plans are underway to update the ICT policy in the year	Manager, ICT	Resolved as the organization updated the ICT policy and had it approved by the Board.	Resolved.

**APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS**

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
3.2	<p>Weak password settings</p> <p>From our review, we noted the following weaknesses:</p> <p>i. AREN: AREN application which the payroll system has not been setup to enforce strong password settings. Users are able to put in any password even if it a weak one. This can compromise the confidentiality of the payroll information stored in the system.</p> <p>ii. UPCIS: The following password settings are not enforced in UPCIS system; Maximum Password Age, Account Lockout Threshold &amp; Password History.</p> <p>iii. MSSQL Database: Password expiration has not been enabled for 'SA' account in the MSSQL database. This is the database that hosts SAP B1 data.</p> <p>iv. Windows 2012 Server: The maximum password age has been set to 6 months whereas WSTF IT policy guides that passwords should be changed quarterly (every 3 months). This server hosts SAP B1 application.</p>	<p>Stakeholders consume IT products.</p> <p>The following password parameters should be amended and set in line with best practice and WSTF's policy:-</p> <ul style="list-style-type: none"> <li>✓ Minimum Password Length : &gt;=6 characters</li> <li>✓ Complexity : Should force users to set complex passwords</li> <li>✓ Max Password Age : 30-90 days</li> <li>✓ Account Lockout Threshold : 3-5 failed login attempts</li> <li>✓ Password History: &gt;= 5 previous passwords.</li> </ul>	<p>ending 30 June 2017.</p> <p>AREN and UPCIS are WSTF's legacy systems and are no longer in active development. They had been developed before the standard strong password policies came into place. However, UPCIS takes strong passwords only but does not enforce other characteristics such as password history. For the MSSQL and Windows 2012 server, the recommendations are noted and will be effected.</p>	<p>Manager, ICT</p>	<p>Resolved after enabling of the proper password parameters.</p>	<p>Resolved</p>

**APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS**

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
3.3	<p>Audit log is not enabled in some systems</p> <p>From our review, we noted that audit logs to capture user activities and sensitive system events have not been set up in the following systems:</p> <ol style="list-style-type: none"> <li>UPCIS;</li> <li>Active Directory Windows 2008 Server;</li> <li>Windows Server 2012 hosting SAP B1 application;</li> <li>MSSQL Database that holds SAP B1 data</li> </ol>	<p>Management should follow up with the IT department to ensure auditing functions are enabled in the Trust Fund's system. At a minimum the audit log should track the following:</p> <ul style="list-style-type: none"> <li>✓ Logon Events - Successful &amp; Failed;</li> <li>✓ User ID;</li> <li>✓ Action Performed;</li> <li>✓ Time Stamp; and</li> <li>✓ Changes to security configurations</li> </ul>	<p>This recommendation is noted, auditing will be enabled for these systems.</p>	<p>Manager, ICT</p>	<p>Resolved after the enabling of audit logs for all the systems.</p>	<p>Resolved</p>
3.4	<p>Lack of evidence of monitoring of Super users' activities</p> <p>From our review, we noted that audit logs are not reviewed and super users' transactions or activities and sensitive generic IDs are not monitored.</p>	<p>Management should identify crucial and sensitive super user activities and implement a framework for periodic review and documentation of their logs and any exceptions noted should be followed up on and resolved in a timely manner.</p> <p>Super users' activity on the application, database and operating system/networks should be regularly reviewed by</p>	<p>Periodic review and documentation of super user activities by an internal auditor will be implemented.</p>	<p>Manager, ICT and Chief Manager, Internal Audit and Risk</p>	<p>Resolved as the Internal Audit Manager does monitoring activities and maintains documentation to evidence the monitoring activities done.</p>	<p>Resolved</p>

**APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS**

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
3.5	Inappropriate shared folder From our review of shared folders, we noted that a shared folder exists in the Active Directory Server on the path below. This folder was used for sharing a system update and was accessible by all users. From inquiry we were informed that sharing of this folder was no longer required. ✓ Path: C:\Shared	Management should disable sharing on this folder. In addition, management should exercise control on the creation of shared folders beyond the built-in administrative shares. If additional shares must exist, permissions for the sharing should be set according to the principle of least privilege. Management should ensure that share permissions do not leverage the 'Everyone' group for granting access.	This folder was in use for sharing a critical system update but this task was completed. The share has been subsequently removed.	Manager, ICT	Resolved. The shared folder was subsequently removed.	Resolved
3.6	Lack of periodic monitoring of access rights to systems From our review, we noted that periodic review of user access rights to the various WSTF applications, operating systems and databases is not done.	Periodic (at least once every quarter) user access rights review should be conducted for all the systems (including their supporting operating systems and databases) by departmental heads to confirm that access rights	Management has noted this recommendation. Management shall ensure that periodic user access rights review are conducted for all	Manager, ICT and Chief Manager, Internal Audit and Risk	Resolved as the Internal Audit Manager does monitoring activities and maintains documentation to evidence the	Resolved

**APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS**

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe																				
		are only granted to authorized users and that the rights are commensurate to job functions/responsibilities.	the systems (including their supporting operating systems and databases) to confirm that access rights are only granted to authorised users and that the rights are commensurate to job functions/responsibilities.		monitoring activities done.																					
3.6	<p>Dormant accounts in the active directory</p> <p>We noted dormant accounts in the active directory as detailed in the table below: See table below:</p> <table border="1"> <thead> <tr> <th>#NT Name</th> <th>Display Name</th> <th>Description</th> <th>Last Login Date</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Abdulrahman.Mohamed</td> <td>Driver - GIZ</td> <td>4/24/2015 15:31</td> </tr> <tr> <td>2</td> <td>Alexandra.Dubois</td> <td>Technical Advisor - GIZ</td> <td>1-Jan-70</td> </tr> <tr> <td>3</td> <td>Mareike.Ende</td> <td>Consultant - GFA</td> <td>1-Jan-70</td> </tr> <tr> <td>4</td> <td>Pia.Fischer</td> <td>Consultant - GFA</td> <td>12/15/2015 9:38</td> </tr> </tbody> </table>	#NT Name	Display Name	Description	Last Login Date	1	Abdulrahman.Mohamed	Driver - GIZ	4/24/2015 15:31	2	Alexandra.Dubois	Technical Advisor - GIZ	1-Jan-70	3	Mareike.Ende	Consultant - GFA	1-Jan-70	4	Pia.Fischer	Consultant - GFA	12/15/2015 9:38	The dormant accounts should be disabled if they are not in use.	These are accounts created for partners or consultants. We have to create a local domain account so that they can be individually granted access to the internet through our Cyberoam internet firewall / filter which uses Active Directory for authentication. However, most of the partners have machines still in	Manager, ICT	Ongoing monitoring There were no dormant accounts because the accounts that appear to be dormant are used to log into other systems like webmail and Cyberoam for SSO authentication.	Ongoing monitoring.
#NT Name	Display Name	Description	Last Login Date																							
1	Abdulrahman.Mohamed	Driver - GIZ	4/24/2015 15:31																							
2	Alexandra.Dubois	Technical Advisor - GIZ	1-Jan-70																							
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**APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS**

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
3.8	<p>Lack of evidence of change request approval on SAP BI upgrade</p> <p>From our review of the change management process followed during SAP upgrade to version 9.1, we noted that there was no evidence of a formal change request and approval as required in the IT policy.</p>	<p>All changes to systems should be approved by management before being implemented in production environments. A formally documented list of all changes to systems should be maintained for monitoring purposes.</p>	<p>their own domain (and email from their employers) so they actually might not register a local login, and hence never logged in or logged in long time ago. We cannot disable these accounts as they are still in our premises.</p> <p>This was a technical system upgrade (operating system and its underlying database) and not a change request per se. WSTF has an SLA with a local vendor for outsourced support services of SAP BI, as clients/users do not deal directly with the developers in Germany. The WSTF vendor</p>	<p>Manager, IT</p>	<p>Resolved.</p> <p>The upgrade of SAP to Version 9.1 was documented with checklists which were signed off by the ICT Manager.</p>	<p>Resolved</p>

## APPENDIX 2 – STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
			receives upgrades and system updates and are updated when convenient for WSTF. However, the upgrade process was well documented with appropriate checklists and sign-off.			
<b>Update of other matter raised at organisational and project level in the 2015 audit</b>						
2.1	Unrecoverable staff debtors; It was noted that some staff receivable balances consisted of amounts totalling Kshs. 442,535 which relate to unaccounted for imprests due from staff who are no longer WSTF employees	Management should write off the balances from the accounting records. Additionally, management should institute procedures to ensure that staff account for imprests within 48 working hours of returning from an assignment as per policy; or recover the amount from the subsequent payroll.	The management has prepared the details of all unrecoverable debts and will be submitted to the Finance and General Purpose for deliberation in the next meeting.	Chief Manager, Finance	Open. The management reversed the write off and are following up with the National Treasury for the necessary approvals to write off the unrecoverable amounts.	FY 2017/18
2.2	Provision for long outstanding project receivables; It was noted that there were accounts receivable balances outstanding for more than one year totalling Kshs. 4,750,969 relating to amounts due from projects implementing partners	Management should make a provision for doubtful debts against these amounts and follow up with the concerned implementing partners at	The management has engaged the CRMs for follow up and it is expected that full expected that full	Chief Manager, Finance	Partially resolved as the provision for doubtful debts has been made. Management also has a recovery	Ongoing and continuous follow up is being made



**APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS**

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
2.3	Lack of uniformity in the asset codes (asset register vs the physical assets).	<p>project level for subsequent accounting and/or refund of the funds in excess of project expenditure. If management follow up reveals that the amounts are not recoverable, a write-off should be done.</p> <p>Management should ensure that the asset codes as per the system maintained asset register and that on the physical asset are uniform.</p>	<p>accountability of the amount outstanding in the financial year 2015/16.</p> <p>SAP vendor has been engaged to amend the asset register report in SAP to display the full asset codes in the report.</p>	Chief Manager, Finance	Resolved. In the current year, we did not note any instances of variances in the asset coding.	by management

**APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS**

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
<b>Information Technology Issues</b>						
3.1	Insufficient monitoring of super user activities at the application, database and Operating System levels;	Super user's activity on the application, database and operating system / networks should be regularly reviewed by an independent party such as IT security officer or internal auditor.	The internal audit department has been involved in the review of the super user logs during the year.	Manager, ICT and Chief Manager, Internal audit and Risk management	Resolved as internal audit does monitoring of super user activities and weekly audits of all payments made at the Fund	Resolved during FY 2016/17.
3.2	Weak password settings for the Aren application; It was observed that password policy was not enforced on the Aren application.	We recommend the password policy be enabled on the application.	The management had noted this as a weakness in the current system and has initiated the process of procuring a different module of Human Resources Management Information system that will include payroll and integrated with SAP.	Manager, ICT	Process of implementation of the Human Resource Module for SAP is ongoing.	Resolved during FY 2016/17
<b>Update of other matter raised at organisational and project level in the 2014 audit</b>						
4.1	Vacant critical staff position During the review of Trust Fund's organogram, indicated that the positions of Legal officer and planning officer had been vacant.	It is important that the Trust Fund recruit for these positions given their importance within the Fund.	The Fund was facing threats of being dissolved by the Presidential task Force on	Chief Executive Officer	Partially resolved as the new WSTF Organization structure is being implemented.	31st December 2017

APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
4.2	Lack of exemption certificate. Water services Trust Fund does not have a tax exemption certificate as required by Kenya Revenue Authority	A system to keep track of taxation requirements should be designed and implemented by management to ensure all requirements are adhered to.	reorganization of the Government at the time of audit. Now that the Fund's existence has been secured in the Water Act 2014, recruitment of key positions as per the approved organogram is ongoing. The management has noted the recommendation. It has however been a challenge for the Trust Fund to determine the most probable exemptions required.	Chief Manager Finance	Open	31st December 2017
4.3	Questioned costs During the audit it was noted that there were questioned costs from the past audits amounting to Kshs. 43Milliom which have not been closed.	Management should follow up on these costs and ensure they are appropriately supported and closed out.	The management notes the recommendation and will follow up on the outstanding questioned costs	Chief Manager Finance and Chief Manager, Audit and Risk Management	Partially resolved after the questioned amount for Kenya Water and Sanitation Programme (KWSP) was	31st December 2017

**APPENDIX 2 - STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS**

Ref/ Issue	Finding	Recommendation	Management comments	Responsibility	Status	Timeframe
					<p>paid back to the donor.            Other questioned costs relating to other programmes are expected to the resolved by 31st December 2017.</p>	