

REPUBLIC OF KENYA



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**WATER SECTOR TRUST FUND**

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

**WATER SECTOR TRUST FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
REGISTRY

16 SEP 2022

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**WaterFund**

Financing the Water Sector

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

WATER SECTOR TRUST FUND  
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**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
COVID-19	Corona Virus Disease-2019
DKK	Danish Kroner
EU	European Union
GETF	Global Environment and Technology Foundation
GoF	Government of Finland
GoK	Government of Kenya
IFAD	International Fund for Agricultural Development
KfW	Kreditanstalt fuer Wiederaufbau (German Government Bank)
KShs	Kenya Shillings
MTAP	Medium Term Arid Programme
NCBA	NCBA Bank Kenya Plc
OBA	Output Based Aid
SCAC	State Corporations Advisory Committee
SIDA	Swedish International Development Agency
SNV	Stichting Nederlandse Vrijwilligers (Netherlands Development Organization)
UBSUP	Upscaling Basic Sanitation for the Urban Poor
UNICEF	United Nations Children's Fund
USD	United States Dollar
UTaNRMP	Upper Tana Natural Resources Management Project
WASH	Water and Sanitation for Hygiene
WRA	Water Resources Authority
WRCCI	Water Resources and Climate Change Investments
WRUA	Water Resources Users Association
WSPs	Water Services Providers
WSTF	Water Sector Trust Fund

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1. KEY INFORMATION AND MANAGEMENT

**BACKGROUND INFORMATION**

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

**PRINCIPAL ACTIVITIES**

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

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

**Vision:**

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

**Mission:**

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

**Core Values**

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

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2. BOARD OF TRUSTEES

Amb. Dr. Mary Mbiro Khimulu, MBS	Board Chairperson
Mr. Ismail Fahmy M. Shaiye	Chief Executive Officer
Mr. Joseph W. Irungu, CBS	PS, Ministry of Water & Sanitation and Irrigation
Dr. Julius Muia	PS, The National Treasury and Planning (TNT)
Mr. Mwanja Musau	Member
Eng. Matthew Tuitoek	Member
Mr. Fredrick Odhiambo Josiah	Member
Dr. Dominic Biwott	Member
Ms. Rose Muguchu	Member
Ms. Ubah Abdi Ibrahim Gedi	Member
Ms. Zahra M. Haji	Alternate Trustee to CS: Ministry of Treasury and Planning (up to 04 May 2021)
Mr. Daniel Mutua	Alternate Trustee to CS: Ministry of Treasury and Planning (effective 05 May 2021)
Mr. Chrisologus Makokha	Alternate Trustee to Inspectorate of State Corporations
Mr. Joel N. Onchwati	Alternate Trustee to PS: Ministry of Water & Sanitation and Irrigation (up to 21 February 2021)
Mr. Chrysostom Ileri Njeru	Alternate Trustee to PS: Ministry of Water & Sanitation and Irrigation (effective 22 February 2021).
Ms Halima Ali	Corporation Secretary

3. MANAGEMENT TEAM

Mr. Ismail Fahmy M. Shaiye, BA (Global Studies), Master's in International Environmental Law and MSc (Natural Resource Management)	Chief Executive Officer (Up to February 2022)
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 (Acting Chief Executive Officer effective February 2022)
Mr. Samwel Gitau Mbugua, B. Com (Accounting), MBA, CPA (K)	Chief Manager, Finance
Mr. Bernard Njenga, B. Com (Business Information Systems), MBA	Manager, ICT & Corporate Affairs
Mr. Paul Atwa, BA (HR), Higher Dip. HR, MBA(Ongoing)	Manager, Human Resources and Administration
Mr. Isaac Kega, BA (Econ), MEcon, PMP, MESK	Manager, Research, Planning and M&E (up to 09 December 2020)
Mr. Isaac Isika, MSc Social Science (International development), BSc Water and Environmental Health Sciences.	Ag. Manager, Research, Planning and M&E (effective 10 December 2020)
Mr. Thomas Nyangau BSC. Eng, MBA Strategy	Manager, Urban Investments
Mr. Fidelis Tamangani, BSc Natural Resources Management, MBA	Manager, Result-Based Financing
Ms. Pricilla Kagure Kinyari, BSc Eng. (Agricultural), MSc (Environmental)	Manager, Rural Investments (Up to 12 November 2020)
Mr. Peter Koech, BSC. Eng, (Civil)	Ag. Manager, Rural Investments (effective 13 November 2020)
Eng. Rose Nyikuri, BSc. Eng (Civil), MSc (WREM), R. Eng., MIEK	Manager, Water Resources and Climate Change Investments
Mrs. Ruth Nganga, BA (Theology), PGC, Ed	Manager, Partnership Development and Resource Mobilization
Mrs. Halima Ali Abdullahi Bachelor of Laws (LLB), LLM, CIARB, CPS	Manager, Legal & Corporation Secretary



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3. MANAGEMENT TEAM (Continued)

**Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2021 and who had direct fiduciary responsibility were;

Mr. Ismail Fahmy M. Shaiye	Chief Executive Officer (Up to February 2022)
Mr. Willis Okello Ombai	Chief Manager, Investments & Programmes (Acting Chief Executive Officer effective February 2022)
Mr. Samwel Gitau Mbugua	Chief Manager, Finance
Mr. Paniel Nyaga	Senior Procurement Officer
Mr. Bernard Njenga	Manager, ICT & Corporate Affairs

**Fiduciary Oversight Arrangements**

The key management fiduciary oversight arrangement were;

**(i) Audit and Risk Committee**

The committee assists the Board of Trustees in fulfilling its oversight role with objectivity, independence and effectiveness by;

- Obtaining assurance from management that all financial and non-financial internal control and risk management functions are operating effectively and reliably.
- Providing an independent review of an entity's reporting functions to ensure the integrity of financial reports.
- Monitoring the effectiveness of the entity's performance management and performance information.
- Providing strong and effective oversight of an entity's internal audit function.
- Providing effective liaison and facilitate communication between management and external audit.
- Providing oversight of the implementation of accepted audit recommendations.
- Ensuring the entity effectively monitors compliance with legislative and regulatory requirements and promotes a culture committed to lawful and ethical behavior.

**(ii) Finance and General Purposes Committee**

The committee ensures effective systems that provide leadership in management, resource rationalization and professional performance that endeavor in realizing the achievement of goals by providing the following;

- Reviewing and recommending WSTF policies relating to Finance, Human Resources, Resource Mobilization, Planning & Research, Procurement and ICT for efficient and effective function of the Fund.
- Ensuring that the Fund has effective and efficient internal control systems.
- Reviewing and recommending the Fund's long, medium and short-term plans that are consistent with the Strategic Plan.
- Ensuring that the Fund has optimal liquidity to enable the smooth flow of operations for working capital and development.
- Ensuring there are adequate financial reporting structures in place.
- Reviewing financial reports and making appropriate recommendations to the Board.

**(iii) Investment and Monitoring Committee**

The Committee provide guidance, advice and recommendations to the Board for the realization of access to Water and Sanitation services through financing of viable projects by;

- Developing and reviewing funding mechanisms and make recommendations as appropriate to the BOT for approval.
- Ensuring compliance with developed systems in terms of appraising, funding, implementation and monitoring of sustainable water and sanitation projects.

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**3. MANAGEMENT TEAM (Continued)**

**(iii) Investment and Monitoring Committee (Continued)**

- Reviewing project proposals and/or investment briefs recommended by the Management and recommend as appropriate to the Board of Trustees for approval.
- Strengthening and sustaining the Fund's relationship with the parent ministry, other water institutions and relevant stakeholders.

**(iv) Public Investment Committees**

This is a select Committee established pursuant to Standing Order No.206 of the National Assembly and is mandated to among other things, examine the reports and accounts of Public Investments as submitted by the Auditor-General and also examine whether the affairs of public investments are managed in accordance with sound financial or business principles and prudent commercial practices, Article 229 of the Constitution of Kenya also mandates Parliament to consider the report of the Auditor-General. The Committee invites the Fund to appear before it to adduce evidence on the Reports of the Auditor -General on the Financial Statements of the Water Sector Trust Fund for specified period.

**(v) Development partners**

Development Partners provide oversight through quarterly steering committees and bilateral meetings held from time to time. WaterFund prepares and submits quarterly and annual reports to Partners regarding status and progress of the programmes, including statements of expenditure for funds received from each partner. The Fund receives and addresses Partners feedback on reports and during meetings and often organizes field visits for partners to inspect projects they have funded. They also provide Technical Assistants who help to enhance WaterFund's capacity. WaterFund utilizes the funds against a work plan and budget allocated by the National Treasury.

**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](mailto:info@waterfund.go.ke)  
Website: [www.waterfund.go.ke](http://www.waterfund.go.ke)

**BANKERS**

Central Bank of Kenya  
Haile Selassie Avenue  
P.O Box 60000 – 00200  
Nairobi, Kenya.

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.

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



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**3. MANAGEMENT TEAM (Continued)**

**BANKERS (Continued)**

Cooperative Bank of Kenya  
Upper hill Branch  
P.O. Box 48231 – 00100  
Nairobi, Kenya

Equity Bank Kenya Limited  
Supreme Branch Upper hill  
P.O. Box 75104 – 00200  
Nairobi, Kenya

**INDEPENDENT AUDITOR**

Auditor General,  
Office of the Auditor General  
Anniversary Towers  
P.O. Box 30084 - 00100  
Nairobi, Kenya.

**PRINCIPAL LEGAL ADVISORS**

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

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**BOARD OF TRUSTEES**

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



**Amb. Dr. Mary Mbiro Khimulu, MBS – Board Chairperson**

Amb. Dr. Khimulu holds a Doctorate degree in Human Behaviour and Leadership (Management). She established the Kenya Delegation Office to UNESCO in 2006 as the first full time Ambassador/Permanent Delegate of Kenya to UNESCO and served from February 2006 to September 2013.

While at UNESCO she served as President of the Group of Ambassadors from Eastern Africa, Africa and Commonwealth Countries. She was elected four times as one of the Vice Presidents during UNESCO General Conferences and served in other UNESCO Committees during her tenure.

Amb. Dr. Khimulu has extensive Governance experience having served in Global, Regional and National Boards. These include Kenya Export Processing Zone Authority, Kenya Water Institute (KEWI), Founder Member of the Kenya Institute of Directors, United Bible Societies, Bible Society of Kenya (first woman to chair Kenya Bible Society Board), UNESCO Africa World Heritage Fund, Nairobi International School of Theology (now The International Leadership University), Amani Counselling Centre, Jesuits Refugee Services of Kenya, Skills for Southern Sudan and Our Lady of Mercy Secondary School. She also served as the Kenya Girl Guides Chief Commissioner, International Commissioner and Vice Chair.

Amb. Dr. Khimulu's vast leadership and strong interpersonal communication are great additions to the WaterFund Board of Trustees.

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

Mr. Ismail Fahmy M. Shaiye joined the Trust 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 is a lead expert in institutional, environmental, policy and governance framework in the Water Sector. As an Ex Officio Member of the Board of Trustees, he has contributed heavily in the strategic, innovative and dynamic direction of the WaterFund.

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**BOARD OF TRUSTEES (Continued)**



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

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

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

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

**Dr. Julius Muia - Principal Secretary, National Treasury and Planning**

Dr. Julius Muia is the Principal Secretary at The National Treasury. Prior to this, he was the Principal Secretary at the State Department for Planning - The National Treasury and Planning. Before his appointment as PS Planning, he was the Director General, Vision 2030 Delivery Secretariat which operated under the Office of the President, Republic of Kenya to facilitate the implementation of Vision 2030. This is Kenya's long-term policy framework that is premised on making Kenya a globally competitive, rapidly industrializing and upper middle income economy by 2030.

Between April 2008 and October 2016, Dr. Julius Muia served as the Secretary, National Economic and Social Council, Office of the President. This is a top advisory government think tank whose flagship project was formulating Vision 2030.

An alumnus of the University of Nairobi's School of Business, Dr Julius Muia graduated with a First Class Honours Degree in Accounting; Master's Degree and PhD in Finance from the same university. His professional qualifications include: Certified Public Accountant (CPA-K); Certified Public Secretary (CPS-K), Associate Kenya Institute of Bankers; Associate Chartered Institute of Arbitrators; and Certified Coach.

Dr. Julius Muia has over 25 years' experience in leadership in the private sector in Kenya and UK. He started his career as an auditor with PricewaterhouseCoopers in mid-1980's, and later worked as Head of Finance and Company Secretary in the hotel, manufacturing and banking sector. His other engagements include an adjunct faculty at Strathmore Business School; adviser on strategy and trainer on leadership.

Dr. Julius Muia serves as a non-executive board member in several companies and a number of not-for profit organizations.



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**BOARD OF TRUSTEES (Continued)**



**Mr Joel N. Onchwati - Alternate Trustee to PS: Ministry of Water & Sanitation and Irrigation (Up to 21 February 2021)**

Mr. Onchwati is Alternate Trustee to the Principal Secretary, Ministry of Water and Sanitation where he is currently the Chief Finance Officer responsible for financial management including budget planning and preparation, resource mobilisation and budget implementation and control.

Mr. Onchwati possesses wide experience in public sector financial management having served in various financial management positions in the public service including serving as an Internal Auditor in the Ministries of Education, Ministry of Finance and the Ministry of Roads and Public Works up to 2004. In 2005 he joined the Finance Officer's cadre where he served in the former Ministry of Justice, National Cohesion and Constitutional Affairs, Office of the Attorney General and Office of the Registrar of Political Parties.

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

**Mr. Chrysostom Ileri Njeru, Alternate Trustee to PS: Ministry of Water & Sanitation and Irrigation (effective 22<sup>nd</sup> February 2021)**

Mr. Njeru is currently Senior Principal Finance Officer, Ministry of Water, and Sanitation and Irrigation where he is involved in among other assignments; Budget Planning and Preparation, Financial Management, Budget Implementation and Control.

He possesses experience in Public Sector Financial Management having served in various Ministries in the Finance Cadre including Ministry of Agriculture, Ministry of Gender, Children and Social Development, Ministry of Labour, State Department for Transport and the National Treasury for over 15 years.

Mr. Njeru's knowledge and experience in the public sector budgetary formulation and public finance management is a great addition to the WSTF Board.



**Ms. Rose Muguchu – Independent Trustee**

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

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

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



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**BOARD OF TRUSTEES (Continued)**

**Ms. Ubah Abdi Ibrahim Gedi – Independent Trustee**

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

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

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



**Mr. Mwanja Musau – Independent Trustee**

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

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

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

**Eng. Matthew Tuitoek – Independent Trustee**

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

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



**Mr. Fredrick Odhiambo Josiah - Independent Trustee**

Mr. Josiah holds a Bachelor of Arts Degree in Economics and Rural Economy from Makerere University, Kampala. His further qualifications include Certified Public Administrator (KIA/KSG), Telecommunications Controller (CTS/KCCT) and Packet Switching (Bailbrook College UK).

Mr. Josiah is an experienced governance leader who has been a public servant and a Consultant in various sectors in Kenya including: The Provincial Administration, Central Government (The Treasury); Telecommunications Industry (KPTC); and various national development programmes in particular the Microfinance Support Sector. He also consulted in various Integrated Livelihoods Development Programmes where the provision of Water and Sanitation forms critical component of the programmes.

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Mr. Josiah has consulted for various governments including the Government of Rwanda where he was recruited by the UN Economic Commission for Africa and joined an international team of experts to design and implement an integrated ICT-led socio-economic development process (NICI-II) with the potential to modernise and transform Rwanda into a middle-income economy. He was also recruited by PricewaterhouseCoopers Ltd (PwC) Kenya to consult for the Government of Ethiopia in its Entrepreneurship Development Programme whose objective is to unleash the growth potential of micro and small enterprises.

At the community level Mr. Josiah is a model farmer and an active participant in local development projects such as being the Patron of Karadolo Water Project in Ukwala, Siaya County.

Mr. Josiah's vast leadership and strong interpersonal communication is a great addition to the Board of Trustees of the Water Sector Trust Fund.

**Mr. Chrisologus Makokha Alternate Trustee - Inspectorate of State Corporations**

Mr. Makokha is currently a PhD student of Business Administration student at Jomo Kenyatta University of Agriculture and Technology (JKUAT). He holds a Master of Business Administration from the same institution and a Bachelor of Science Degree in Applied Statistics with-IT, Second-Class Honours (Upper Division) from Kenyatta University.

Mr. Makokha has been with the Inspectorate of State Corporations, Office of the President, since 2013. Before being appointed to the Inspectorate of State Corporations, he worked for the Central Bureau of Statistics, Ministry of Devolution and Planning where he diligently worked on analysis of data and compiling of various statistical reports, supervision of enumerators collecting statistical data, among other duties that saw him rise from the position of Economist / Statistician II to position of Economist / Statistician I.

Mr. Makokha brings on board knowledge skills and experiences in various field including but not limited to management audit of state corporations, monitoring and evaluation in the public sector. He has vast experience in Corporate Governance, Strategic Planning and Strategy Execution.

Mr. Makokha has well developed management skills, is knowledgeable in a wide range of Information and Communication Technology applications, and is highly competency in all aspects of research from proposal writing to execution and report writing.

His interests lie in community development activities.



**Ms. Zahra M. Haji - Alternate Trustee to CS: Ministry of Treasury and Planning (Up to 04 May 2021)**

Ms. Haji is currently the Personal Assistant to Cabinet Secretary, National Treasury and Planning, where she acts as the first point of contact dealing with all communication to the Cabinet Secretary.

Ms. Haji holds a B.Sc. in Journalism from United States International University – Africa, and a M.A. Journalism (International) from London University of Westminster. She is a communications expert with over 10 years of experience.

Ms. Haji possesses wide experience in public relations and communications having served in various positions in the public service. Ms. Haji started her work in the Committee of Experts on Constitutional Review office. In 2011 she joined Radio Salaam as the Managing Director responsible for the management, administration, and sales representation of the entire company. She later joined the Commission on Administrative Justice (Office of the Ombudsman) 2015 where she worked till 2016.

Ms. Haji is a well-rounded communication expert with excellent project management and problem-solving skills.



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**BOARD OF TRUSTEES (Continued)**

**Mr. Daniel Mutua - Alternate Trustee to CS: Ministry of Treasury and Planning  
(effective 05 May 2021)**

Daniel Mutua is a Deputy Director, Investment at the National Treasury. He alternates the Cabinet Secretary, the National Treasury at the Board. He has over 23 year's Public sector experience in various Ministries including – Ministry of Labour, National Heritage, and the National Treasury – Directorate of portfolio management. Intensive training in Investment appraisal, Enterprise Risk analysis, Corporate Governance, and Public-Private Partnerships. Mutua holds a B.Ed. (Economics/ Business) from Kenyatta University (1991), MBA from ESAMI/Maastricht (2006) and several certificates from IP3 Institute, Washington DC-USA. He has previously served as an Alternate Director in the Boards of ICDC, EPZA, WSTF, NBA, KNAC (2001) Ltd and University of Eldoret Council.



**Dr. Dominic Biwott - Independent Trustee**

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

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

In his position as the Deputy Governor of Nandi County, Dr. Biwott also spearheaded compliance initiatives, critically reviewed policies, ensuring relevance and subsequently implementing whilst adhering to regulatory requirements. He mediated peace between warring communities in the Nandi-Kisumu Counties border – Kibigori Border that had been a highly volatile area over time. In his position, he also identified and applied for a grant of KShs. 38M by USAID. The county received the grant.

Dr. Biwott attended Egerton University where he graduated with a Bachelor of Science in Horticulture in 2007. In 2012, he graduated with a Master of Business Administration (Strategic Management) degree from Catholic University of Eastern Africa (CUEA). One year later he enrolled for his Doctorate Degree in Moi University, and graduated in 2017 with a PhD in Development Studies.

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

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

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**BOARD OF TRUSTEES (Continued)**



**Ms. Halima Ali – Corporation Secretary**

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

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

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

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MANAGEMENT TEAM



**Chief Executive Officer**

Mr. Ismail Fahmy M. Shaiye

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

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

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



**Chief Manager, Investments & Programmes**

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



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

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



**Chief Manager, Finance**

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



**Manager, Human Resources and Administration**

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



**Manager, ICT & Corporate Affairs**

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



**Manager, Rural Investments (up to 12 November 2020)**

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

WATER SECTOR TRUST FUND  
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**MANAGEMENT TEAM**



**Chief Executive Officer**

Mr. Ismail Fahmy M. Shaiye

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

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

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



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**Manager, Rural Investments (up to 12 November 2020)**

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



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MANAGEMENT TEAM (continued)



**Manager, Urban Investments**

Mr. Thomas Nyangau BSC. Eng,  
MBA Strategy



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

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



**Manager, Partnership  
Development & Resource  
Mobilisation**

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



**Manager, Research, Planning  
and M&E (up to 09 December  
2021)**

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



**Manager, Results-Based  
Financing**

Mr. Fidelis Tamangani, BSc Natural  
Resources Management, MBA



**Manager, Legal Affairs &  
Corporation Secretary**

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



**Ag. Manager Rural  
Investments (effective 13  
November 2020)**

Mr. Peter Koech, BSC. Eng. Civil



**Ag. Manager, Research, Planning  
and M&E (effective 09 December  
2020)**

Mr. Isaac Isika, MSc Social Science,  
BSc. Water and Environmental  
Health Sciences.

WATER SECTOR TRUST FUND  
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**4. CHAIRPERSON'S STATEMENT AND REPORT: THE ANNUAL REPORT FY 2020/2021**

This Financial report has been prepared in accordance to the guidelines set out by The National Treasury and informs of the Water Sector Trust Fund (WaterFund) Financials for the Financial Year 2020/2021. The report reflects the achievements made by WaterFund in relation to its mandate, challenges and lessons learnt during the period. The report takes into cognisance that the Country's economy and World economies have been impacted by the effects of the Novel Corona Virus (COVID-19) pandemic in the short term and without clear timeline to its eradication continues to adversely affect the ability of the WaterFund to realise its mandate.

The achievement of WaterFund's Object as stipulated in Section 113 of the Water Act, 2016, in the midst of the pandemic is presented with myriad of challenges as most of the financial resources that support improvement of access to water and sanitation services to the marginalised underserved and unserved are heavily dependent on development partners in addition to Government of Kenya allocation. The pandemic has equally affected the shareable resource baskets of the Partners and the Government thus straining the WaterFund's ability to operate optimally in terms of financing projects aimed at improving the lives of these target groups.

In acknowledging these challenges, the WaterFund has revised its strategies to adapt to the emerging situation (new normal) by making its processes responsive to the needs of the marginalized and the underserved. Through these revamped strategies, the WaterFund has continued to record significant progress in enhancing access to water and sanitation services in addition to water resources management. Key among the achievements are: mobilization of approximately KShs. 7 Billion to finance COVID-19 Emergency response and recovery projects and an additional KSh.1.8 Billion to finance projects under the investment programmes. Further, through its investments programmes, the WaterFund has reached more than 150,000 people with improved access to water services and additional 200,000 people with sanitation services in addition to conserving approximately 653 square kilometres of degraded catchment.

During the period under review, it is worth noting that the WaterFund was ranked the 2<sup>nd</sup> best in the Water Sector by the Public Service Performance Monitoring and Management Unit (PSPMMU) for the FY 2019/2020. This is a remarkable improvement in most of the WaterFund's core indicators as well as on the overall performance. The WaterFund has embarked on a strategic intent of financing medium-sized projects whose impacts are expected to be realized in the subsequent period as most of the works were in progress as at the time of preparation of this report.

The WaterFund appreciates the Development Partners for their continued support in the midst of the COVID-19 pandemic. Through the mutually beneficial partnerships, WaterFund continues to record formidable results attributed to both financial and technical support extended by the development partners. The WaterFund will continue to pursue the development path by making its ambitions a reality, in line with the WaterFund's Strategic Plan 2018-2022, which looks at how to scale, accelerate and transform the lives of Kenyans through improved access to water and sanitation.

In spite of the challenges presented by COVID 19, we are confident that we have the right partnerships, resources, commitment and capabilities to meet the challenges ahead; to push the national agenda presented in the national Water Master Plan and the Vision 2030 Medium Term Plan and global commitments including the Sustainable Development Goals (SDGs).

We appreciate the support from all our stakeholders and look forward to sustaining the cooperation in future. At WaterFund, we are convinced that the journey to realise the objects and ambitions of the Water Act, 2016, is on course and the short-term implementation challenges will be overcome.

**Corporate Strategy**

The WaterFund under the leadership of the Board of Trustees has continued the implementation of its Strategic plan 2018-2022 during the period under review. In addition, the WaterFund undertook midyear and annual reviews of the implementation progress on the strategic objectives with the aim of documenting the achievements, challenges, lessons learnt and proposed strategies that would support in realization of the object of the WaterFund in line with its mandate.

Budget rationalization by The National Treasury was a key challenge affecting all strategic objectives. Specifically, the rationalization of budgets challenges were; omission/wrong capture of programme budget lines in the printed and supplementary budget estimates; budget reductions to already approved projects for financing; insufficient allocation for roll out of research and innovation planned activities and implementation of institutional capacity enhancement programmes.



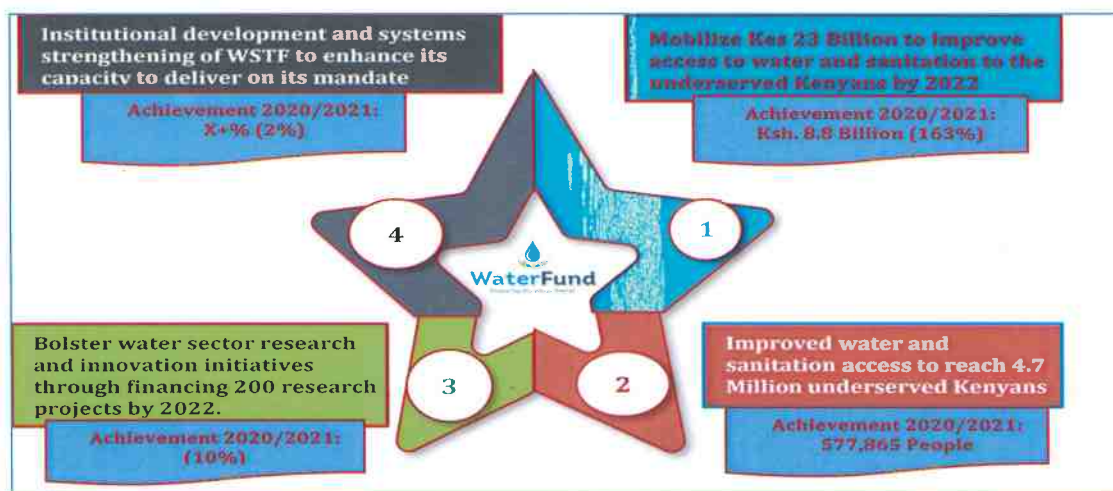
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4. CHAIRPERSON'S STATEMENT AND REPORT: THE ANNUAL REPORT FY 2020/2021  
(continued)

*Corporate Strategy (Continued)*

Other challenges that were documented included COVID-19 pandemic that has not only slowed the implementation of the annual work plan activities but also negatively impacted on productivity of human resources capital with restrictions in movement and limitation in time to undertake planned activities. Further, the WaterFund identified sustainability of financed projects as a key issue given that programmes were coming to a closure.

Regardless of the challenges enumerated, WaterFund is on track in terms of achievements of the commitments as set out in the strategic goals. In the period under review the WaterFund realized remarkable progress as summarized below:



*Summary of strategic goal achievements*

**Institutional Performance Management**

During the FY 2020/2021, the Board of Trustees on behalf of the WaterFund signed a commitment with the Ministry of Water, Sanitation and Irrigation in the form of a Performance Contract (PC) outlining the strategic intentions of the WaterFund towards achievements of its mandate. The targets of the PC are delegated to management for implementation and cascaded down to all staff.

During the period under review, the WaterFund negotiated and vetted its performance contract for FY 2020/2021 which was prepared in accordance with the 17<sup>th</sup> cycle guidelines. In the same period, the WaterFund's performance for FY 2019/2020 was evaluated on the implementation of the performance contract targets. The evaluation was conducted by the Public Service Performance Monitoring and Management Unit (PSPMMU) which rated the performance as *Very Good* with a composite score of 2.6448 as per the evaluation criteria.

**Research and Innovation Financing Framework and Policy**

During the period under review, WaterFund developed a robust research and innovation financing framework and policy through a consultative process to guide in the implementation of the financing research initiatives mandate as provided for in Section 114 (d) of the Water Act, 2016. The framework and policy was approved for dissemination and implementation.

The key objective of the framework is to guide in generation of new knowledge and innovations in the sector through financing of research and innovation initiatives. The outputs of these initiatives are geared towards provision of innovative, practical and cost-effective solutions in the realization of sustainable provision of water, sanitation and sewerage services in addition to water resources management as well as addressing gaps through collaborations and adoption of innovative models for better delivery.

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**4. CHAIRPERSON'S STATEMENT AND REPORT: THE ANNUAL REPORT FY 2020/2021  
(continued)**

**Green Growth Strategy**

The WaterFund had developed a draft comprehensive 10-year Green Growth Strategy in areas of the WaterFund's key mandate taking into account the national Green Economy Strategy and Implementation Plan (2015) with the objective of ensuring the WaterFund delivers and sustains green solutions to 50% of its current and future investments by 2030 to foster economic growth and development while ensuring that natural assets sustainably continue to provide the resources and environmental services.

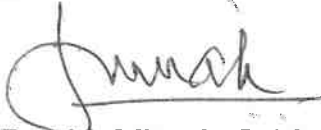
However, as a result of the review of the Sectoral Plans, the WaterFund's Strategy 2018-2022 and to monitor and evaluate the WaterFund's strategic direction in implementation in the face of legislative and structural changes, a review of the strategy was been(out) deemed necessary. In this regard, WaterFund engaged the services of consultants to guide in the process of reviewing the draft strategy comprehensively and guide the management and the Board of Trustees in realization of strategic goals set forth by the WaterFund going forward. The Strategy was finalized, published and shared during the period under review.

**ISO 9001:2015 Certification**

The potential benefits to an organization implementing a quality management system based on international standards include; the ability to consistently provide products and services that meet customer and applicable statutory and regulatory requirements; facilitating opportunities to enhance customer satisfaction; addressing risk and opportunities associated with its context and objectives; and, the ability to demonstrate conformity to specified quality management system requirements.

The WaterFund successfully (transited -out) transitioned from ISO 9001 from the 2008 standard to the 2015 standard in FY 2017/2018 and has been implementing the ISO 9001:2015 standards and requirements. During the period under review, the WaterFund continued to implement the Standards requirements under the certification and is scheduled for an independent external re-certification audit by the Kenya Bureau of Standards (KEBS) for the purpose of recertification to the ISO 9001:2015 in the subsequent period.

Thank You.



**Mr. Fredrick Odhiambo Josiah**  
Trustee  
Water Sector Trust Fund (WaterFund)

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**5. REPORT OF THE CHIEF EXECUTIVE OFFICER**

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 2021.

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

During the reporting period, WaterFund submitted several funding proposals which are at various stages of follow-up. Three new agreements were signed including the National Performance Based Financing Programme funded by the World Bank, the KfW Phase IV financing and separate agreements, and the Danida Covid-19 Response Programme agreement. The Upper Tana Natural Resources Management Project (UTaNRMP) was also extended with additional funding of about Kshs270 million. Several approvals were received from Development Partners such as the European Union, Sweden and Finland to reallocate programmes budgets in order to finance projects that respond to the Covid-19 pandemic.

The Fund is working on a new Development Engagement with Danida, of which the Country Strategy document was signed between the Governments of Kenya and Denmark, with the Financing Agreement and Development Engagement Document for the WaterFund component expected to be signed in the next financial year. Further, the WaterFund is pursuing funding from the Green Climate Fund with support from The National Treasury and Planning, through a partnership with the African Development Bank as the internationally accredited entity.

The Fund undertook various activities to nurture existing partnerships and identify new ones. This was done through networking forums, programme steering meetings, bilateral and multilateral meetings, consultative forums and field visits to the projects. Stakeholder relationship has remained a key aspect of sustainable partnerships and has been achieved through sustained engagement with both public and private sector players.

Key among the consultations was stakeholder forums held to deliberate on formation of an affordable loan facility at the WaterFund, in keeping with the Water Act 2016 mandate. Deliberations were held with the Parent Ministry, the National Treasury, County Executive Committee Members, Development Partners, Water Sector Institutions, Water Services Providers, Financial Institutions, the Kenya Pooled Water Fund and the Civil Society Organizations. WASH-FIN (USAID) supported the WaterFund in this consultative process. Once the loan facility is operational, it is expected that other sustainability efforts will emanate from this, through a seed fund provided by the Government of Kenya and Development Partners.

**BUSINESS PERFORMANCE**

**Revenue**

Water Sector Trust Fund earned revenues amounting to KShs. 4,312 million from the development partners, the Government of Kenya and other revenues from exchange transactions. The Government of Kenya contributed KShs. 644 million, development partners contributed KShs. 3,602 million while revenues from exchange transactions amounted to KShs. 66 million.

The Government of Kenya support to WaterFund experienced a decrease of 7% from the previous year. The support from the development partners made significant impact in the performance that made Water Sector Trust Fund earn funds amounting to KShs 3,602 million representing an increase of 338%. WaterFund remained liquid throughout the year experiencing high liquidity towards the end of the financial year due to increased support from the development partners and the government. WaterFund is projecting increased support from the development partners as well as the government.

**Cash flow**

The cash and cash equivalents decreased from KShs. 2,809 million as at 30 June 2020 to KShs. 1,076 million as at 30 June 2021. Towards the end of the financial year, there was significant cash outflow in form of funding of projects to WSPs.

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

**Employees**

Water Sector Trust Fund values and invests heavily in human capital for realisation of its strategic objectives and mandate. To ensure continued realisation of its stakeholders' expectations, WaterFund commits to always avail adequate, high calibre and motivated human resource capacity for the provision of its services to humanity.

During the year under review, WaterFund continued to actualize the gradual implementation of its revised Human Resource Policy Instruments which are key in the achievement of its expanded mandate. By the end of the Financial Year 2020/2021, the Fund's Staff Establishment stood at 86 staff out of the 175 approved in the Staff Establishment as compared to 73 staff during the FY 2019/2020. This has resulted in increased efficiency and effectiveness in the delivery of the Fund's strategic objectives in line with its expanded mandate under Water Act 2016.

The Fund has continued to build strong teams to achieve its objectives and improve staff morale, communication and working relationships. It has continued the implementation of the national values and rewarding of the best staff on a quarterly basis that has played a pivotal role in the following categories: Best staff, driver, management and investment staff. In addition, there was increased budgetary allocation to training that enabled continuous staff development and capacity building for efficiency and good corporate governance. The Fund trained several staff on leadership, senior management, corporate governance and other continuous professional development programmes and soft skills.

The Fund also embarked on enhanced staff sensitizations and awareness campaigns on Safety and Security, HIV/AIDS, Alcohol and Drug Abuse, Road Safety, Gender Mainstreaming, Disability Mainstreaming and other Cross-Cutting Issues. Evaluation of the Cross-Cutting Issues for FY 2020/2021 ranked the Fund in position one (01) countrywide on HIV/AIDS Mainstreaming and position two (02) countrywide on Road Safety Mainstreaming.

In the year under review, the Fund made several efforts in implementing the Covid-19 protocols as issued by the Ministry of Health including provision of Personal Protective Equipment (PPEs) to staff, working from home and facilitation of transport to staff to and from the workplace.

In a bid to realize the requirements of the Constitution of Kenya 2010, the Fund surpassed the 5% threshold for engagement of Persons with Disability (PWDs) by attaining 5.7% and further ensured the continued balancing of diversity provisions for disadvantaged groups as provided for in the Constitution.

Through committed team efforts of the Board of Trustees, management and the members of staff, the Fund attained an overall performance contractual rating of "Very Good" as at end of the financial year besides winning the United Nations Award for Output Based Aid (OBA). In the same period, staff satisfaction index which measures staff perceptions on satisfaction and interactions with the Fund improved from 79% in the previous year to 82% in the year 2020/2021.

The Fund closed the year by issuing gift vouchers to staff following their hard work during the year even in the midst of challenges presented by the Covid-19 and the inability to hold a physical end of year party as it has always been arranged to celebrate organizational success.

**Conclusion**

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

**Mr. Willis Ombai**  
**Ag. Chief Executive Officer**  
**Water Sector Trust Fund (WSTF)**



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6. STATEMENT OF WATER SECTOR TRUST FUND PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2020/2021

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the national government entity's performance against predetermined objectives.

*Water Sector Trust Fund* has 4 strategic pillars and objectives within its Strategic Plan for the FY 2018/2019 - 2022/2023. These strategic pillars are as follows:

**Pillar 1:** Mobilize KShs 23 Billion to improve access to water and sanitation to the underserved poor by 2022.

**Pillar 2:** Improved water and sanitation access to reach 4.7M people underserved Kenyans by 2022.

**Pillar 3:** Bolster water sector research and innovation initiatives through financing 200 projects by 2022.

**Pillar 4:** Institutional development and systems strengthening of WSTF to enhance its capacity to deliver on its mandate.

WaterFund develops its annual work plans based on the above 4 pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The *Fund* achieved its performance targets set for the FY 2020/2021 period for its 4 strategic pillars, as indicated in the diagram below:

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Pillar 1: Mobilize KShs 23 Billion to improve access to water and sanitation to the underserved poor by 2022.	To increase resources available for investment in water, sanitation, water resources and research projects.	%Increase in GoK budgetary allocation  Amount in KShs (B) of new funding commitments from new & existing Partners	Engage GoK for increased budgetary allocation  Engage existing & new Partners for Increased Funding to WSTF	3.7% increase in GoK budgetary allocation  KShs 7.17B realized in new signed agreements
Pillar 2: Improved water and sanitation access to reach 4.7M people underserved Kenyans by 2022.	To increase the number of people with access to improved water services and basic levels of sanitation services	No. of people reached with increased access to water services  No. of people reached with sanitation services  No. of water resources management initiatives financed	Financing of Water projects to increase access to water services provision  Financing of Water projects to increase access to water services provision  Financing of Sub Catchment Management Plans and Participatory Forest Management Plans activities	48No. Water projects financed increasing access to 156,388 people with improved water services  60No. Sanitation projects financed increasing access to 217,269 people with improved sanitation services  65No. Water resources projects/initiatives financed to conserve/rehabilitate degraded catchments
Pillar 3: Bolster water sector research and innovation initiatives through financing 200 projects by 2022	To generate new knowledge and utilize innovations to improve service delivery in the water sector in areas of water, sanitation, sewerage and water resources	No. of Research Initiatives Financed	Financing of Research and Innovations to bolster knowledge in the water sector	Research and Innovation Financing Framework and Policy developed, approved, published and decimated to stakeholders to guide in financing of the research and innovation initiatives

WATER SECTOR TRUST FUND  
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Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Pillar 4: Institutional development and systems strengthening of WSTF to enhance its capacity to deliver on its mandate	To improve the capacity of the Institutional to deliver on its mandate	No. of Staff trained to address institutional gaps.	Training of Staff to address institutional gaps	33No. of staff trained on various courses to institutional address gaps identified.



**WATER SECTOR TRUST FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**7. STATEMENT OF CORPORATE GOVERNANCE**

**THE BOARD**

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

**THE BOARD OF TRUSTEES**

While the Trust Deed of 2004 provides that the Board of Trustees shall be made up of nine Trustees, including the Chairman, all appointed by the Cabinet Secretary, Ministry of Water, Sanitation 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 the senior management. The Board of Trustees exercises leadership, enterprise, integrity and determination in directing the Fund.

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

All members of the Board of Trustees have been taken through a comprehensive induction programme, inducted on the new Water Act, 2016 and are adequately trained on their roles as Board members. The Trustees are professional, committed and guided by the mission, vision and core values of the WaterFund in the 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 to monitor the implementation of the WaterFund's Strategic Plan and achievement of the targets in the Performance Contract signed with the Government. The Board of Trustees also plays an oversight role over all other financial and operational issues. The Trustees held four Board and four Special Board meetings during the Financial Year 2020/2021. During the period, there was also one consultative meeting.

In ensuring that corporate governance and integrity is enhanced in between the governance of WaterFund, the Board of Trustees has established three substantive 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 four committee meetings during the financial year. The trustees who served on this committee during the year under review were:

S/No.	Name	Position in committee
1	Mr. Fredrick Josiah	Chairperson
2	Mr. Richard Musau	Member
3	Ms. Ubah Ibrahim Gedi	Member
4	Mr. Chrysostom Ileri Njeru	Member
5	Mr. Daniel Mutua	Member
6	Mr. Mathew Tuitoek	Member

**WATER SECTOR TRUST FUND  
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**7. STATEMENT OF CORPORATE GOVERNANCE (continued)**

**ii) Finance & General Purposes Committee**

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

S/No.	Name	Position in committee
1	Dr. Dominic Biwott	Chairperson
2	Ms. Ubah Ibrahim Gedi	Member
3	Mr. Richard Musau	Member
4	Mr. Chrysostom Ileri Njeru	Member
5	Mr. Daniel Mutua	Member

**iii) Audit and Risk Committee**

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

S/No.	Name	Position in committee
1	Ms. Rose Muguchu	Chairperson
2	Ms. Mr Mathew Tuitoek	Member
3	Mr. Daniel Mutua	Member
4	Mr. Chrysostom Ileri Njeru	Member

**COMMUNICATION WITH STAKEHOLDERS**

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

**STATEMENT OF COMPLIANCE**

The Board of Trustees confirms that Water Sector Trust Fund has throughout the FY2020/2021 complied with all statutory and regulatory requirements and that the Fund has been managed per the principles of good corporate governance.

**INTERNAL CONTROL AND RISK MANAGEMENT**

**Internal Control**

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

**Standing Instructions**

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

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**7. STATEMENT OF CORPORATE GOVERNANCE (continued)**

**INTERNAL CONTROL AND RISK MANAGEMENT (continued)**

**Organization Structure**

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

**Strategic Plan**

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

**Governance Audit**

During the year, WaterFund engaged PricewaterhouseCoopers (PwC) to carry out Governance Audit of the Fund in line with the requirement of MWONGOZO. The report was presented to the Board and an action plan has been developed to implement the recommendations made by the Auditor.

**Internal Control Framework**

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

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

**Risk Management**

WaterFund has in place a risk management framework that guides the Fund in identifying, assessing, and managing the risks. The Fund has developed a risk register that 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 departments/sections. This team reviews all the risks in WaterFund and updates the risk register and ensures that all new and emerging risks are appropriately evaluated, and any further actions identified. The identified risks are reported to the Audit and Risk Committee to assist the Board in the management of risks.

During the period under review, the Fund began the implementation of the road map developed during the review of the Risk Management Framework.

**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. The Action Plan of implementation of various internal and external audit findings are normally share with Development Partners on Quarterly basis.

**External Auditor**

WaterFund is audited by the Auditor-General, Republic of Kenya. The Auditor-General had however delegated this function to an independent auditor, Deloitte & Touché, LLP as per Sections 23 of the Public Audit Act, 2015.

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**8. MANAGEMENT DISCUSSIONS AND ANALYSIS**

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

During the year, WaterFund earned revenue of KShs. 4,256 million from GOK, Government of Sweden, European Union (EU), Kreditanstalt fuer Wiederaufbau (KfW) (German Government Bank), International Fund for Agricultural Development (IFAD), Government of Finland, Government of Denmark and the World Bank for water, sanitation and water resources management projects. The funds received from the Government of Kenya represented support to operations and development to the rural and urban investments.

**The Urban Investments**

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

The UPC investments focuses on the extension of water supply and improvement of sanitation situation in public places while UBSUP investments targets household and plot level sanitation based on the principle of complete sanitation value chain. To date, urban investments programme has financed 368 projects including 278 UPC projects, 73 UBSUP, 14 AoD & OBA, Muranga South Priority Project, Water Treatment and chemicals supply project, Gatundu water supply project and Nairobi Covid-19 Emergency Response Project (ERP) costing a total of KShs. 5.01 billion and benefiting an estimated population of 2.3 million people.

During the year, all the UPC 7<sup>th</sup> call projects were closed. UPC 8<sup>th</sup> Call for Proposals was launched and WSTF is conducting the appraisal of the project proposals for consideration for funding.

The Urban Investments department is implementing Nairobi Covid-19 emergency response programme which is aimed at improving access to water supply and sanitation in 20 urban low-income areas in Nairobi County through Nairobi City Water and Sewerage Company. WSTF has disbursed Kshs. 81million and the overall project progress is at 55%. The Urban Investments department also implemented the supply of water treatment chemicals to all Water Service Providers within the Country to an amount of Kshs. 200 million during the covid-19 pandemic.

The UBSUP programme is financed to a total of KShs. 1.46 billion, and its targeting 400,000 beneficiaries with improved sanitation services as well as 200,000 beneficiaries with clean and safe drinking water. The programme has achieved most of the milestones related to the concept development. The other milestones related to the number of beneficiaries is ongoing since January 2011 and is planned to run until December 2021.

The UBSUP programme targets countrywide upscaling of its projects. Currently, UBSUP projects are under implementation in 35 counties in Kenya. The UBSUP programme, since inception, has increased sanitation access of 113,470 people through the household toilets built and additional 277,290 people through the completed Decentralized Treatment Facilities (DTFs). During the reporting period KShs. 619,948,309.15 was disbursed to the projects. The programme improved the living conditions of the urban poor especially on the safe access to sanitation and also the hygiene practices within the project areas.

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



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8. MANAGEMENT DISCUSSIONS AND ANALYSIS (Continued)

**The Urban Investments (continued)**

The RBF program is supported by the World Bank through the Output Based Aid (OBA) program for US\$11.835 million with funds from the Swedish International Development Agency (SIDA), the National Performance Based Financing (NPBF) program which has two sub-programs namely Conditional Liquidity Support Grant (CLSG) for Euro 49.7 million and Performance Based Financing (PBF) for Euro 14.67 million and the German Development Bank (KfW) supporting Aid on Delivery (AoD) program for 3.86 million Euros.

The CLSG Programme provides grants to Water Services Providers (WSPs) that are affected by the COVID-19 pandemic. The objective of the grant facility is to provide short-term liquidity support to WSPs to maintain operations and service levels during the COVID-19 crisis and contribute to the Government of Kenya (GoK)'s efforts in containing the spread of the pandemic.

Since inception in November, 2020, the CLSG program has supported 78 water and sanitation companies with grants valued at Euro 16.58 million (Kshs. 2.21 billion) as at 30 June, 2021, which was disbursed in two parts i.e. (i) a fixed grant, which is based on the estimated cost of small-scale, short-term COVID-19 related emergency interventions; and (ii) a variable grant, which is linked to actual revenues collected by each WSP.

The PBF program in its first phase is to carry out an initial assessment of five WSPs to establish suitability for a Performance Based Contracting (PBC) model to address Non-Revenue Water (NRW) and, develop an indicative Performance Based Contract for NRW projects scope and bidding documents to attract the most qualified private sector partners. The five WSPs include Naivasha, Nakuru rural, Eldoret, Nyeri and Nanyuki.

**Rural Investment**

The rural investment programme's objective is to finance water and sanitation projects in the underserved rural communities across Kenya. The key implementers are Rural Water Service Providers (WSPs), Water Users Associations (WUAs) and Community Based Organizations (CBOs) who are involved in the preparation, planning, implementation operations water and sanitation projects. Provision of water and sanitation services is a devolved function, with WSTF working closely with the County Governments in identifying target projects, underserved areas, provide co-financing to projects, oversight and coordination of activities. In FY 2020-2021, the rural investments department implemented many activities under the following programmes; Climate Proofed Infrastructure Programme, Water and Livelihood programme, Joint 6 programme, Green Growth and Employment and Water Resources & Climate Change Investments.

***Water and Livelihood programme***

The Water and Livelihood Programme (WLP) is funded by the Royal Embassy of Denmark through DANIDA, being an addendum support of Danish Kroner 40 million, in addition to the Green Growth and Employment Programme (GGEP) funding of Danish Kroner 65 million supporting 8 ASAL Counties in Kenya. WLP is being implemented in Turkana West Sub County, of Turkana County, through 5 partners (Non-Governmental Organizations), who were competitively selected, through a call for Proposal in November, 2019. The Programme targets the host and refugee beneficiaries, in 5 County Assembly Wards (Lokichoggio, Lopur, Songot, Kalobeyei and Kakuma). This is an integrated Programme focusing on building refugee and host community nexus, as they coexist in the sub County, by objectively working towards enhancing Water Resources Management and investments to 6,000 new Households, for improved and sustained access to water and sanitation, to meet their domestic and productive needs, as well as conserve 2000 km<sup>2</sup> of land through water resource and rangeland management interventions.

During the reporting period, 73.9% of the funds available for the Programme (Kshs. 522,457,061) have been spent, amounting to Kshs 386,308,102.87. The reported investment has enabled WaterFund accomplish 9 water supply schemes being 31.8 Km pipeline extensions and associated infrastructure, drilling and solarization of 6 boreholes, rehabilitation of 7 boreholes that are all solar enabled, rehabilitation of 12 shallow wells, construction of 35 blocks of Urine diverting dry toilets, 50 blocks of disability friendly latrines, 22 blocks of 4 door VIP latrines, 6 blocks of 4 door biodigester latrines, 2 septic toilets of 8 door each and one public bio sanitation latrine in Kakuma town as well as an incinerator in Kakuma Sub County Hospital. In addition to this, to enhance surface water harvesting, the Programme has completed 6 water pans (1 of capacity 50,000m<sup>3</sup> and 4 of capacity 30,000m<sup>3</sup>). Community Led Total Sanitation (CLTS) and hygiene promotion was also supported, for scaling up household sanitation, in host community for 57 villages as well as 1000 slabs production and distribution to refugee households.

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8. MANAGEMENT DISCUSSIONS AND ANALYSIS (Continued)

**Rural Investment**

***Green Growth and Employment Programme***

Innovative approaches to production of bio gas energy through green biodigesters were supported in three hotels within Kakuma refugee camp, in addition to the bio digester latrines and toilet as reported above. The programme has further supported land reclamation through trapezoidal bunds for 30 acres of land as well as establishment of 60 acres of woodlots to increase forest cover. Cumulatively 6,119 households have been reached with improved water access, as well as impacting on sanitation access to 3,631 household. Through the water resources and rangeland management interventions, 650.48Km<sup>2</sup> of land has been conserved with formation of 4 Water Resource User Associations with Sub Catchment Management Plans.

Green Growth and Employment Programme (GGEP) is financed by Danida within a programme period of FY 2016-2021. The programme objective is to enhance water resources management and investments in selected counties for improved and sustained access by communities and households to water and sanitation for their domestic and productive needs. The programme targets eight ASAL counties namely: Garissa, Isiolo, Lamu, Mandera, Marsabit, Tana River, Turkana and Wajir counties. KShs 896.2 million has been disbursed to WaterFund to date.

In the FY 2020-2021, KShs 40,311,535.50 was disbursed to 5 conservancies, 7 Water Resources Users Association (WRUA) and Water Resource Authority (WRA) to support water resource management projects. KShs 149,920,286.00 was disbursed to seventeen water and sanitation projects. 20,748 households have increased water access whereas 682 households have increased sanitation access since the programme inception. Three WRM projects and nine Watsan Projects were complete in this FY.

***Joint Six Programme (J6P)***

The J6P "Support to Equitable Access to Quality Water, Basic Sanitation and Enhanced Water Resources Management in Rural Kenya" is based upon collaboration between the Water Sector Trust Fund and the two Development Partners including; The Government of Finland (GoF), the Government of Sweden (GoS) and the Government of Kenya (GoK). The programme implementation ended in June 2021 and was being implemented in the Counties of Kwale, Tharaka Nithi, Laikipia, Narok, Nandi and Migori. The programme aims to achieve its purpose through five areas; County capacity development, improved management of resources, sustainable access to water services, sustainable access to sanitation services and WSTF capacity development. Cumulatively, a total of KShs 1.55 billion has been utilized across the five components of the programme.

In the FY 2020/2021, a total of KShs 292,149,278 was available for utilization out of which, KShs 266,390,465.80 was expended during the year, representing funds absorption of 91.2%. 55.8% of these funds were utilized in ensuring Sustainable access to water services reaching out to 18,579 beneficiaries across the six counties. 19.5% were utilized in improved management of water resources reaching out to 7,200 beneficiaries whereas 18.7% was utilized in sustainable access to sanitation services where 6,100 beneficiaries were reached. Moreover, 66,146 beneficiaries in 203 villages have their ways of waste disposal changed through Community Led Total Sanitation (CLTS) approach.

***Water Resources & Climate Change Investments (WRCCI)***

The IFAD - Upper Tana Natural Resources Management is an eight-year project (2012 - 2020) funded by Government of Kenya, International Fund for Agricultural Development (IFAD), Spanish Trust Fund and Local communities beneficiaries through Water Sector Trust Fund (WSTF). The programme was granted a two and half years (30 months) extension ending the year 2023. It covers six (6) counties namely; Nyeri, Embu, Meru, Kirinyaga, Tharaka Nithi and Murang'a. The programme total budget is KShs. 600 Million. So far KShs. 552.2 Million has been received up to date and KShs. 551.6 Million having been disbursed. The key programme objective is to enhance sustainable management of water resources and natural resources through the financing of Water Resources Users Associations (WRUAs) and Community Forest Association (CFAs) activities.

In terms of Key milestones 59 WRUAs have been funded so far out of the 61 WRUAs targeted. 31 CFAs financed out of 33 CFAs targeted. The UTaNRMP has benefited 263,100 persons out of 277,700 targeted. For specified deliverables accumulatively, seedlings raised and procured- 2,477,464, Maintenance of gazette forest areas- 1073 hectares, 94 springs and 13 wetlands protected, tree nurseries -47, Bee hives- 1465, greenhouses- 9, springs- 94, fish ponds- 19 with 10,500 fingerlings, 268 Rain Water Harvesting tanks of varying capacities (10m<sup>3</sup>, 12m<sup>3</sup> and 15m<sup>3</sup>) installed in public institutions with total capacity of 2,799m<sup>3</sup>, 4 common intakes constructed with various agreements signed with water projects, marking and pegging – 12,006 Kilometres with 594,500 seedlings planted.



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8. MANAGEMENT DISCUSSIONS AND ANALYSIS (Continued)

**Rural Investment**

*Water Resources & Climate Change Investments (WRCCI) (Continued)*

In the year 2020/2021 specifically, twenty-seven (27) springs are complete across the 6 counties. The fourth call for proposals for WRUAs and CFAs was made on 11th May, 2021 resulting in 69 project proposals (41 WRUAs & 28 CFAs). Mobilisation of funds amounting to Kshs. 22.8 M from UTaNRMP PCT. Advertisement of the Twenty-one (21) batch II WRUA projects that had qualified during the PRC review process was done on 15th September, 2020 through the government press. These projects were trained on financial management, procurement skills and project management between 21st September to 10<sup>th</sup> October, 2020. Thirty-one (31) WRUA & CFA projects received funding amounting to Ksh.40.6 Million (inclusive of CFAs direct investment & KFS technical support).

The WSTF Board of Trustees monitored Kirwara, Lower Nyamindi, Upper Thiba, Itimbogo WRUAs & Murinduko, Kangaita, Castle and Gatare CFAs & WSTF staff undertook internal monitoring for the 42 projects (3rd call Batch II CFAs tranche I 14<sup>th</sup> and 22<sup>nd</sup> July 2020, call 3 Batch 1 WRUAs tranche 2 21<sup>st</sup> February to 08<sup>th</sup> March, 2021, call 3 Batch II CFAs tranche II 22<sup>nd</sup> to 29<sup>th</sup> March, 2021).

There was a good performance in terms of technical results across board, however low results for WRUAs accounting were noted during the financial year due to delays in submission of proper documentations by WRUAs to WaterFund for issuance of No objection. Also challenges in inspection of completed works, issuance of payment certificates and execution of payments by WRUAs to contractors. However, meetings were held between WaterFund & WRA to fast-track implementation and completion of call 3 Batch I WRUA activities

*Climate proofed infrastructure Programme- EU CPIRA*

Ending Drought Emergencies: Climate Proofed Infrastructure for improved access to Water supply and Sanitation in ASALs (EDE CPIRA) Programme is financed under the 11th European Development Fund. The Programme is being implemented under the National Common Programme Framework, Ending Drought Emergencies, Pillar II. The programme is financed by the European Union, the Government of Kenya and the eight targeted County Governments to a tune of Kshs 2.8 billion targeting 362,000 direct beneficiaries. The programme targets 8 counties namely; Kilifi, Taita Taveta, Samburu, Mandera, Kitui, West Pokot, Baringo and Kajiado Counties. The implementation of the programme started in December 2017 and will run up to December 2026.

The programme has three outcome areas namely: - improved access to water supply and sanitation services, improved and sustained management of Water Resources, and implemented Public Private Community Partnerships in Water Provision. The Programme is being implemented by eight water utilities and eight WRUAs from the eight targeted Counties. As at the end of the financial year 2020/2021, the EDE CPIRA Programme financed 8 medium sized climate proofed water projects, 8 Public Sanitation Facilities Projects, 8 Community Led Total Sanitation Projects, 8 Water Resource Users Association Projects and 4 COVID-19 Emergency Response Projects.

Under this programme, 3 Consultants have been engaged to support the development of designs for 5 medium sized climate proofed water projects in 5 Counties. The programme also capacity built 8 Water Companies on Procurement and 8 WRUAs on Procurement, project implementation, financial management and contract management. The programme leveraged Kshs 14 million from the targeted County governments as part of their Co-funding.

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9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

**Sustainability strategy and profile**

Water Sector Trust Fund exists to provide conditional and unconditional grants to counties, in addition to the Equalisation 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. To continuously deliver on the mandate, the Fund has developed a framework for sustainable financing, which is articulated in both its Corporate Strategy, and Resource Mobilization Strategy 2018-2022. The framework is based on the Water Act 2016 which gives WaterFund authority to:

**1. Receive grants for On-lending to implementing agencies which can afford to repay/ subsidiary lending:**

WaterFund is pursuing a seed fund from the Government of Kenya to finance deliver on its expanded mandate, especially the on-lending mechanism through a low interest Revolving loan facility. WaterFund has held extensive deliberations with the Ministry of Water, Sanitation and Irrigation, as well as The National Treasury and Planning, both of whom support this lending mandate of the WaterFund. WaterFund has held various consultative forums with the key stakeholders including County Executive Members for Water, Forestry and Mining, Water Sector Institutions, Development Partners, Water Services providers, local Financial Institutions, the Kenya Pooled Water Fund and the Civil Society, and have received overwhelming support to commence the Concept of affordable loans to Water Services providers and other implementing agencies in the Sector.

Banks are already lending to Water Utilities through WaterFund's Result Based Financing programme, subsidized by funding from World Bank (Sweden support) and KfW The Fund is also implementing the Performance Based Financing Programme where a few Water Utilities will received loans to implement water and sanitation projects.

- 2. Receive allocations from County Governments on agreed programmes:** WaterFund is implementing this through County Counterpart Contributions to programmes. This contribution has been effected in some programmes such as the Sweden /Finland Joint Programme, and European Union ASAL Programme. These enhances ownership and leverages on County Water Budgets. It is expected that the new Danida Programme 2021-2025 will also factor in County contribution.
- 3. Collect a levy from consumers of piped water supplied by a licensed Water Services Provider:** This is at an advanced stage and has been incorporated in the Water Sector regulatory guidelines and Policy. The levy, when operationalized, will provide a sustainable local source of financing;
- 4. Developing incentive programmes for water resources management, climate change and disaster management:** To achieve financial and ensure sustainability of programmes, WaterFund is reviewing its mechanisms of financing to water resources in order to enhance performance. The funding realised will be utilised to increase storage and protection of catchment areas thus contributing to increased access to safe water. Under this component, WaterFund will be able to receive funding from the Government of Kenya during drought emergency as well as to mobilize climate financing through the Green Climate Fund and other Development Partners. The Fund is working with Community Conservancies, Water Resources Users Associations, Community Forest Associations, Northern Rangeland Trust, Water Utilities among others. Climate change has become a key focus of the Fund, which is implementing programmes under Green Growth (Danida) and Climate resilience (EU and Sweden). Many of these conservation projects contain livelihood aspects to incentivize communities and increase resilience.

**Environmental performance**

The Ministry of Water, Sanitation and Irrigation launched a tree-planting campaign together with Water Sector Institutions, in order to support the National Government's target of 10% forest cover by the year 2022.

In FY2020/2021, the Ministry chose Lambwe Forest in Homa Bay County was identified as the venue of the ministerial tree-planting exercise slated for March 2021. WaterFund participated in the tree-planting activities by sending a corporate team to Lambwe Forest in March 2021 to collaborate with the Ministry, other Water Sector Institutions, and to extend the conservation activities started and carried out by other institutions in order to ensure reforestation of Lambwe Forest.

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9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

**Environmental performance (Continued)**

WaterFund was allocated a 10.6-acre (4.3 hectares) section of the Lambwe Forest for rehabilitation purposes. Rehabilitation activities included clearing of bushes, digging holes, planting tree seedlings and then care and maintenance for their growth.

At this initial stage, WaterFund donated 2,000 cypress tree seedlings and set aside some funds for payment of the community members to maintain the trees, managed by a local CBO. This will ensure both conservation activities and also livelihood for the members of the community.

In collaboration with Ministry and other water sector institutions and the community members, WaterFund is committed to ensuring that this section of the forest and indeed the whole forest will grow back into a thriving forest ecosystem within the next few years.

**Employee welfare**

The Fund has continued to build strong teams to achieve its objectives and improve staff morale, communication and working relationships. It has continued the implementation of the national values and rewarding of the best staff on a quarterly basis. In addition, there was increased budgetary allocation towards training that enabled continuous staff development and capacity building for efficiency and good corporate governance. The Fund trained several staff on leadership, senior management, corporate governance and other continuous professional development programmes and soft skills.

The Fund also embarked on enhancing staff sensitizations and awareness campaigns such as Safety and Security, HIV/AIDS, Alcohol and Drug Abuse, Road Safety, Gender Mainstreaming, Occupational Safety and Health Administration (OSHA), Disability Mainstreaming and other Cross-Cutting Issues. In recognition of the staff hard work during the year even in the midst of challenges presented by the Covid-19 and the inability to hold a physical end of year party as it has always been arranged to celebrate organizational success, the Fund issued gift vouchers to staff.

In the year under review, the Fund made several efforts in implementing the Covid-19 protocols as issued by the Ministry of Health including provision of Personal Protective Equipment (PPEs) to staff, working from home and facilitation of transport to staff to and from the workplace

**Corporate Social Responsibility**

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

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

The unit undertook the following Corporate Social Responsibility (CSR) activities to this effect. Due to the effects of Covid-19 pandemic, the activities were scaled down. In the FY2020/21, the activities included:

1. Support to Tatu Kenga's Education
2. Support to the Eldama Ravine Half Marathon's Conservation Activities in November 2020

**1. Support to Tatu Kenga's Education**

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

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

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**9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)**

**1. Support to Tatu Kenga's Education (Continued)**

**Corporate Social Responsibility (Continued)**

After completing primary school in 2018, Tatu was admitted to Mazeras Memorial Girls' School, a girls' boarding secondary school located in Mazeras town in Kilifi County near the border with Kwale County.

In January 2020, Tatu started Form 2. However, due to COVID-19 pandemic and the closure of all learning institutions in March 2020, all students were sent home. The Corporate Affairs team kept in touch with Tatu and her family throughout the year 2020 as she continued her studies at home. When schools opened in January 2021, she continued with her Form 2 class as per Ministry of Education guidelines, and is expected to start her Form 3 class later in the year.

**2. Support to the Eldama Ravine Half Marathon's Conservation Activities in November 2020**

WaterFund supported in the 7<sup>th</sup> edition Eldama Ravine Half Marathon that was held on 28<sup>th</sup> November 2020. Due to the Covid-19 pandemic caution and restrictions, WaterFund did not send a team to participate in the event. However, WaterFund supported the Eldama Ravine Half Marathon to the tune of KShs. 250,000.

The Eldama Ravine Half Marathon Community Based Organization (CBO) undertakes environmental conservation and provision of financial support, through scholarships, towards needy students in its Uzalendo School.

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**10. REPORT OF THE TRUSTEES**

The Trustees submit their report together with the audited financial statements for the year ended 30 June 2021, which shows the state of Water Sector Trust Fund's affairs.

**REGISTRATION**

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

**PRINCIPAL ACTIVITIES**

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

**RESULTS**

The results of the entity for the year ended 30 June 2021 are as set out on page 37.

**TRUSTEES**

The members of the Board of Trustees who served during the year are as shown on page 3. During the year, the changes in the Board of Trustees are as shown in the table below: -

Ms. Zahra M. Haji	Alternate Trustee to CS: Ministry of Treasury and Planning (up to 04 May 2021)
Mr. Joel N. Onchwati	Alternate Trustee to PS: Ministry of Water & Sanitation and Irrigation (up to 21 February 2021)
Mr. Daniel Mutua	Alternate Trustee to CS: Ministry of Treasury and Planning (effective 05 May 2021)
Mr. Chrysostom Ileri Njeru	Alternate Trustee to PS: Ministry of Water & Sanitation and Irrigation (effective 22 February 2021).

**AUDITOR**

The Auditor General is responsible for the statutory audit of the entity in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015. Deloitte & Touche LLP. Certified Public Accountants were nominated by the Auditor General to carry out the audit of the entity for the year ended June 30, 2021 in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

**FOR AND ON BEHALF OF THE BOARD OF TRUSTEES**



**Mr. Fredrick Odhiambo Josiah**  
Trustee



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**11. STATEMENT OF TRUSTEES' RESPONSIBILITIES**

Section 81 of the Public Finance Management (PFM) Act, 2012, Section 14 of the State Corporations Act, the Water Act 2016 and the WSTF Trust Deed, require the trustees to prepare financial statements in respect of Water Sector Trust Fund for each financial year which give a true and fair view of the financial position of the WaterFund at the end of the financial year and its financial performance for the year then ended. The trustees are responsible for ensuring that WaterFund keeps proper accounting records that are sufficient to show and explain the transactions of WaterFund; disclose with reasonable accuracy at any time the financial position of WaterFund and that enables them to prepare financial statements of WaterFund that comply with prescribed financial reporting standards and the requirements of the Section 81 of the Public Finance Management Act and Section 14 of the State Corporations Act. They are also responsible for safeguarding the assets of WaterFund and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The trustees are responsible for the preparation and presentation of the WaterFund's financial statements which give a true and fair view of the state of affairs of the Water Sector Trust Fund for and as at the end of the financial year ended 30 June 2021. This responsibility includes:

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the Water Sector Trust Fund;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

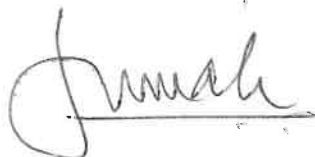
The Trustees accept responsibility for the Water Sector Trust Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012, the State Corporations Act, the Water Act 2016 and the WSTF Trust Deed. The Trustees are of the opinion that the WaterFund's financial statements give a true and fair view of the state of WaterFund's transactions during the financial year ended June 30, 2021, and of the WaterFund's financial position as at that date.

The Trustees further confirms the completeness of the accounting records maintained for WaterFund, which have been relied upon in the preparation of WaterFund's financial statements as well as the adequacy of the systems of internal financial control.


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

**Approval of the financial statements**

WaterFund's financial statements were approved by the Board on \_\_\_\_\_ 2022 and signed on its behalf by:



\_\_\_\_\_  
**Mr. Fredrick Odhiambo Josiah**  
Trustee



\_\_\_\_\_  
**Mr. Willis Ombai**  
Ag. Chief Executive Officer

# REPUBLIC OF KENYA

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13 OCT 2022

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NAIROBI

## REPORT OF THE AUDITOR-GENERAL ON WATER SECTOR TRUST FUND FOR THE YEAR ENDED 30 JUNE, 2021

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### PREAMBLE

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

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

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

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

### REPORT ON THE FINANCIAL STATEMENTS

#### Opinion

The accompanying financial statements of Water Sector Trust Fund set out on pages 37 to 76, which comprise of the statement of financial position as at 30 June, 2021, 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 Deloitte and Touche LLP, 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 the Water Sector Trust Fund as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and The Water Act, 2016

### **Basis for Opinion**

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

### **Key Audit Matters**

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

### **Other Matter**

#### **Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.6,607,541,700 and Kshs.4,311,813,541 respectively resulting to an under-funding of Kshs.2,295,728,159 or 35% of the budget. Similarly, the Fund spent Kshs.4,537,321,233 against an approved budget of Kshs.6,607,541,700, resulting to an under-expenditure of Kshs.2,070,220,467.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness

and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

## **Basis for Conclusion**

### **Delay in Project Implementation**

Water Sector Trust Fund entered into a financing support and implementation agreement with Athi Water Works Development Agency (AWWDA) for Gatundu priority project on 28 April, 2020. AWWDA contracted a drilling company for LOT 3 and 4 of works relating to ground water exploitation project, drilling and equipping of Gatundu boreholes for Kshs.54,632,385 and Kshs.61,238,383 respectively. The drilling company was paid an initial sum of Kshs.7,388,808, however the company did not complete the works. Following abandonment of the construction works in March, 2021 without prior consultation or approval by the Project Manager, the Agency held meetings with the contractor for resumption of works without success and subsequently, the Agency issued a notification to terminate the contract on 30 November, 2021.

In the circumstances, the abandoned project affected the planned objectives of the Fund and may have impacted negatively on service delivery to the public.

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

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

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

#### **1.0 Information, Communication and Technology (ICT) Governance**

##### **1.1 ICT Policy Deficiencies**

Review of the current IT Policy in place revealed that the Fund does not have clearly defined controls, processes and procedures with regards to network administration,



backup management and user creation in the application systems. Inadequate user access creation guidelines may result to inconsistent processes of user access creation across the various systems within the organization. Lack of policy guidelines on network administration and backup management may lead to inadequate backup and network procedures being implemented in the IT systems.

In the circumstances, the adequacy of ICT backup and controls in the network procedures implemented in the IT systems, could not be confirmed.

### **1.2 Password Deficiencies in the Aren Register Application**

The Aren Register application does not have a password configuration in place that would allow the administrators of the system to implement password policy as per industry standards or the organization's IT policy. Failure to implement a password policy may allow attackers to gain unauthorized access to the system therefore exposing the Fund to possible loss or manipulation of its data.

In the circumstances the controls in place to prevent unauthorized access to the system could not be confirmed.

## **2. Questioned Project Expenses**

The statement of financial performance reflects project expenses of Kshs.4,098,370,763 as disclosed in Note 12 to the financial statements. Included in the project expenses is an amount of Kshs.18,087,102 in respect of questioned costs which had procurement queries arising from the audit of project implementing organizations. Although Management has indicated that the issue is being dealt with legally and administratively, these costs reflect weak controls in management of funds disbursed and spent by various water and sanitation and water resources projects in various counties.

In the circumstances, the effectiveness of controls in the management of funding to water projects could not be confirmed.

## **3. Long Outstanding Receivables from Non-Exchange Transactions**

The statement of financial position reflects receivables from non-exchange transactions of Kshs.1,150,454,800 as disclosed in Note 16 to the financial statements. However, this balance includes an amount of Kshs.29,765,280 in respect to project receivables which have been outstanding for more than three hundred and sixty- five (365) days. However, the Funds' policy is to make full provision for outstanding debts more than three hundred and sixty- five (365) days old, and although Management gave evidence of measures made as a follow up to recover the debts from the water companies,' adequate controls and safeguards to signed agreements to repay the debts were not provided.

In the circumstances, the recoverability of the receivables from non-exchange transactions balance of Kshs.29,765,280 could not be confirmed.



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

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

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

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 the sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

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

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

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

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

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

reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 controls that are identified during the audit.

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

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

30 September, 2022

WATER SECTOR TRUST FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

13. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 KShs	2020 KShs
<b>REVENUE</b>			
<b>Revenue from non-exchange transactions</b>			
Government of Kenya grants	6	643,555,000	688,742,500
Restricted donor funds	7	<u>3,601,977,405</u>	<u>1,064,849,032</u>
		<b>4,245,532,405</b>	<b>1,753,591,532</b>
<b>Revenue from exchange transactions</b>			
Miscellaneous income	8	56,120,808	42,068,036
Finance income - external investments	9 (a)	10,160,328	41,167,989
Kenya Sanitation conference	9 (b)	<u>-</u>	<u>30,980,627</u>
		<b>66,281,136</b>	<b>114,216,652</b>
<b>Total revenue</b>		<b><u>4,311,813,541</u></b>	<b><u>1,867,808,184</u></b>
<b>EXPENDITURE</b>			
Staff costs	10	(230,822,700)	(214,905,368)
Remuneration of trustees	11 (a)	(25,419,020)	(29,126,664)
Repairs and maintenance	11 (b)	(434,272)	(696,792)
Depreciation and amortization expense	11 (c)	(8,796,702)	(9,615,914)
General expenses	11 (d)	(173,477,776)	(153,196,453)
Project expenses	12	<u>(4,098,370,763)</u>	<u>(1,280,183,117)</u>
<b>Total expenditure</b>		<b><u>(4,537,321,233)</u></b>	<b><u>(1,687,724,308)</u></b>
<b>(Deficit)/surplus for the year</b>		<b><u>(225,507,692)</u></b>	<b><u>180,083,876</u></b>

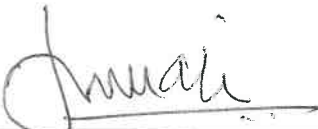
The notes set out on pages 42 to 64 form an integral part of these financial statements.


WATER SECTOR TRUST FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

14. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Notes	2021 KShs	2020 KShs
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	17	1,075,847,333	2,808,907,414
Receivables from non-exchange transactions	16	1,150,454,800	518,272,143
Inventories	15	818,396	595,391
		<u>2,227,120,529</u>	<u>3,327,774,948</u>
<b>Non - current assets</b>			
Property and equipment	13	17,613,228	16,748,975
Intangible assets	14	1,945,883	1,928,368
		<u>19,559,111</u>	<u>18,677,343</u>
<b>TOTAL ASSETS</b>		<u>2,246,679,640</u>	<u>3,346,452,291</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Deferred income from capital grants	20	1,641,982	3,882,563
Staff gratuity	21	30,340,414	27,917,975
Trade and other payables	22	82,973,675	63,603,707
		<u>114,956,071</u>	<u>95,404,245</u>
<b>Non-current liabilities</b>			
Deferred income from capital grants	20	5,815,790	257,045,090
Staff gratuity	21	34,463,715	32,040,280
		<u>40,279,505</u>	<u>289,085,370</u>
<b>Net assets</b>			
Accumulated surplus	18	271,181,894	496,689,586
Unexpended grants	19	1,820,262,170	2,465,273,090
		<u>2,246,679,640</u>	<u>3,346,452,291</u>
<b>TOTAL NET ASSETS AND LIABILITIES</b>		<u>2,246,679,640</u>	<u>3,346,452,291</u>

The financial statements on pages 37 to 64 were approved and authorized for issue by the Board of Trustees on .....2022 and were signed on its behalf by:

  
Mr. Fredrick Odhiambo Josiah  
Trustee

  
Mr. Willis Ombai  
Ag. Chief Executive Officer

  
Mr. Samwel Gitau Mbugua  
General Manager,  
Corporate Services  
ICPAK Member No. 2868



WATER SECTOR TRUST FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

15. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2021

	Revenue reserves KShs	Unexpended grants KShs	Total KShs
<b>Year ended 30 June 2020</b>			
<b>Balance at 1 July 2019 (restated)</b>	316,605,710	1,868,896,877	2,185,502,587
Surplus for the year	180,083,876	-	180,083,876
Funds received from development partners	-	1,661,225,247	1,661,225,247
GoK counterpart funding	-	201,196,489	201,196,489
Total project expenditure	-	(1,279,060,716)	(1,279,060,716)
Donor interest income restated	-	20,756,273	20,756,273
Project assets	-	(7,741,078)	(7,741,078)
<b>As at 30 June 2020</b>	<b>496,689,586</b>	<b>2,465,273,090</b>	<b>2,961,962,676</b>
<b>Year ended 30 June 2021</b>			
<b>Balance at 1 July 2020</b>	496,689,586	2,465,273,090	2,961,962,676
Deficit for the year	(225,507,692)	-	(225,507,692)
Funds received from development partners	-	2,932,112,081	2,932,112,081
GoK Counterpart funding	-	28,391,164	28,391,164
Donor interest income	-	24,854,404	24,854,404
Total project expenditure	-	(3,630,368,569)	(3,630,368,569)
<b>As at 30 June 2021</b>	<b>271,181,894</b>	<b>1,820,262,170</b>	<b>2,091,444,064</b>

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

WATER SECTOR TRUST FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

16. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 KShs	2020 KShs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Government grants	6	643,555,000	688,742,500
Restricted revenue from development partners	7	3,601,977,405	1,064,849,032
Miscellaneous income	8 & 9(b)	56,120,808	73,048,663
Finance income	9 (a)	10,160,328	41,167,989
<b>Total Receipts</b>		<b>4,311,813,541</b>	<b>1,867,808,184</b>
<b>Payments</b>			
Employee costs	10	(230,822,700)	(214,905,368)
Remuneration of Directors	11 (a)	(25,419,020)	(29,126,664)
Repairs and maintenance	11 (b)	(434,272)	(696,792)
Depreciation and amortization expense	11 (c)	(8,796,702)	(9,615,914)
General expenses	11(d)	(173,477,776)	(153,196,453)
Project expenses	12	(4,098,370,763)	(1,280,183,117)
<b>Total Payments</b>		<b>(4,537,321,233)</b>	<b>(1,687,724,308)</b>
<b>Net cash flows (used in)/from operating activities</b>		<b>(225,507,692)</b>	<b>180,083,876</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment and intangible assets	13 & 14	(9,678,468)	(12,102,841)
Proceeds from sale of PPE		-	1,720,465
Gain on disposal of assets		-	(1,223,221)
Increase in receivables from non-exchange transactions		(632,182,657)	(182,950,258)
Increase in inventories		(223,005)	(114,541)
(Decrease)/ increase in unexpended grants		(645,010,922)	596,376,215
Decrease in deferred income		(253,469,881)	(3,882,564)
Increase in staff gratuity		4,845,874	28,360,740
Increase/ (decrease) in trade and other payables		19,369,968	(5,576,271)
Depreciation of property and equipment	13	7,143,816	7,963,028
Amortization of intangible assets		1,652,886	1,652,886
<b>Net cash flows (used in)/from investing activities</b>		<b>(1,507,552,389)</b>	<b>430,223,638</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		<b>(1,733,060,081)</b>	<b>610,307,514</b>
Cash and cash equivalents as at 1 July		<b>2,808,907,414</b>	<b>2,198,599,900</b>
<b>Cash and cash equivalents as at 30 June</b>		<b>1,075,847,333</b>	<b>2,808,907,414</b>

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

**WATER SECTOR TRUST FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**17. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2021**

	Original budget 2021 KShs	Adjustments 2021 KShs	Final Budget 2021 KShs	Actual 2021 KShs	Performance difference 2021 KShs	% of Utilization	Notes
<b>REVENUE FROM NON-EXCHANGE TRANSACTIONS</b>							
Government of Kenya grants	1,460,000,000	(865,700,000)	594,300,000	643,555,000	49,255,000	108%	
Donor funds	2,755,000,000	3,253,241,700	6,008,241,700	3,601,977,405	(2,406,264,295)	60%	(a)
<b>REVENUE FROM EXCHANGE TRANSACTIONS</b>							
Miscellaneous income	-	-	-	56,120,808	56,120,808	100%	
Finance income – external investments	2,000,000	-	2,000,000	10,160,328	8,160,328	508%	
Kenya Water and Sanitation conference	-	3,000,000	3,000,000	-	(3,000,000)	100%	
<b>Total Revenue</b>	<b>4,217,000,000</b>	<b>2,390,541,700</b>	<b>6,607,541,700</b>	<b>4,311,813,541</b>	<b>(2,295,728,159)</b>	<b>65%</b>	
<b>EXPENSES</b>							
Administration expenses	(764,560,000)	(230,827,677)	(533,732,323)	(438,950,470)	94,781,854	82%	(b)
Project expenses	(3,452,440,000)	2,621,369,377	(6,073,809,377)	(4,098,370,763)	1,975,438,615	67%	(c)
<b>Total expenses</b>	<b>(4,217,000,000)</b>	<b>2,390,541,700</b>	<b>(6,607,541,700)</b>	<b>(4,537,321,233)</b>	<b>2,070,220,469</b>	<b>69%</b>	
<b>Deficit for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(225,507,692)</b>	<b>(225,507,692)</b>		(d)

- a) WSTF had budgeted to finance projects to the tune of KShs. 6,073,809,377 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. 3,601,977,405. Project funds held at Central Bank of Kenya amounted to KShs. 128,716,666 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. These were included in the unexpended grants balance. Total project expenditure for the year amounted to KShs. 4,098,370,763; of this KShs. 468,002,194 was financed directly by the Government of Kenya (GoK) and KShs. 3,601,977,405 by the development partners. GoK made a contribution of KShs. 28,391,164 as counterpart funding to the projects.
- b) The favourable variance between budget and actual administrative expenses resulted from efficiency in use of resources hence keeping costs lower than budget. WaterFund intends to keep these costs at low levels so as to free more funds for project financing.
- c) The variance between budget and actual project expenses is as a result of factors explained in a) above.
- d) The deficit for the period is attributable to the excess of the income over the expenditure of the funding from government of Kenya. The part of the expenditure incurred was funded from surplus from prior period.

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**18. NOTES TO THE FINANCIAL STATEMENTS**

**1. LEGAL STATUS AND OBJECTIVES**

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

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

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

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

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

**Statement of compliance**

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

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

**3. ADOPTION OF NEW AND REVISED STANDARDS**

**i. New and amended standards and interpretations in issue effective in the year ended 30 June 2021.**

- a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks.
- b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment.

Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved.

- c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets.

Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.

- d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs).

Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard.

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



WATER SECTOR TRUST FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. ADOPTION OF NEW AND REVISED STANDARDS (continued)

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021

*IPSAS 41, Financial Instruments- Applicable: 1st January 2023.* The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

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

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

The Board of Trustees anticipate that the application of these amendments will not have an impact on Water Sector Trust Fund's financial statements.

*IPSAS 42: Social Benefits, Applicable: 1st January 2023*

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

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

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

*Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments. Applicable: 1st January 2023*

- a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.
- b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.
- c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.

Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.

The Board of Trustees anticipate that the application of these amendments will not have an impact on Water Sector Trust Fund's financial statements.

WATER SECTOR TRUST FUND  
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**18. NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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 accrual basis.

**Inventories**

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

**Property and equipment**

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

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

WATER SECTOR TRUST FUND  
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18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Depreciation**

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

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

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

**Intangible assets**

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

**Impairment of tangible and intangible assets**

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

**Deferred income**

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

**Budget information**

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

**Taxation**

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

**Cash and cash equivalents**

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

WATER SECTOR TRUST FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
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**18. NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Provisions**

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

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

**Contingent liabilities**

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

**Contingent assets**

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

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

**Employee benefits**

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

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



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

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial Instruments**

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

**Financial assets**

*Receivables*

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

*Payables*

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

*Impairment of financial assets*

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

**Financial liabilities**

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

**De-recognition of financial assets**

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

**5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING WATERFUND'S ACCOUNTING POLICIES**

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

**i. Critical judgments in applying WaterFund's accounting policies**

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

**ii. Key sources of estimation uncertainty**

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

WATER SECTOR TRUST FUND  
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18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING WATERFUND'S ACCOUNTING POLICIES (Continued)

ii. Key sources of estimation uncertainty (Continued)

*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.

*Provisions*

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 16.

**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 2021.

**Changes in accounting policies and estimates**

There was no change in accounting policies during the year ended 30 June 2021.

6 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:

	2021 KShs	2020 KShs
Development	227,300,000	318,742,500
Recurrent	166,255,000	170,000,000
Emergency Fund	250,000,000	200,000,000
	<u>643,555,000</u>	<u>688,742,500</u>

7 RESTRICTED DONOR FUNDS

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

WATER SECTOR TRUST FUND  
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18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. RESTRICTED DONOR FUNDS (Continued)

	2021 KShs	2020 KShs
European Union	316,271,248	61,455,544
Government of Germany – K/W/BMGF	152,372,250	91,263,460
Government of Denmark	695,578,383	363,980,318
Government of Denmark – Covid 19	40,417,990	-
International Fund for Agricultural Development - IFAD	73,033,846	79,842,213
World Bank	2,045,484,105	203,589,393
Sweden/Finland – J6P	278,819,583	264,718,104
<b>Total</b>	<b><u>3,601,977,405</u></b>	<b><u>1,064,849,032</u></b>

8 MISCELLANEOUS INCOME

Management fee earned on disbursement to some projects*	52,815,863	36,811,944
Deferred income recognized (note 20)	3,108,501	3,882,563
Other income **	196,444	150,308
Net gain on disposals of assets	-	1,223,221
	<b><u>56,120,808</u></b>	<b><u>42,068,036</u></b>

\*Management fee represents the administration cost recovered as a percentage of funds disbursed to projects as per the respective donor agreements currently at a maximum of 5% of funds disbursed for Danida and J6P and 5% of eligible expenditure for EU CPIRA. Currently only four donor agreements provide for the management fees. Management fee earned from the development partners is as tabulated below:

\*\* Other income relates to fees charged to insurance policy providers for administration of insurance policies held by the staff in which WaterFund deducts and remits the premium to the insurance companies.

	2021 KShs	2020 KShs
European Union (EU)	17,613,470	4,243,593
Sweden/Finland – J6P	7,344,585	12,425,438
Danida - GGEP	7,623,884	13,669,338
Danida - COVID 19	4,072,500	-
Danida - WLP	16,161,424	6,473,575
	<b><u>52,815,863</u></b>	<b><u>36,811,944</u></b>

9 FINANCE INCOME

(a) Finance income

Bank interest	<b><u>10,160,328</u></b>	<b><u>41,167,989</u></b>
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This relates to interest earned on interest bearing current account balances.

(b) Kenya Sanitation conference

Kenya Sanitation conference	-	30,980,627
	<b><u>-</u></b>	<b><u>30,980,627</u></b>

This relates to income generated from the Kenya Sanitation Conference.

WATER SECTOR TRUST FUND  
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18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2021 KShs	2020 KShs
<b>10 STAFF COSTS</b>		
Salaries and wages	161,934,472	158,758,381
Staff gratuity	36,687,954	37,437,513
Staff training expenses	20,560,686	9,270,853
NSSF contribution	225,600	3,426,420
Other staff expenses	11,413,988	6,012,201
	<b>230,822,700</b>	<b>214,905,368</b>
<b>11 ADMINISTRATION EXPENSES</b>		
<b>(a) Remuneration of Trustees</b>		
Chairman's Honoraria	1,037,000	960,000
Trustee emoluments	8,120,000	8,260,000
Other allowances	16,262,020	19,906,664
<b>Total</b>	<b>25,419,020</b>	<b>29,126,664</b>
<b>(b) Repairs and maintenance</b>		
Furniture and fittings	434,272	696,792
<b>(c) Depreciation and amortization expense</b>		
Property, plant and equipment	7,143,816	7,963,028
Intangible assets	1,652,886	1,652,886
<b>Total</b>	<b>8,796,702</b>	<b>9,615,914</b>

WATER SECTOR TRUST FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. ADMINISTRATION EXPENSES (continued)

	2021 KShs	2020 KShs
<b>(d) General expenses</b>		
Communications expenses	4,582,137	4,629,628
Printing and stationery	1,573,400	2,124,956
Resource centre expenses	86,933	148,587
Traveling and accommodation	25,928,688	15,392,104
Motor vehicle expenses	13,408,241	14,145,703
Computer expenses	3,220,135	3,758,990
Consultancy and professional fees	35,219,791	7,055,636
Audit fees	7,440,251	11,181,552
Resource Mobilization expenses	2,030,691	8,173,688
Planning	7,331,404	4,898,881
Advocacy	9,834,972	39,568,544
COVID -19 expenses	-	3,000,000
Office running expenses	3,455,280	4,028,705
Insurance	19,051,805	16,250,447
Office rent & land rates	17,143,754	18,430,424
Bank charges	554,862	329,301
Movement in provision for bad and doubtful debts (note 16)	22,615,432	79,307
<b>Total</b>	<b><u>173,477,776</u></b>	<b><u>153,196,453</u></b>

12. PROJECT EXPENSES

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



WATER SECTOR TRUST FUND  
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FOR THE YEAR ENDED 30 JUNE 2021

18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. PROJECT EXPENSES (Continued)

	2021 KShs	2020 KShs
<b>Rural Programme</b>		
Water and Sanitation	795,344,330	643,598,871
Water Resources	327,328,565	175,274,926
Water Sanitation and Hygiene (WASH)	-	21,463,873
Water and Livelihood	266,030,165	97,152,379
	<u>1,388,703,060</u>	<u>937,490,049</u>
<b>Note 19 (b)</b>	<u>1,388,703,060</u>	<u>937,490,049</u>
<b>Total – Rural Programme</b>	<u>1,388,703,060</u>	<u>937,490,049</u>
<b>Urban Programme</b>		
Water and Sanitation	74,189,593	54,726,130
Up-scaling Basic Sanitation for the Urban Poor (UBSUP)- Bill & Melinda Gates Foundation (BMGF)	81,573,821	83,255,144
Water Sanitation and Hygiene (WASH)	40,417,990	-
OBA (World Bank)	504,540,835	203,589,393
Conditional Liquidity Support Grant (World Bank)	1,540,943,270	-
	<u>2,241,665,509</u>	<u>341,570,667</u>
<b>Note 19(a)</b>	<u>2,241,665,509</u>	<u>341,570,667</u>
Water and Sanitation – Direct funding from GOK	468,002,194	1,122,401
	<u>468,002,194</u>	<u>1,122,401</u>
<b>Total – Urban Programme</b>	<u>2,709,667,703</u>	<u>342,693,068</u>
<b>Total project expenses*</b>	<u>4,098,370,763</u>	<u>1,280,183,117</u>

\*Included in the amount of Kshs 4,098,370,763 above is an amount of Kshs 18,087,102 (2020 - Kshs 11,211,949) that relates to questioned costs arising from the audits of project implementing organizations. These costs are being dealt with legally and administratively.

Project expenditure is funded by development partners and the Government of Kenya funds.

**WATER SECTOR TRUST FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**18. NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**13. PROPERTY AND EQUIPMENT**

	<b>Furniture KShs</b>	<b>Motor Vehicle KShs</b>	<b>Computer Equipment KShs</b>	<b>Office Equipment KShs</b>	<b>Fixtures and Fittings KShs</b>	<b>Total KShs</b>
<b>COST</b>						
At 1 July 2019	6,275,307	57,810,159	20,324,804	6,173,009	15,315,525	105,898,803
Additions	2,360,500	-	7,628,998	2,113,343	-	12,102,841
Disposal	(134,560)	(8,231,360)	(2,987,454)	(406,440)	-	(11,759,814)
<b>At 30 June 2020</b>	<b>8,501,247</b>	<b>49,578,799</b>	<b>24,966,348</b>	<b>7,879,912</b>	<b>15,315,525</b>	<b>106,241,831</b>
At 1 July 2020	8,501,247	49,578,799	24,966,348	7,879,912	15,315,525	106,241,831
Additions	-	-	1,731,908	97,500	6,178,660	8,008,068
Disposal	-	-	-	-	-	-
<b>At 30 June 2021</b>	<b>8,501,247</b>	<b>49,578,799</b>	<b>26,698,256</b>	<b>7,977,412</b>	<b>21,494,185</b>	<b>114,249,899</b>
<b>DEPRECIATION</b>						
At 1 July 2019	5,431,055	52,794,321	15,644,594	5,492,380	13,430,047	92,792,397
Charge for the year	838,473	1,741,244	3,438,051	555,399	1,389,861	7,963,028
Disposal	(134,560)	(8,231,360)	(2,840,212)	(56,438)	-	(11,262,570)
<b>At 30 June 2020</b>	<b>6,134,968</b>	<b>46,304,205</b>	<b>16,242,433</b>	<b>5,991,341</b>	<b>14,819,908</b>	<b>89,492,855</b>
At 1 July 2020	6,134,968	46,304,205	16,242,433	5,991,341	14,819,908	89,492,855
Charge for the year	642,840	1,355,004	3,870,804	676,573	598,595	7,143,816
Disposal	-	-	-	-	-	-
<b>At 30 June 2021</b>	<b>6,777,808</b>	<b>47,659,209</b>	<b>20,113,237</b>	<b>6,667,914</b>	<b>15,418,503</b>	<b>96,636,671</b>
<b>NET BOOK VALUE</b>						
<b>At 30 June 2020</b>	<b>2,366,279</b>	<b>3,274,594</b>	<b>8,723,914</b>	<b>1,888,571</b>	<b>495,617</b>	<b>16,748,975</b>
<b>At 30 June 2021</b>	<b>1,723,439</b>	<b>1,919,590</b>	<b>6,585,019</b>	<b>1,309,498</b>	<b>6,075,682</b>	<b>17,613,228</b>

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

**14. INTANGIBLE ASSETS**

	SAP KShs	UPCIS KShs	Q-PULSE KShs	PMIS Software KShs	WIP - SIP KShs	Total KShs
<b>COST</b>						
At 1 July 2019-Not fully amortized	414,364	-	-	8,264,427	-	8,678,791
At 1 July 2019-Fully amortized	3,335,028	12,729,739	588,312	-	-	16,653,079
<b>At 30 June 2020</b>	<b>3,749,392</b>	<b>12,729,739</b>	<b>588,312</b>	<b>8,264,427</b>	<b>-</b>	<b>25,331,870</b>
At 1 July 2020-Not fully amortized	414,364	-	-	8,264,427	-	8,678,791
At 1 July 2020-Fully amortized	3,335,028	12,729,739	588,312	-	-	16,653,079
Additions	-	-	-	-	1,670,400	1,670,400
<b>At 30 June 2021</b>	<b>3,749,392</b>	<b>12,729,739</b>	<b>588,312</b>	<b>8,264,427</b>	<b>1,670,400</b>	<b>27,002,270</b>
<b>AMORTIZATION</b>						
At 1 July 2019	3,749,392	12,729,739	588,312	4,683,172	-	21,750,616
Charge for the year	-	-	-	1,652,886	-	1,652,886
<b>At 30 June 2020</b>	<b>3,749,392</b>	<b>12,729,739</b>	<b>588,312</b>	<b>6,336,058</b>	<b>-</b>	<b>23,403,501</b>
At 1 July 2020	3,749,392	12,729,739	588,312	6,336,058	-	23,403,501
Charge for the year	-	-	-	1,652,886	-	1,652,886
<b>At 30 June 2021</b>	<b>3,749,392</b>	<b>12,729,739</b>	<b>588,312</b>	<b>7,988,944</b>	<b>-</b>	<b>25,056,387</b>
<b>CARRYING VALUE</b>						
At 30 June 2020	-	-	-	1,928,368	-	1,928,368
At 30 June 2021	-	-	-	275,483	1,670,400	1,945,883

The Work in progress (WIP) relates to the Systems Integration Project (SIP) software that will integrate all previous project management systems at the WaterFund to a common modern project management information system. This includes some areas of improvement and new functionalities have been identified that will be integrated to embrace recent developments in ICT and implement innovative ways that can enhance service delivery. The Integrated System is expected to be commissioned by December 2022.

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18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. INVENTORIES

	2021 KShs	2020 KShs
Office stationery	<u>818,396</u>	<u>595,391</u>

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

16. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2021 KShs	2020 KShs
Project receivables – Urban Investments	803,174,041	105,892,985
- Rural Investments	354,376,496	411,341,074
- GoK priority projects	15,684,726	-
Prepayments	12,011,708	10,583,354
Staff receivables	5,763,198	5,099,558
Other trade debtors	-	3,295,109
Provision for bad debts	<u>(40,555,369)</u>	<u>(17,939,937)</u>
	<u><b>1,150,454,800</b></u>	<u><b>518,272,143</b></u>

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

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

	2021 KShs	2020 KShs
At start of year	17,939,937	17,860,630
Provision in the year	40,560,048	8,882,982
Amounts recovered/accounted for	<u>(17,944,616)</u>	<u>(8,803,675)</u>
<b>At end of year</b>	<u><b>40,555,369</b></u>	<u><b>17,939,937</b></u>

## 18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 17. CASH AND CASH EQUIVALENTS

	2021 KShs	2020 KShs
National Bank of Kenya Limited – Recurrent	307,477	4,315,016
National Bank of Kenya Limited – OBA	49,718	4,016,682
National Bank of Kenya Limited – OBA II	799	67,867,013
Kenya Commercial Bank Limited – Recurrent	126,661,147	485,224,028
Short Term Deposits – Kenya Commercial Bank	110,000,000	296,222,720
NCBA KFW PHASE KShs	91,961,846	125,904,960
NCBA KFW PHASE EURO	10,614,111	9,947,144
NCBA BMGF KShs	120,105,368	201,881,409
NCBA BMGF USD	8,386,346	8,204,655
National Bank of Kenya – IFAD	3,758,947	22,291,808
Kenya Commercial Bank-Staff	1,348,164	106,732,333
NCBA Bank – EU SHARE	1,660,249	1,433,043
NCBA Bank – GGEP	87,727,122	233,738,573
Kenya Commercial Bank Limited – Sweden/Finland (J6P)	7,027,978	148,022,113
NIC - EU CPIRA	137,556,422	300,140,387
Co-operative Bank - WLP	84,596,147	70,457,736
Equity Bank - WSDP	60,542,032	-
Equity Bank - Covid 19	94,800,672	-
Cash on hand*	26,122	22,943
Cash in transit**	128,716,666	722,484,851
	<b>1,075,847,333</b>	<b>2,808,907,414</b>

\*Cash on hand includes amounts received from staff after surrender of imprest totalling to KShs 22,323 and petty cash balance of Ksh 3,799. The balance as at 30 June 2021 represents the amounts that had not yet been deposited in the bank.

\*\* Cash in transit represents funds released by the donors, but at year end were still held in project designated bank accounts at the Central Bank of Kenya. These funds had not reflected in WSTF's account as at 30 June 2021.

### 18. 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:

	2021 KShs	2020 KShs
Opening accumulated surplus	496,689,586	316,605,710
(Deficit)/ Surplus for the year	(225,507,692)	180,083,876
<b>Closing accumulated surplus</b>	<b>271,181,894</b>	<b>496,689,586</b>

### 19. UNEXPENDED GRANTS

Unexpended grants – Urban Investments	1,168,458,610	647,917,905
Unexpended grants – Rural Investments	651,803,560	1,817,355,185
	<b>1,820,262,170</b>	<b>2,465,273,090</b>

The unexpended grants movement for each investment is presented below:



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

**19. UNEXPENDED GRANTS (Continued)**

**(a) Unexpended Grants - Urban investments**

	Government of Germany- KfW/BMFG	World Bank	KfW Phase IV	Government of Denmark (DANIDA)	Total
As at 1 July 2019 restated	336,881,515	80,403,819	-	-	417,285,334
Funds received from development partners	195,142,193	330,343,231	-	-	525,485,424
GoK Counterpart funding	39,900,000	-	-	-	39,900,000
Donor interest income	6,817,814	-	-	-	6,817,814
Total project Expenditure	(137,981,274)	(203,589,393)	-	-	(341,570,667)
<b>As at 30 June 2020</b>	<b>440,760,248</b>	<b>207,157,657</b>	<b>-</b>	<b>-</b>	<b>647,917,905</b>
As at 1 July 2020	440,760,248	207,157,657	-	-	647,917,905
Funds received from development partners	-	2,566,350,608	-	175,932,442	2,742,283,050
GoK Counterpart funding	6,857,078	9,353,980	3,391,164	-	3,391,164
Interest income	(152,372,250)	(2,045,484,105)	(3,391,164)	320,942	16,532,000
Total project expenditure				(40,417,990)	(2,241,665,509)
<b>As at 30 June 2021</b>	<b>295,245,076</b>	<b>737,378,140</b>	<b>-</b>	<b>135,835,394</b>	<b>1,168,458,610</b>
<b>Donor income recognized in the year (note 7) - Total project expenditure less GoK counterpart funding, interest income and foreign exchange gain/(loss)</b>					
2020	91,263,460	203,589,393	-	-	294,852,853
2021	152,372,250	2,045,484,105	-	40,417,990	2,238,274,345
<b>Represented by:</b>					
Cash and cash equivalent	231,067,671	60,592,549	-	94,800,672	386,460,892
Project receivables	71,319,080	684,091,982	-	47,762,979	803,174,041
Staff receivables	-	1,829,181	-	-	1,829,181
Payables	(7,141,675)	(9,135,572)	-	(6,728,257)	(23,005,504)
<b>Total</b>	<b>295,245,076</b>	<b>737,378,140</b>	<b>-</b>	<b>135,835,394</b>	<b>1,168,458,610</b>

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18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. UNEXPENDED GRANTS (Continued)

(b) UNEXPENDED GRANTS (Rural investments)

	UNICEF	Sweden/ Finland – J6P	European Union- EU (Rural)	Government of Denmark	IFAD	Total
As at 1 July 2019 restated	14,682,006	504,720,825	680,597,525	188,225,461	63,385,724	1,451,611,541
Funds received from development partners	-	50,495,240	5,724,105	955,000,000	124,520,478	1,135,739,823
GoK Counterpart funding	-	112,000,000	49,296,489	-	-	161,296,489
Donor interest income	-	3,099,801	5,865,847	4,972,811	-	13,938,459
Project assets	-	-	(2,230,000)	(5,511,078)	-	(7,741,078)
Total project Expenditure	-	(379,817,905)	(114,387,880)	(363,442,051)	(79,842,213)	(937,490,049)
<b>As at 30 June 2020</b>	<b>14,682,006</b>	<b>290,497,961</b>	<b>624,866,086</b>	<b>779,245,143</b>	<b>108,063,989</b>	<b>1,817,355,185</b>
As at 1 July 2020	14,682,006	290,497,961	624,866,086	779,245,143	108,063,989	1,817,355,185
Funds received from development partners	-	206,825	6,853,904	160,000,000	22,768,300	189,829,029
GoK Counterpart funding	-	-	25,000,000	-	-	25,000,000
Interest income	-	1,444,492	3,266,885	3,611,028	-	8,322,405
Total project expenditure	-	(278,819,583)	(341,271,248)	(695,578,382)	(73,033,846)	(1,388,703,060)
<b>As at 30 June 2021</b>	<b>14,682,006</b>	<b>13,329,695</b>	<b>318,715,627</b>	<b>247,277,789</b>	<b>57,798,443</b>	<b>651,803,560</b>
<b>Donor income recognized in the year (note 7) - Total project expenditure less GoK counterpart funding, interest income and foreign exchange gain/(loss)</b>	<b>-</b>	<b>264,718,104</b>	<b>61,455,544</b>	<b>363,980,318</b>	<b>79,842,213</b>	<b>769,996,179</b>
<b>2021</b>	<b>-</b>	<b>278,819,583</b>	<b>316,271,248</b>	<b>695,578,383</b>	<b>73,033,846</b>	<b>1,363,703,060</b>
<b>Represented by:</b>						
Cash and cash equivalents	-	7,027,978	137,556,422	172,323,269	3,758,947	322,666,616
Project Receivables	-	11,521,028	198,701,119	89,897,644	54,256,705	354,376,496
Receivable from WSTF recurrent account	14,682,006	-	-	-	-	14,682,006
Other receivables	-	1,167,473	356,589	-	-	1,524,062
Payables	-	(6,386,784)	(17,898,503)	(14,943,124)	(217,209)	(39,445,620)
<b>Total</b>	<b>14,682,006</b>	<b>13,329,695</b>	<b>318,715,627</b>	<b>247,277,789</b>	<b>57,798,443</b>	<b>651,803,560</b>

18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. DEFERRED INCOME FROM CAPITAL GRANTS

	2021 KShs	2020 KShs
As at 1 July	260,927,653	264,810,216
Transfer to income - expensed	(250,361,380)	-
Transfer to income – depreciated (note 8)	(3,108,501)	(3,882,563)
<b>As at 30 June</b>	<b>7,457,772</b>	<b>260,927,653</b>
Current	1,641,982	3,882,563
Non – current	5,815,790	257,045,090
<b>As at 30 June</b>	<b>7,457,772</b>	<b>260,927,653</b>

The portion transferred to income represents depreciation charge for 12 months at the year-end on the donated assets during the year.

21. STAFF GRATUITY

	2021 KShs	2020 KShs
At start of year	59,958,254	31,597,513
Provision for the year	41,533,829	35,860,556
Paid during the year	(36,687,954)	(7,499,815)
<b>As at 30 June</b>	<b>64,804,129</b>	<b>59,958,254</b>
Current	30,340,414	27,917,974
Non-current	34,463,715	32,040,280
<b>As at 30 June</b>	<b>64,804,129</b>	<b>59,958,254</b>

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

22. TRADE AND OTHER PAYABLES

	2021 KShs	2020 KShs
Trade payables	69,602,482	52,255,752
Staff leave accrual	5,799,963	6,082,271
Withholding tax payable	7,527,985	5,265,684
Other trade payables	43,245	-
	<b>82,973,675</b>	<b>63,603,707</b>

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18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. COMMITMENTS

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

<b>Capital Assets Commitments</b>	<b>2021 KShs</b>	<b>2020 KShs</b>
Authorised for	-	-
Authorised and contracted for	<u>57,565,177</u>	<u>31,700,000</u>
<b>Total</b>	<b><u>57,565,177</u></b>	<b><u>31,700,000</u></b>

**Project commitments**

The Fund had committed to fund projects to the tune of KShs. 5,498 Million (2020: KShs 3,540 Million) for subsequent disbursement requests which become due on the submission of acceptable financial and progress reports. As at the end of reporting period, the projects were at different stages of implementation. This amount is expected to fall due during the next financial year. The project commitments were as follows:

	<b>2021 KShs</b>	<b>2020 KShs</b>
Authorised for		
Water and sanitation – Rural	1,715,545,000	1,990,544,933
Water Resources	373,600,000	459,092,764
Water and sanitation - Urban	<u>3,409,099,200</u>	<u>1,090,000,000</u>
<b>Total</b>	<b><u>5,498,244,200</u></b>	<b><u>3,539,637,697</u></b>

24. OPERATING LEASE ARRANGEMENTS

Minimum lease payments under operating leases recognized through Statement of financial performance	<u>17,143,754</u>	<u>18,430,424</u>
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At the end of the reporting period, WaterFund had outstanding commitments under operating leases, payable as follows:

	<b>2021 KShs</b>	<b>2020 KShs</b>
Within one year	21,239,451	9,742,323
In the second to fifth years inclusive	<u>10,149,983</u>	<u>12,629,547</u>
	<b><u>31,389,434</u></b>	<b><u>22,371,870</u></b>

Operating lease payments represent rentals payable by WaterFund for its office premises. The lease will expire in December 2025.

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18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. RELATED PARTY TRANSACTIONS

i) Key management compensation

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

	2021 KShs	2020 KShs
Salaries and other short-term benefits	25,638,581	24,186,888
Gratuity	7,197,162	3,220,804
NSSF	12,000	11,400
	<u>32,847,743</u>	<u>27,419,092</u>
Trustees emoluments	9,157,000	9,180,000
Other emoluments (included in key management compensation above)	15,128,527	12,954,603

ii) WSTF is a State Corporation. Funds received from the Government of Kenya are disclosed under note 6.

26. CONTINGENT LIABILITIES

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

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

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

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

ii) Water and Sanitation for Poverty Reduction (WASPOR) vs WSTF. This is a legal claim on project implementation. The claim sought based on decree is Kshs 1,775,797.44 being the arbitral award for the suit. However, WaterFund's lawyers estimate the contingent liability may not exceed KShs 1,775,797.44.

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

27. FINANCIAL RISK MANAGEMENT POLICIES

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

(a) Significant accounting policies

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

(b) Financial risk management objectives

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



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18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. FINANCIAL RISK MANAGEMENT POLICIES

(c) Credit risk

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

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

	Fully performing KShs	Past due KShs	Impaired KShs	Total KShs
Cash at bank	2,808,907,414	-	-	2,808,907,414
Project receivables	499,294,123	17,939,937	-	517,234,060
Staff receivables	5,099,558	-	-	5,099,558
Other receivables	3,295,109	-	-	3,295,109
Prepayments and other trade debtors	10,583,354	-	-	10,583,354
<b>At 30 June 2020</b>	<b>3,327,179,558</b>	<b>17,939,937</b>	<b>-</b>	<b>3,345,119,495</b>
Cash at bank	1,075,847,333	-	-	1,075,847,333
Project receivables	1,132,679,803	40,555,369	-	1,092,124,434
Staff receivables	5,763,198	-	-	5,763,198
Prepayments and other trade debtors	12,011,708	-	-	12,011,708
<b>At 30 June 2021</b>	<b>2,226,302,042</b>	<b>40,555,369</b>	<b>-</b>	<b>2,185,746,673</b>

(d) Liquidity risk management

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

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

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18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(d) Liquidity risk management (Continued)

	Less than 1 month KShs	Between 1-3months KShs	Over 3 Months KShs	Total KShs
Trade payables	41,697,570	-	-	41,697,570
Withholding tax payable	7,576,245	-	-	7,576,245
Staff leave	-	5,836,225	-	5,836,225
Staff gratuity	-	-	65,549,629	65,549,629
Deferred income	-	-	260,927,653	260,927,653
<b>At 30 June 2020</b>	<b><u>49,273,815</u></b>	<b><u>5,836,225</u></b>	<b><u>326,477,282</u></b>	<b><u>381,587,322</u></b>
Trade payables	69,645,727	-	-	69,645,727
Withholding tax payable	7,527,985	-	-	7,527,985
Staff leave	-	5,799,963	-	5,799,963
Staff gratuity	-	-	64,804,129	64,804,129
Deferred income	-	-	7,457,772	7,457,772
<b>At 30 June 2021</b>	<b><u>77,173,712</u></b>	<b><u>5,799,963</u></b>	<b><u>72,261,901</u></b>	<b><u>155,235,576</u></b>

(e) Market risk management

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

*Foreign 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.

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18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. FINANCIAL RISK MANAGEMENT POLICIES (continued)

The carrying amount of the Fund's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

Foreign currency Denominated Balances	2021	2020
NCBA Bank - KfW Phase II Euro	82,776	82,796
NCBA Bank – KFW USD	<u>77,501</u>	<u>77,022</u>

Foreign currency sensitivity analysis

The following table demonstrates the effect on the entity's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on financial performance	Effect on Equity/Net assets
	Kshs	Kshs	Kshs
<b>2021</b>			
Euro	10%	1,061,408	1,061,408
USD	10%	835,848	835,848
<b>2020</b>			
Euro	10%	994,711	994,711
USD	10%	820,457	820,457

28. CAPITAL RISK MANAGEMENT

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

The capital structure of the WaterFund consists of revenue reserves and the Fund was not geared as at 30 June 2021 and 30 June 2020.

WATER SECTOR TRUST FUND

APPENDICES

APPENDIX 1 – STATUS OF IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS

Ref/ Issue	Finding	Recommendation	Management comments	Status	Responsibility
1.1.1. <b>Questioned project costs</b>	We identified questioned project costs amounting to Kshs 11,211,949 arising from project expenditures incurred by implementing partners. The questioned costs arose from expenditure transactions that were not adequately supported.	Management should follow up with the implementing partners for evidence that the expenses reported were incurred. Failure to obtain this they should demand for a refund of the questioned amounts.  In addition to this, the WaterFund should consider going forward to have the project implementing partners submit certified copies of the supporting documents when submitting their accounting reports.	The WSTF has developed an action to aid in the follow-up of the questioned costs. The management is committed in ensuring that the queries are all resolved. Since the start of the FY 2020/21 the IPs have been instructed to avail copies of the supporting documents when submitting the monthly financial and technical reports. This coupled with routine monitoring will aid in addressing issues relating to inadequate or insufficient evidence on a timely basis.	<b>Partially closed</b>  The management has been making follow-up with some success especially under the UPC programme.	CMI, CMF, CMIAR
1.1.2. <b>Management fees income recognised in the wrong period</b>	We noted that management fee income of Kshs 571,776 under EU CPIRA relating to the previous financial year 2018/2019 was recognized by WSTF in the current period. It related to the charge on total direct costs under EU CPIRA for the period financial year ending 30 June 2019. The entire amount of Kshs 571,776 has been included in the current period financial statements	In line with the matching concept, management fees are to be recognised upon recognition of other direct costs charged under EU CPIRA and the period of recovery should be aligned to WSTF financial year (July to June) to avoid future omissions.  Management should consider at the end of each financial year, preparing a reconciliation of expected management fees and actual management fees recognized to make sure that all transactions relating to management fees during the period have been completely and accurately captured.	This is an oversight by management. The Fund in the current financial year has included as part of year end procedures checks to ensure that all programme related management fees have been appropriately charged.	<b>Resolved</b>  The matter has since been resolved.	CMF

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Ref/Issue	Finding	Recommendation	Management comments	Status	Responsibility																				
1.1.3. <b>Cut off Issue</b>	<p>We noted instances where transactions were not recorded within the correct reporting period. Transactions indicated below were incurred in the financial year 2018/2019 but were recorded in the financial year 2019/2020.</p> <table border="1"> <thead> <tr> <th>Transaction ID</th> <th>Transaction Date</th> <th>Description</th> <th>Supplier/Vendor</th> <th>Transaction Amount</th> </tr> </thead> <tbody> <tr> <td>PU 150017203</td> <td>17 Jun 2019</td> <td>Conference package during evaluation for prequalification of suppliers during the FY 2019/2020/2021</td> <td>Astorian Grand Hotel</td> <td>256,220</td> </tr> <tr> <td>PU 150017065</td> <td>3 Jun 2019</td> <td>Conference package during review of WSTF strategic HR documents</td> <td>Astorian Grand Hotel</td> <td>427,400</td> </tr> <tr> <td>PU 150017758</td> <td>26 April 2019</td> <td>Conference package during Directors Board induction</td> <td>Board expense</td> <td>393,300</td> </tr> </tbody> </table>	Transaction ID	Transaction Date	Description	Supplier/Vendor	Transaction Amount	PU 150017203	17 Jun 2019	Conference package during evaluation for prequalification of suppliers during the FY 2019/2020/2021	Astorian Grand Hotel	256,220	PU 150017065	3 Jun 2019	Conference package during review of WSTF strategic HR documents	Astorian Grand Hotel	427,400	PU 150017758	26 April 2019	Conference package during Directors Board induction	Board expense	393,300	<p>We recommend that the management implements proper cut-off by ensuring they accrue expenses upon issue of the LPO.</p> <p>Additionally management should ensure there is a systemized way by maintaining a reconciliation of Local Purchase Orders issued, invoices received and tracking the unpaid invoices in the period.</p>	<p>The recommendation has been noted.</p>	<p><b>Resolved</b></p> <p>The matter has since been resolved.</p>	CMF
		Transaction ID	Transaction Date	Description	Supplier/Vendor	Transaction Amount																			
		PU 150017203	17 Jun 2019	Conference package during evaluation for prequalification of suppliers during the FY 2019/2020/2021	Astorian Grand Hotel	256,220																			
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PU 150017758	26 April 2019	Conference package during Directors Board induction	Board expense	393,300																					
1.1.4. <b>Weakness in Contracting</b>	<p>The Ministry of Water and Sanitation held an international Sanitation conference between 28 and 31 October 2019 whose key objective was to provide a containment, collection, sustainable and innovative solution towards resources recovery and reuse of waste in both rural and urban contexts. The Ministry requested the use of the Water Trust Fund account for the Kenya Sanitation Conference revenue receipts and payments. In our review of the Kenya Sanitation Conference expenses, we noted instances where the contracts were signed between the Ministry and the services providers after the services had already been provided. Contracts are important because they outline expectations for both parties, protect both parties if those expectations are not met and lock in the price that will be paid for services. See details in the table below:</p>	<p>Management should ensure that they agree on terms and conditions for service delivery and sign a binding contract before the services/products are delivered.</p>	<p>This was a lapse in the internal controls within the procurement department at the Ministry of Water, Sanitation and Irrigation. We have shared the finding and the Fund will ensure in future that all payments are supported by appropriate documentation.</p>	<p><b>Resolved</b></p> <p>The matter has since been resolved.</p>	CMF																				



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Ref/ Issue	Finding				Recommendation	Management comments	Status	Responsibility	
	Posting date	Document number	Description	Total cost per detailed listing					Exception
	16.01.2020	PU 150017873	Production and airing of HD Video documentary covering Nairobi, Thika and Nakuru by Pro-Mart East Africa	1,500,000	Job card dated 25th October 2019 whereas the Contract dated 28th October 2019				
	16.01.2020	PU 150017874	Production and airing of 15 minutes documentary on sanitation activities. Documentary covering Nairobi, Thika and Nakuru by Dauma Productions	1,500,000	Contract signed on 28th October 2019 whereas rundown report from K-TN News dated 8th and 15th October 2019				
<b>1.1.5. Internal control weaknesses over review and approval of reported project expenditure</b>	<p>During our audit of the program financial statements, we noted an internal control weakness over the review and approval process of expenditure reported by the implementing partners prior to posting expenditure in the general ledger. We identified instances where a thorough review had not been done for the documents submitted by the implementing partners. As such, the expenditure recognized in the system did not fully meet the WSTF's finance manual requirement for project expenditure recognition. More specifically, the expenditure reported was not adequately supported and there were identified weaknesses in the procurement process.</p>				<p>WSTF management should follow up with the IPs to provide sufficient appropriate evidence to support the expenditure reported, and in the event WSTF is still not satisfied with the evidence provided discuss with the IPs on the implications of the same.</p>	<p>All IPs will be required to submit both financial and technical reports. Together with certified copies of the following documents:</p> <ul style="list-style-type: none"> <li>• All procurement documents</li> <li>• Contract documents</li> <li>• Payment vouchers and 3<sup>rd</sup> party supporting documents</li> <li>• Bank statements</li> <li>• Other relevant documents</li> </ul>	<b>Resolved</b>	<p>The matter has since been resolved with all IPs expected to provide all supporting documents as part of the reports.</p>	CMI & CMF

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	<p>Upon inquiry the management indicated that this was an error in recognition of expenditure amounting to Kshs 3,799,700. Subsequently, the management accepted to pass correcting entries to recognize these amounts as receivables from IPS to allow for follow up with the IPS prior to expending the amounts.</p> <p>The affected IPs were:</p> <ul style="list-style-type: none"> <li>• Irangi CFA</li> <li>• Kimakia CFA</li> <li>• Mudhe Watsan Project</li> </ul>	<p>To prevent similar occurrences in the future, management should ensure that thorough reviews are done by the CRMs prior to the same being forwarded to WSTF offices where additional timely review should be undertaken by the Prog technical staff before submission to Finance to recognize and expense in the general ledgers.</p> <p>Management should also carry out periodic reconciliation between records in the WSTF system with those at the IPs to mitigate any potential discrepancies that may result in questioned costs.</p>	<p>These documents will be used to verify expenditures incurred by the project and expected to be submitted to the Fund by the 10<sup>th</sup> of every month over the implementation period of the project. CRMs will review before submission.</p>		
<p><b>1.1.6. Gaps in management of donor – funded assets and equipment</b></p>	<p>We carried out a verification of assets purchased using donor funds, focussing on those purchased using Govt of Denmark (DANIDA) funds. We noted that WSTF maintained a fixed asset register for all assets (including those financed using donor funds). The assets register contained the asset name, numbers, date of acquisition, cost and depreciation details.</p> <p>However, from our verification of assets purchased using DANIDA Funds, we identified the following gaps:</p> <p>The asset register maintained by WSTF did not indicate the source of funding for the assets. It is only upon request that management was able to manually compile an asset register for DANIDA assets with the information.</p>	<p>WSTF management should update the asset register to include information on source of funding, location, and condition of the asset. In order to effectively track and monitor the specific assets funded by the donors, the physical assets should be appropriately tagged or branded to identify the funding donor.</p>	<p>The recommendation will be implemented in the current FY. Detailed information relating to the source of funding of the asset, location, and condition of the asset will be recorded. The assets procured from donor funds will be tagged and branded accordingly. Updated register of assets that fall below the capitalization threshold will be kept.</p>	<p><b>Resolved</b></p> <p>The matter has since been resolved</p>	<p>CMF</p>

Ref/ Issue	Finding	Recommendation	Management comments	Status	Responsibility																												
	<p>The asset tag numbers did not indicate the specific donor who funded the asset, neither were the assets branded with the specific donor logos for identification purposes.</p> <p>For equipment and assets that did not meet WSTF's capitalization threshold of K.sh 20,000, we noted that there was no specific inventory register to monitor and track this equipment.</p>	<p>This may be achieved by including a unique code for each donor in the asset tag number or branding each asset with donor logos (if allowed by the applicable financing agreement). As requirement by the financing agreements, management should also keep an updated register of equipment and assets that fall below the capitalization threshold.</p>																															
<p>1.1.7. <b>Delayed submission of quarterly reports to development partners</b></p>	<p>We noted instances of non-compliance with the development partners reporting requirements evidenced through late submission of quarterly reports to the development partners for both rural and urban investments as shown below:</p> <p><b>Rural Investment</b></p> <table border="1"> <thead> <tr> <th>Period</th> <th>Due Date</th> <th>Date submitted</th> <th>No. of days late</th> </tr> </thead> <tbody> <tr> <td>Quarter 1</td> <td>30 October 2019</td> <td>31 October 2019</td> <td>1</td> </tr> <tr> <td>Quarter 2</td> <td>30 January 2020</td> <td>31 January 2020</td> <td>1</td> </tr> <tr> <td>Quarter 3</td> <td>30 April 2020</td> <td>1 May 2020</td> <td>1</td> </tr> </tbody> </table> <p><b>Urban Investment</b></p> <table border="1"> <thead> <tr> <th>Period</th> <th>Due Date</th> <th>Date submitted</th> <th>No. of days late</th> </tr> </thead> <tbody> <tr> <td>Quarter 1</td> <td>30 October 2019</td> <td>31 October 2019</td> <td>1</td> </tr> <tr> <td>Quarter 2</td> <td>30 January 2020</td> <td>31 January 2020</td> <td>1</td> </tr> </tbody> </table>	Period	Due Date	Date submitted	No. of days late	Quarter 1	30 October 2019	31 October 2019	1	Quarter 2	30 January 2020	31 January 2020	1	Quarter 3	30 April 2020	1 May 2020	1	Period	Due Date	Date submitted	No. of days late	Quarter 1	30 October 2019	31 October 2019	1	Quarter 2	30 January 2020	31 January 2020	1	<p>We take note that the management has made a commendable improvement in regard to submission of donor reports in the period under review however, they should ensure reporting requirements are fully adhered to according to the provisions of the grant agreements with development partners.</p>	<p>There has been an improvement from the previous periods where delays were experienced. This has been due to reporting efficiency being included in the programme managers' performance contracts to institutionalise compliance monitoring and the program team leaders being involved in reporting. This strategy will be upheld going forward to ensure no further delays are experienced in future.</p>	<p><b>Resolved.</b></p> <p>The Fund has continuously submitted the required reports to development partners on time.</p>	<p>Manager Resource and Partnership Development</p>
Period	Due Date	Date submitted	No. of days late																														
Quarter 1	30 October 2019	31 October 2019	1																														
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<p><b>1.1.8. Variances between reports to development partners and the WaterFund's financial statements</b></p> <p>We noted variances between the expenditure reported to the development partners in the quarterly reports and the final financial statements prepared by WSTF. See details below:</p> <p><b>Rural Development Partners</b></p> <table border="1"> <thead> <tr> <th>Development partner</th> <th>Project</th> <th>Total expenditure reported in quarterly reports for FY 19/20</th> <th>Expenditure amount as per annual financial statements for FY 19/20</th> <th>Variance expenditure</th> </tr> </thead> <tbody> <tr> <td>European Commission</td> <td>EU CPIRA</td> <td>88,888,758</td> <td>81,564,838</td> <td>7,323,921</td> </tr> <tr> <td></td> <td>EU SHARE</td> <td>19,378,238</td> <td>27,076,733</td> <td>(7,698,495)</td> </tr> <tr> <td>Finland/Sweden</td> <td>J6P</td> <td>373,714,066</td> <td>373,797,531</td> <td>(83,465)</td> </tr> <tr> <td>IFAD</td> <td>UTaNR MP</td> <td>74,385,106</td> <td>80,751,087</td> <td>(6,365,981)</td> </tr> <tr> <td>DANIDA</td> <td>GGEP</td> <td>264,019,288</td> <td>262,449,638</td> <td>1,569,650</td> </tr> <tr> <td></td> <td>WLP</td> <td>71,717,141</td> <td>95,626,428</td> <td>(23,909,287)</td> </tr> </tbody> </table> <p><b>Urban Development Partners</b></p> <table border="1"> <thead> <tr> <th>Development partner</th> <th>Project</th> <th>Expenditure amount as per quarterly reports</th> <th>Expenditure amount as per annual financial statements</th> <th>Variance expenditure</th> </tr> </thead> <tbody> <tr> <td>World Bank</td> <td>OBA</td> <td>206,231,359</td> <td>203,589,393</td> <td>2,641,966</td> </tr> <tr> <td>KfW/BMGF</td> <td>UBSUP</td> <td>142,386,303</td> <td>129,655,074</td> <td>12,731,229</td> </tr> </tbody> </table>	Development partner	Project	Total expenditure reported in quarterly reports for FY 19/20	Expenditure amount as per annual financial statements for FY 19/20	Variance expenditure	European Commission	EU CPIRA	88,888,758	81,564,838	7,323,921		EU SHARE	19,378,238	27,076,733	(7,698,495)	Finland/Sweden	J6P	373,714,066	373,797,531	(83,465)	IFAD	UTaNR MP	74,385,106	80,751,087	(6,365,981)	DANIDA	GGEP	264,019,288	262,449,638	1,569,650		WLP	71,717,141	95,626,428	(23,909,287)	Development partner	Project	Expenditure amount as per quarterly reports	Expenditure amount as per annual financial statements	Variance expenditure	World Bank	OBA	206,231,359	203,589,393	2,641,966	KfW/BMGF	UBSUP	142,386,303	129,655,074	12,731,229	<p>Although management has discussed with the development partners on the need to submit updated annual reports and it has been deemed as not necessary, management should consider indicating in their quarterly report a disclaimer statement to indicate that accrued costs and any expenses reported after the reports submission date will be included in the audit report.</p>	<p>The variances were caused by reports from the implementing partners which were submitted after the reports to the development partners had been compiled and as such the reports shared by the DPs are drafts since the timelines set are limiting and therefore we do not have adequate time to capture all the reports from Implementing Partners. Going forward, we have included a disclaimer in the reports to the development partners indicating that the reports included are drafts and subject to change.</p>	<p><b>Resolved</b></p> <p>The matter has since been resolved.</p>	<p>CMF, Manager M&amp;E</p>
Development partner	Project	Total expenditure reported in quarterly reports for FY 19/20	Expenditure amount as per annual financial statements for FY 19/20	Variance expenditure																																																		
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<p><b>1.1.9. Non compliance with PSC Act on acting roles</b></p> <p>In the period under review, we noted the Chief manager, Finance and Manager, Human Resources and Administration had been acting in their capacities for a period exceeding one year.</p>	<p>The Board should consider filling the position as soon as possible to be in compliance with the act.</p>	<p>The positions have since been filled.</p>	<p>Open</p> <p>There were instances noted in the period under review.</p>	<p>MHR</p>																																																		

Ref/ Issue	Finding	Recommendation	Management comments	Status	Responsibility
<p><b>1.1.10. Deficiencies in MIS Policy</b></p>	<p>We noted the following deficiencies in the Management of ICT Policy document provided during our review;</p> <p><i>Change Management</i></p> <p>We noted that change management section of the ICT policy highlights that for a system change/enhancement, there should be a change request that should be approved and passed to IT for technical feasibility. The change management process documented in the ICT policy was noted to be missing the critical details including change log tracking; change management workflow for normal/standard, emergency changes, minor and urgent changes, risk assessment and impact criteria on the change requested, details of change approvers, user acceptance testing, fall-back procedures, including procedures and responsibilities for aborting and recovering from unsuccessful changes and unforeseen events.</p> <p><i>User Management</i></p> <p>The policy has not included the processes of super user monitoring and periodic user access rights review.</p> <p><i>Password Management</i></p> <p>The password policy has not included the number of unsuccessful logon attempts on the systems before a user cannot be locked out.</p>	<p>Management should ensure that all Management information system policies have been reviewed and updated sufficiently to provide adequate guidance across all information technology general controls.</p>	<p>Management kicked off the process of review / revision of the policy. The revised policy has updated sections that cater for these emerging issues. The policy is expected to be presented for approval to the Board in the current Financial Year.</p>	<p><b>Resolved</b></p> <p>The matter has since been resolved. The new IT policy for 2020-2022 has been approved by the Board, and it has in-depth or expanded sections dealing with Change Management, User Management and Password management</p>	<p>Manager ICT</p>



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Ref/ Issue	Finding	Recommendation	Management comments	Status	Responsibility
<b>1.1.11. Deficiency in policy update</b>	We noted that the ICT Policy and ICT BC and DR policies were last updated in 5th June 2017 whereas the WSTF Green ICT Policy was updated in September 2018.	Management should ensure that policies are reviewed frequently as per best practice recommendations.	Management notes the recommendation and initiated the process of reviewing these policies.	<b>Resolved</b> The matter has since been resolved. The new ICT Business Continuity and Disaster Recovery policy for 2020-2022 has been approved by the Board	Manager ICT
<b>1.1.12. Weakness in password configuration</b>	The management has documented MIS policy that defines most of the parameters required for strong password enforce for the application, operating system and the database. However, we noted the following exceptions: Password configurations were not enforced on AREN system Database password history configuration has been set to 5 passwords against the policy recommendation of no re-use of old passwords.	Password parameters should be set in accordance with the organization's password policy or best guidelines especially for human user IDs.	Management has noted that this issue has been longstanding. The vendor of the Aren system has indicated that this is a feature that is not yet ready but they are working on it. Management will keep following up on this. The Enforce passwords history requirement will be revised to 24 passwords, which is the industry best practice.	<b>Partially Resolved</b> The Enforce-passwords history requirement was be revised to 24 passwords, which is the industry best practice. As for password configurations in AREN, vendor of the Aren system has indicated that this is a feature	Manager ICT

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1.1.13. <b>Insufficient super-user monitoring</b>	Whereas there was a super user review conducted by the internal audit in December 2019, best practice recommendation is to have the review as an ongoing process.	Review of super user activities should be done frequently, at least quarterly, to ensure that inappropriate activities are detected on a timely basis.	Management notes the recommendation. The review of super user activities will be performed at every quarter.	that is not yet ready but they are working on it. Management will keep following up on this.  <b>Resolved</b> The matter has since been resolved. The super user audits are carried out Quarterly.	CMIAR, Manager ICT
1.1.14. <b>Lack of Operational level agreements (OLAs) between IT and other functional</b>	We noted that there are no documented service delivery commitments between IT and other functional areas.	SLAs between IT and other functional areas should be documented.	This recommendation is noted. The framework for the SLAs or OLAs between IT and other functional units has been included in the revised ICT policy. Once the new policy is approved, these agreements will be activated.	<b>Partially Resolved</b>  The newly approved ICT policy is being rolled out. These agreements will be activated this FY.	Manager ICT

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<b>1.1.15.</b> <b>A suitable tool for recording errors in production is not in place</b>	We noted that issues raised during production are recorded in manual spreadsheets.	Management should ensure that there is a functionality to enable user raise issues with IT and the issues are tracked from the time they are raised to resolution.	As part of the systems integration process that is being carried out this financial year, an IT Helpdesk application will be developed. This will ensure that all issues raised by users are captured through a suitable ticketing system and expedited appropriately.	<b>Open.</b>  The IT Helpdesk application is being developed this FY as part of the Systems integration process (SIP).	Manager ICT
<b>1.1.16.</b> <b>Absence of AREN Test environment</b>	We noted that there was no test environment in existence for AREN.	Management should ensure that there exists development/test environment as well as a production environment.	This recommendation is noted and the test environment for AREN has been created.	<b>Resolved</b>  The matter has since been resolved.	Manager ICT
<b>1.1.17. Low budget utilization</b>	We obtained budget versus actual analysis for the urban investments programme. We noted that the overall budget utilization for the year ended 30 June 2020 stood at 21%. Individual budget lines were also lowly utilized.	To allow for like for like comparison of budget versus actual expenditure, management should align the basis of preparations of the budget and the actuals.	This was caused by the COVID-19 pandemic whereby most WSPs slowed down project implementation while others suspended the works. WSTF will extend the UBSUP project implementation period at no costs to the WSP. WSTF will embrace the online engagement with respective WSPs.	<b>Resolved</b>	CMI, CMF
		Since budget is prepared on a cash basis, management should perform an analysis of budget versus actual			

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Ref/ Issue	Finding	Recommendation	Management comments	Status	Responsibility												
<p><b>1.1.18. Variances between WSP records and WSTF records</b></p>	<p>We identified instances where the expenditure and receivables balances as per WSTF's records did not match those of the WSPs.</p> <table border="1" data-bbox="703 1256 852 1834"> <thead> <tr> <th>Name</th> <th>Total Expenditure</th> <th>Total Receivable</th> </tr> </thead> <tbody> <tr> <td>WSTF</td> <td>75,385,101</td> <td>28,524,729</td> </tr> <tr> <td>WSPs</td> <td>80,633,656</td> <td>23,935,349</td> </tr> <tr> <td>Variance</td> <td>(5,248,555)</td> <td>4,589,380</td> </tr> </tbody> </table>	Name	Total Expenditure	Total Receivable	WSTF	75,385,101	28,524,729	WSPs	80,633,656	23,935,349	Variance	(5,248,555)	4,589,380	<p>payments in the period and monitor the utilization of each budget line.</p> <p>Upon completion of the program, an overall analysis should be conducted to ascertain how the various budget lines were utilized.</p> <p>As part of the year end closing procedures, WSTF should ensure that all the WSPs have submitted the required reports. Any variances identified should be reconciled in a timely manner.</p>	<p>WSTF will carry out frequent physical monitoring of the financial records to reconcile the accounts.</p> <p>The WSTF had divided the UJC programme into three zones which will be supported by a set of 3 CRMs (engineering, social and financial).</p> <p>The financial and social CRMs have already been engaged. Their outputs are based on agreed milestones per project hence this will help in proper record keeping.</p>	Open	CMI, CMF
Name	Total Expenditure	Total Receivable															
WSTF	75,385,101	28,524,729															
WSPs	80,633,656	23,935,349															
Variance	(5,248,555)	4,589,380															

Ref/ Issue	Finding	Recommendation	Management comments	Status	Responsibility																								
1.1.19. <b>Weakness in the action plan developed for prior audit recommendations</b>	We noted that the action plan provided by WSTF for the prior period audit 1 July 2019 to 30 June 2020 only included the findings on questioned costs. The action plan did not contain management's actions and follow up for other findings raised in prior period.	Management needs to prepare an action plan for all the audit findings raised and ensure that the matters are actively followed up and addressed timely.	An action plan has been developed to follow up on all external audit recommendations, both financial and non-financial.	<b>Resolved</b> An action plan has since been developed and is being used to track the implementation of the recommendations.	-																								
1.1.20. <b>Long outstanding receivables.</b>	We noted project receivable balances that were outstanding for more than one year totaling to Kshs 6,678,593. These advances were assessed as doubtful as at 30 June 2020 and provision was created in the WSTF's statutory financial statements. <table border="1"> <thead> <tr> <th>Project</th> <th>Amount in KSHS</th> <th>Amount in EUR</th> </tr> </thead> <tbody> <tr> <td>Ongata Rongai Sanitation Project</td> <td>186,869</td> <td>1,555</td> </tr> <tr> <td>Ongata Rongai Sanitation (Safisan Pilot) Project</td> <td>302,689</td> <td>2,519</td> </tr> <tr> <td>Nluresh Nzau Household San</td> <td>5,467,479</td> <td>45,509</td> </tr> <tr> <td>Gusii Household San</td> <td>283,126</td> <td>2,357</td> </tr> <tr> <td>Kathuku Mlimani Kyuso Water Project 7th Call</td> <td>395,230</td> <td>3,290</td> </tr> <tr> <td>Kimende Pipeline</td> <td>43,200</td> <td>360</td> </tr> <tr> <td><b>Total</b></td> <td><b>6,678,593</b></td> <td><b>55,590</b></td> </tr> </tbody> </table>	Project	Amount in KSHS	Amount in EUR	Ongata Rongai Sanitation Project	186,869	1,555	Ongata Rongai Sanitation (Safisan Pilot) Project	302,689	2,519	Nluresh Nzau Household San	5,467,479	45,509	Gusii Household San	283,126	2,357	Kathuku Mlimani Kyuso Water Project 7th Call	395,230	3,290	Kimende Pipeline	43,200	360	<b>Total</b>	<b>6,678,593</b>	<b>55,590</b>	Management needs to ensure that the long outstanding receivables are followed up on a regular basis and recovered from the WSPs.	The WSTF had divided the UPC programme into three zones which will be supported by a set of 3 CRMs (engineering, social and financial). The financial and social CRMs have already been engaged. The CRMs outputs are based on agreed milestones per project. WSTF will carry out frequent physical monitoring of the financial records to reconcile the accounts.	<b>Partially Resolved</b>	CMI, CMF
Project	Amount in KSHS	Amount in EUR																											
Ongata Rongai Sanitation Project	186,869	1,555																											
Ongata Rongai Sanitation (Safisan Pilot) Project	302,689	2,519																											
Nluresh Nzau Household San	5,467,479	45,509																											
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**APPENDIX II – INTER-ENTITY TRANSFERS**

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

<b>a.</b>	<b>Recurrent Grants</b>			
		<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	
	GOK	09.09.2020	13,916,667.00	FY 2020/21
		09.09.2020	13,916,667.00	FY 2020/21
		05.10.2020	13,916,666.00	FY 2020/21
		06.11.2020	13,916,667.00	FY 2020/21
		07.12.2020	13,916,667.00	FY 2020/21
		18.01.2021	13,171,666.00	FY 2020/21
		08.02.2021	13,916,667.00	FY 2020/21
		08.03.2021	13,916,667.00	FY 2020/21
		13.04.2021	13,916,667.00	FY 2020/21
		05.05.2021	13,916,667.00	FY 2020/21
		23.06.2021	13,916,666.00	FY 2020/21
		30.06.2021	13,916,667.00	Cash in Transit accrued on 30th June 2021
		<b>Total</b>	<b>166,255,000</b>	
<b>b.</b>	<b>Development Grants</b>			
		<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	
	GOK	17.09.2020	112,500,000.00	
		30.06.2021	114,800,000.00	Cash in Transit accrued on 30th June 2021
		<b>Total</b>	<b>227,300,000</b>	
<b>c.</b>	<b>Emergency Fund</b>			
		<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	
	NONE	NONE	NONE	
<b>c.</b>	<b>Direct Payments</b>			
		<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	
	World Bank	27.04.2021	152,710,976.00	
	World Bank	04.05.2021	15,049,855.00	
		<b>Total</b>	<b>167,760,831.00</b>	
<b>d.</b>	<b>Donor Receipts</b>			
		<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	
	World Bank		(78,936,859.00)	CIT accrued on 30th June 2020
		18.09.2020	80,174,415.85	
		05.10.2020	69,825,584.10	

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a.	<b>Recurrent Grants</b>			
		21.12.2020	59,426,917.00	
		11.02.2021	2,268,099,200.00	
		<b>Total</b>	<b>2,398,589,777</b>	
		<b>Bank Statement Date</b>	<b>Amount (Kshs)</b>	
	<b>EU CPIRA</b>		(312,152,914.02)	CIT accrued on 30th June 2020
		05.10.2020	75,000,000.00	
		27.11.2020	68,538,250.00	
		12.05.2021	175,468,568.30	
		<b>Total</b>	<b>6,853,904.28</b>	
		<b>Bank Statement Date</b>	<b>Amount (Kshs)</b>	
	<b>IFAD</b>	11.09.2020	6,768,300.00	
		19.05.2021	16,000,000.00	
		<b>Total</b>	<b>22,768,300.00</b>	
		<b>Bank Statement Date</b>	<b>Amount (Kshs)</b>	
	<b>SIDA</b>		(56,004,725.00)	CIT accrued on 30th June 2020
		26.04.2021	56,211,550.00	Actual Receipt
		<b>Total</b>	<b>206,825.00</b>	
		<b>Bank Statement Date</b>	<b>Amount (Kshs)</b>	
	<b>DANIDA - COVID 19</b>	24.05.2021	175,932,441.95	
		<b>Total</b>	<b>175,932,441.95</b>	
		<b>Bank Statement Date</b>	<b>Amount (Kshs)</b>	
	<b>GGEP</b>		(50,390,353)	CIT accrued on 30th June 2020
		07.12.2020	24,000,000	
		24.05.2021	26,390,353	
		<b>Total</b>	<b>0</b>	
		<b>Bank Statement Date</b>	<b>Amount (Kshs)</b>	
	<b>WLP</b>		(225,000,000.00)	CIT accrued on 30th June 2020
		17.09.2020	124,500,000.00	
		07.12.2020	100,500,000.00	
		24.05.2021	160,000,000.00	
		<b>Total</b>	<b>160,000,000</b>	

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**APPENDIX III – REGISTER OF LOSSES DURING THE YEAR**

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

During the year ended 30 June 2021, there were no losses.