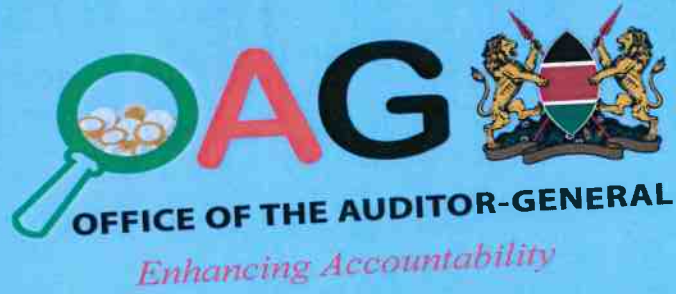
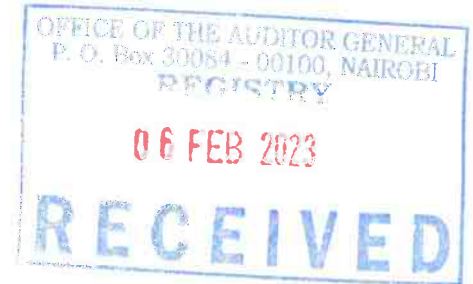


REPUBLIC OF KENYA



REPORT
OF
THE AUDITOR-GENERAL
ON
WATER SECTOR TRUST FUND
FOR THE YEAR
ENDED 30 JUNE, 2022

WATER SECTOR TRUST FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022



WaterFund
Financing the Water Sector

WATER SECTOR TRUST FUND

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

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GLOSSARY OF TERMS

Acronym	Description
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
MOWSI	Ministry of Water, Sanitation & Irrigation
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)
SWASAP	Sustainable Management and Access to Water and Sanitation in the ASAL Programme
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
WASREB	Water Services Regulatory Board
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 ENTITY INFORMATION AND MANAGEMENT

(a) 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.

(b) 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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1. KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(c) Key Management

Board of Trustees

Amb. Dr. Mary Mbiro Khimulu, MBS	Board Chairperson
Mr. William Lay	Chairman – Board of Trustees (effective 05 th July 2022)
Mr. Ismail Fahmy M. Shaiye	Chief Executive Officer (up to 13 th February 2022)
Mr. Willis Ombai	Ag. Chief Executive Officer (effective 14 th February 2022)
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 (up to 07 th February 2022)
Eng. Matthew Tuitoek	Member (up to 07 th February 2022)
Mr. Fredrick Odhiambo Josiah	Member
Dr. Dominic Biwott	Member (up to 07 th February 2022)
Ms. Rose Muguchu	Member (up to 07 th February 2022)
Ms. Ubah Abdi Ibrahim Gedi	Member (up to 07 th February 2022)
Mr. Daniel Mutua	Alternate Trustee to CS: Ministry of Treasury and Planning
Mr. Chrisologus Makokha	Alternate Trustee to Inspectorate of State Corporations
Mr. Chrysostom Ireri Njeru	Alternate Trustee to PS: Ministry of Water & Sanitation and Irrigation (up to 01 st June 2022)
Mr. Kevin Opiyo	Member (effective 05 th July 2022)
Dr. Mary Wambui Kimani, (PhD), MBS	Member (effective 05 th July 2022)
Eng. Musa Ndeto	Member (effective 05 th July 2022)
Ms. Theresa Wasike	Alternate Trustee to PS: Ministry of Water & Sanitation and Irrigation (up to 02 nd June 2022)
Mr. Kimani Mbatia	Member (effective 05 th July 2022)
Mr. Abdalla Hassan Abdalla	Member (effective 05 th August 2022)
Ms Halima Ali	Corporation Secretary

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 13 th February 2022)
Mr. Willis Okello Ombai, BSc (Forestry), MA (Project Planning & Management)	Ag. Chief Executive Officer (effective 14 th February 2022)
Mr. Edwin Korir, B.Ed. (Arts), MBA, CPA (K)	General Manager, Internal Audit & Risk Management
Mr. Samwel Gitau Mbugua, B. Com (Accounting), MBA, CPA (K)	General Manager, Corporate Services
Mrs. Halima Ali Abdullahi Bachelor of Laws (LLB), LLM, CIARB, CPS	General Manager, Legal & Corporation Secretary
Mrs. Ruth Nganga, BA (Theology), PGC, Ed	General Manager, Partnership Development and Resource Mobilization
Mr. Bernard Njenga, B. Com (Business Information Systems), MBA (Management Information Systems)	Manager, ICT & Corporate Affairs
Mr. Paul Atwa, BA (HR), Higher Dip. HR, MBA(Ongoing)	Manager, Human Resources and Administration
Mr. Isaac Isika, MSc Social Science (International development), BSc Water and Environmental Health Sciences.	Ag. Manager, Research, Planning and M&E (Up to 28 February 2022)
Mr. Thomas Nyangau BSC. Eng, MBA Strategy	Manager, Urban Investments
Mr. Fidelis Tamangani, BSc Natural Resources Management, MBA	Manager, Result-Based Financing (Up to 13 th May 2022)
Mr. Paniel Nyaga, MSC, Procurement & Logistics, BCOM (Marketing), Diploma in Purchasing & Supplies	Manager, Supply Chain Management

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1. KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(c) Key Management (Continued)

Management Team (Continued)

Mr. Elly Ochere, MBA, BSC Actuarial Sciences with IT	Ag. Manager, Research, Planning and M&E (effective 01 March 2022)
Mr. Peter Koech, BSC. Eng, (Civil)	Manager, Rural Investments
Eng. Rose Nyikuri, BSc. Eng (Civil), MSc (WREM), R. Eng., MIEK	Manager, Water Resources and Climate Change Investments

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2022 and who had direct fiduciary responsibility were;

Name	Designation
Mr. Ismail Fahmy M. Shaiye	Chief Executive Officer (up to 13 February 2022)
Mr. Willis Okello Ombai	Ag. Chief Executive Officer (effective 14th February 2022)
Mr. Willis Okello Ombai	General Manager, Programmes (up to 13 February 2022)
Mr. Samwel Gitau Mbugua	General Manager, Corporate Services
Mr. Panuel Nyaga	Manager, Supply Chain Management
Mr. Bernard Njenga	Manager, ICT & Corporate Affairs

(e) Fiduciary Oversight Arrangements

The key management fiduciary oversight arrangement were;

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 behaviour.

Finance and General Purposes Committee

The committee ensures effective systems that provide leadership in management, resource rationalization and professional performance that endeavour 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.

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1. KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(e) Fiduciary Oversight Arrangements

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.
- 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.

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.

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.

(f) Registered Offices

CIC Plaza First Floor,
Mara Road, Upper Hill,
P.O. Box 49699 - 00100
Nairobi, Kenya.

(g) Entity Contacts

Tel: +254 - 20-2720696/9017/9018/9019
Fax: +254 - 20-2724357
E-mail: info@waterfund.go.ke
Website: www.waterfund.go.ke

(h) Bankers

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

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1. KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(h) Bankers (Continued)

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.

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

(i) Independent Auditor

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

(j) Principal Legal Advisors

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

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2. BOARD OF TRUSTEES

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



Amb. Dr. Mary Mbiro Khimulu, MBS – Board Chairperson (Up to 07th February 2022)

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. William (Bill) Lay – Board Chairman (effective 5th July 2022)

Mr. William (Bill) Lay, is the Chairman of the Board of Trustees of the Water Sector Trust Fund (WaterFund), having been appointed in July 2022.

Mr. Bill Lay holds a Bachelor of Arts Degree from Alma College in Michigan, USA, where he studied Business Administration, graduating in 1974. In 1975, he started a career with General Motors (GM) Corporation including assignments in USA, Europe, Middle East and Africa. He retired in 2006 as Executive Chairman and CEO of GM East Africa in Nairobi, Kenya.

Mr. Lay is the Executive Director of ProSource Bimex Ltd., a Kenyan firm engaged in start-up and investor management consultancy.

Mr. Lay served as Chairman of Junior Achievement Kenya for 10 years and is a founding Trustee of the Kenya Private Sector Alliance. He served as a board member of Kenya Association of Manufacturers, Federation of Kenya Employers and served two terms as Chairman of Kenya Vehicle Manufacturers Association.

Mr. Lay has extensive Governance experience serving as Chairman of the Kenya Markets Trust, Business Advocacy Fund, Maziwa Taita and Taita Papa Community Based Organizations.

Mr. Lay holds dual USA and Kenyan citizenship after being granted Kenyan citizenship in 2013. He resides with his family in Wundanyi, Taita Taveta County.

His patriotism, vast leadership and interpersonal communication skills are great additions to the WaterFund Board of Trustees.



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2. BOARD OF TRUSTEES (Continued)

Mr. Ismail Fahmy M. Shaiye – Chief Executive Officer (Up to 13 February 2022)

Mr. Ismail Fahmy M. Shaiye joined the Trust Fund as Chief Executive Officer on 10th 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.

Mr. Joseph W. Irungu, CBS – Principal Secretary, Ministry of Water and Sanitation - (Up to 08 February 2022)



Joseph W. Irungu, CBS was appointed the Principal Secretary Ministry of Water and Sanitation on 12th 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).

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2. BOARD OF TRUSTEES (Continued)

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

Dr. Julius Muia was appointed the Principal Secretary at The National Treasury on 24th July 2019. 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.

Mr. Chrysostom Ireri Njeru, Alternate Trustee to PS: Ministry of Water & Sanitation and Irrigation (Up to 01 June 2022)

Mr. Njeru is currently the 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.



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2. BOARD OF TRUSTEES (Continued)



Ms. Rose Muguchu – Independent Trustee (Up to 07th February 2022)

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.



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.

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.

Ms. Ubah Abdi Ibrahim Gedi – Independent Trustee (Up to 07th February 2022)

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,



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Women and Development Studies at Egerton University, and Degree in Leadership and Governance at the University of Nairobi.

Ms. Abdi bring 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 (Up to 07th February 2022)

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 (Up to 07th February 2022)

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. Chrisologus Makokha Alternate Trustee - Inspectorate of State Corporations

Mr. Makokha is currently a PhD in 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.



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2. BOARD OF TRUSTEES (Continued)

Mr. Daniel Mutua - Alternate Trustee to CS: Ministry of Treasury and Planning

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 (Up to 07th February 2022)

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. 1.1B 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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2. BOARD OF TRUSTEES (Continued)

Mr. Kevin Opiyo - Independent Trustee (effective 5th July 2022)

Mr. Kevin Opiyo is a member of the Board of Trustees of the Water Sector Trust Fund (WaterFund), having been appointed in July 2022.

Mr. Kevin Opiyo is a financial and credit analyst with over nineteen (19) years of experience in the financial and banking sector, having worked in the public and the private sector in various parts of the country to provide professional advice, consultations, services and analysis.

Mr. Opiyo has worked in the financial sectors in various categories from sales, customer care, administration, staff welfare and in management, where he has been responsible for implementing the organisations mission, vision and objectives. He has started new branches and institutions and seen them through to profitable going concerns.

Mr. Opiyo holds a Bachelor of Commerce degree and has undertaken many professional courses in the finance and banking sector.

Mr. Opiyo is an exemplary leader with an impeccable track record as a team player and leader, high performance, professionalism and integrity.



Dr Mary Wambui Kimani – Independent Trustee (effective 5th July 2022)

Dr Mary Wambui Kimani is a member of the Board of Trustees of the Water Sector Trust Fund (WaterFund), having been appointed in July 2022.

Dr Mary Wambui Kimani is a holder of a Ph.D. in Land Economics, a Masters of Arts in Urban and Regional Planning and a Bachelor of Science in Agriculture.

Dr Kimani is registered by the Physical Planners Registration Board as a practicing physical planner. She is also registered by the National Environmental Management Authority, Kenya (NEMA) as an Environmental Impact Assessment and Audit Lead Expert. She is a Corporate Member of the Architectural Association of Kenya (AAK) Town Planners (TP) and Environmental Designer (ED) Chapters. She is also a member of the Environmental Institute of Kenya (EIK).

Dr Kimani has extensive experience in the academia spanning 29 years in teaching and research experience both at the undergraduate and postgraduate levels. She has supervised 2 Ph.D. and 8 Masters students to completion and is currently supervising 2 Ph.D. and 2 Masters students. She has published over 10 articles in refereed journals and contributed several book chapters.

Dr Kimani's professional and research experience is in the broad area of Agricultural and Forestry Resource Planning, Environmental Economics and Valuation as well as Environmental Conservation and Management. She has participated in feasibility studies including baseline studies, technical and financial proposals and appraisal, project evaluation, monitoring, implementation and supervision.

Other areas that Dr Kimani has undertaken include planning and analysis of environmental services including water supply and sanitation, Solid Waste Management and Disposal, Environmental Pollution, Prevention and Control; conducting and Preparing Economic and Environmental Impact Assessment and Audit.

Dr Kimani has been involved in studies focussing on financial and economic analysis of projects, solid waste management, collection, transportation, and disposal; planning, resource conservancy and recycling studies; and social impact of codes of practice studies in the agricultural industry, horticultural and flower industry.

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2. BOARD OF TRUSTEES (Continued)



Eng. Musa Ndeto - Independent Trustee (effective 5th July 2022)

Eng. Musa Ndeto is a member of the Board of Trustees of the Water Sector Trust Fund (WaterFund), having been appointed in July 2022.

Eng. Musa Ndeto holds a Bachelor of Science degree (B.SC Hons) in Electrical Engineering from University of Nairobi, and Master of Business Administration in Finance (MBA-Finance) and Master of Business Administration in Strategic Management (MBA-Strategic Management) from Daystar University.

Eng. Ndeto has worked for Kenya Power and Lighting Company (KPLC) for 23 years. By the time he left that employment he held the position of the Chief Distribution Manager, the highest technical position in the company. During his time at KPLC, he trained with the Central Electricity and Generation Board (CEGB) of United Kingdom and SwedPower, the main power utility in Sweden.

Eng. Ndeto brings vast experience from the banking industry too, having served in Kenya Commercial Bank (KCB) Board in various capacities: From 2002 to 2004, he served in the Group Board and at the same time, he was a Director of KCB South Sudan subsidiary. From 2005 to 2010 he was the Chairman of the KCB Sudan subsidiary and at the same time serving in the group Board. Between 2012 and 2014, he was the Group Chairman of the KCB Group, with general oversight responsibilities of KCB Tanzania, KCB Uganda, KCB Rwanda, KCB Burundi and KCB South Sudan and KCB Kenya.

Eng. Ndeto was a member of Board of Directors in Westconsult, an electrical Consulting firm whose primary work is to design, construct and commission power systems.

Between 2002 and 2013, he served as a member of the Board of Directors for Kenya Electricity Generating Company (KenGen), where he chaired the Strategic Committee of the company and also Board Audit Committee of the Company.

Mr. Abdalla Hassan Abdalla - Independent Trustee (effective 5th August 2022)

Mr. Abdalla Hassan Abdalla is a member of the Board of Trustees of the Water Sector Trust Fund (WaterFund), having been appointed in August 2022.

Mr. Abdalla previously served as a Board member of the Ewaso Ng'iro North Development Authority for two terms.

Mr. Abdalla is a well-rounded businessman with a wealth of experience spanning many years, having been instrumental in resource mobilisation, successful implementation and helping the realisation of several projects including boreholes, dams and water pans in Northern Kenya. This has helped to alleviate suffering among pastoralists and animals in this arid and semi-arid lands (ASAL) area of Kenya.

Mr. Abdalla's business area of specialisation is real estate development besides also having interest in the Civil engineering sector and the aviation industry. Having excellent management and business skills, he is highly competent in making business proposals to push forward the welfare of marginalised communities in Northern Kenya.

Mr. Abdalla is the founder and sponsor of Siyad Football Tournament in Wajir whose theme is No to Radicalisation and Yes to Peace. Through his philanthropic activities, he is involved in other Corporate Social Responsibility (CSR) activities in order to give back to the community.

Mr. Abdalla brings a wealth of experience from the private sector and the corporate world to the Water Sector Trust Fund.



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2. BOARD OF TRUSTEES (Continued)



Ms. Theresa Khakasa Wasike - , Alternate Trustee to PS: Ministry of Water & Sanitation and Irrigation (effective 2nd June 2022)

Ms. Theresa Khakasa Wasike is the Water Sector Trust Fund's Alternate Trustee to the Principal Secretary in the Ministry of Water, Sanitation and Irrigation, having been appointed in June 2022.

Ms. Wasike currently serves as the Director Administration, Ministry of Water, Sanitation and Irrigation. She brings a wealth of experience in Public Administration having served in different Administrative capacities in both field and central Government Administration. She has previously served in the Ministry of Interior & Coordination of National Government as a District Officer in Western and Rift Valley regions.

Ms. Wasike is a graduate of the Ukrainian Institute of International Relations, Kiev University, where she graduated with Masters of Arts in International Relations.

Mr. Mbatia Kimani - Independent Trustee (effective 5th July 2022)

Mr. Mbatia Kimani holds a Bachelor of Commerce Degree from the University of Nairobi. In addition, he has an MBA from the Edinburgh Business School (UK) and is a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

Mbatia has over 30 years of Board and Senior-level Management and Multi-Country experience in a diverse range of industries both in employment and in private business.

Mbatia is proficient in International Corporate Business Leadership and Governance, Strategic Planning and Business Development. He has varied professional skills particularly in all facets of Financial Management, Auditing, Restructuring, Lean Manufacturing, Acquisitions and Cutting-Edge Business Solutions. In addition, he is adept in Turnarounds, Organisational and Cultural Transformation and working effectively with persons from other cultures and all walks of life.

Mbatia brings along vast experience to WaterFund having served in different organisations. He has served as a Board Director at Kenya Airports Authority and was at different times the Chairman of the Finance and Strategy Committee and the Audit Committee of the Board.

Mbatia also served as a Director at Orion Lubricants, the Chevron/Caltex lubes distributor in Tanzania, Finance Director/CFO for Middle East & Africa Region for ASSA ABLOY while based in Johannesburg, South Africa. Others include Group Financial Controller at Kenya Airways (KQ), Group Financial Controller for Best Foods & CPC (Corn Products), Chief Accountant at Coca-Cola Africa, Management Accountant at Unga Ltd, and Chief Internal Auditor at the Kenya Cooperative Creameries (KCC) Ltd.

Mbatia has acquired vast training in Board and Senior Management Development / Leadership / Governance Programs around the world.



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2. 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 from Queen Mary University of London through Commonwealth Scholarships and currently finalising her second masters in International Finance and Regulations from Strathmore University.

Halima is also an associate member of Chartered Institute of Arbitrators, a certified mediator and member of Commonwealth Scholarship Commission alumni advisory panel.

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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3. MANAGEMENT TEAM



Chief Executive Officer

Mr. Ismail Fahmy M. Shaiye

Mr. Ismail Fahmy M. Shaiye – Chief Executive Officer (Up to 13 February 2022)

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.



Ag. Chief Executive Officer

Mr. Willis Ombai

Mr. Willis Ombai – Acting Chief Executive Officer (Effective 14th February 2022)

Mr. Ombai is a Developmental Expert with a bias in Natural Resource Management and with over 20 years’ experience in various countries in Africa serving in different capacities. He holds Masters of Arts Degree in Project Planning and Management from Maseno University, Bachelor of Science Degree in Forestry from Moi University. He is currently pursuing a Ph.D in Environment Policy from University of Nairobi.

Mr. Ombai has extensive experience in management of development projects financed by bilateral, global and national agencies including World Bank, European Union, DANIDA, German Development Bank, International Fund for Agricultural Development, The Gates Foundation, Government of Sweden, Government of Finland and Government of Kenya.

In his previous portfolio as a Chief Manager, Investments and Programmes, Mr. Ombai’s key role was overall supervision of implementation of investments across WaterFund through monitoring and development of quality and timely reporting to Development Partners, Board of Trustees and other key stakeholders. He led in development of short to long term investment strategies, development and review of proposals for resource mobilisation, establishment and strengthening of partnerships.

Mr. Ombai previously worked as a Project Coordinator at Open Society Initiative for Southern Africa, a Civil Society Organisation on Sustainable Land Management (SLM) Project for Sub-Saharan Africa funded by the United Nations Development Programme (UNDP). Key among his responsibilities was to provide strategic leadership to the project teams in budgeting, stakeholder engagement, grant management risk assessment and assurance. High-level reporting for transparency and accountability in compliance to best practices, national and international environmental laws was also part of his responsibilities.

Mr. Ombai has been serving as the Secretary and Advisor to the WaterFund Board of Trustees (Investments & Monitoring Committee) on broader issues pertaining investments in water, sanitation and water resources management projects, monitoring, evaluation accountability and learning. Mr. Ombai has also previously worked for World Agro Forestry Centre (International Centre for Agroforestry-ICRAF), Danish International Development Agency and National Environment Trust Fund amongst others.

Mr. Ombai is a member of Forestry Society of Kenya, Environmental Institute of Kenya and Institute of Directors (Kenya).

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3. MANAGEMENT TEAM (Continued)



**General Manager,
Corporate Services**

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



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

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



**General Manager, Partnership
Development & Resource
Mobilisation**

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



**General Manager, Legal
Affairs & Corporation
Secretary**

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



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

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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 (MIS), Dip (Comp)



Manager, Rural Investments

Mr. Peter Koech, BSC. Eng. Civil



Manager, Results-Based Financing (Up to 13 May 2022)

Mr. Fidelis Tamangani, BSc Natural Resources Management, MBA



Ag. Manager, Research, Planning and M&E (effective 13 November 2020)

Mr. Elly Ochere, MBA, BSC Actuarial Sciences with IT



Manager, Supply Chain Management

Mr. Panuel Nyaga, MSC Procurement & Logistics, BCOM (Marketing), Diploma in Purchasing & Supplies

**WATER SECTOR TRUST FUND
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4. CHAIRPERSON'S STATEMENT

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 2021/2022. 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. In addition, the election cycle characterized by slow economic growth attributed to heightened politics across the country to an extent contributed to the growing risks in achievement of the 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 and elections have 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 in collaboration with its stakeholders 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. These revised strategies included the review of the Risk Management Framework and Policy, development and review of key institutional policies to position the Fund to address the resultant impacts of the challenges while ensuring progress made in enhancing access to water and sanitation services in addition to water resources management is sustained. Key among the achievements are: mobilization of approximately KSh. 2.1 Billion to finance both COVID-19 Emergency response and recovery projects and to finance projects under the investment programmes. Further, through its investments programmes, the WaterFund has reached more than 96,147 people with improved access to water services and additional 124,821 people with sanitation services in addition to conserving approximately 0.03 square kilometres of degraded catchment.

During the period under review, it is worth noting that the WaterFund was the recipient of the prestigious 2021 United Nations Public Service Awards, after its Output-Based Aid Programme was selected as one of the winners of the award under category of "Enhancing the effectiveness of public institutions to reach the SDGs" The theme for the 2021 United Nations Public Service Award is "Innovating the Future: New Government Models for a New Era to Reach the SDGs". In performance front, WaterFund was ranked the 12th best in the County by the Public Service Performance Monitoring and Management Unit (PSPMMU) for the FY 2020/2021 and the 3rd best in the Water Sector. Further, WaterFund was also evaluated by the Public Service Commission with results of evaluation yet to be released. However, in the FY 2020/2021 WaterFund emerged 2nd best in the country.

The evaluation results indicates 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 periods as most of the works were in progress as at the time of preparation of this report. In a addition, WaterFund developed the capacities of project implementing partners for quality service delivery in water and sanitation services.

The WaterFund continue to pursue innovative financing mechanisms geared towards sustainability of the Water Sector. As such WaterFund appreciates the Development Partners for their continued support in the midst of the economic challenges caused by Covid-19 pandemic. Through the mutually beneficial partnerships, WaterFund continues to improve access to water and sanitation services through financing of projects 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.

The competing needs for funds allocation to mitigate the challenges presented by COVID 19 and slow economic recovery, 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 priority plan, Water Masterplan 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 aspirations of the Water Act, 2016, is on course and the short-term implementation challenges will be overcome.

**WATER SECTOR TRUST FUND
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4. CHAIRPERSON’S STATEMENT (continued)

Corporate Strategy

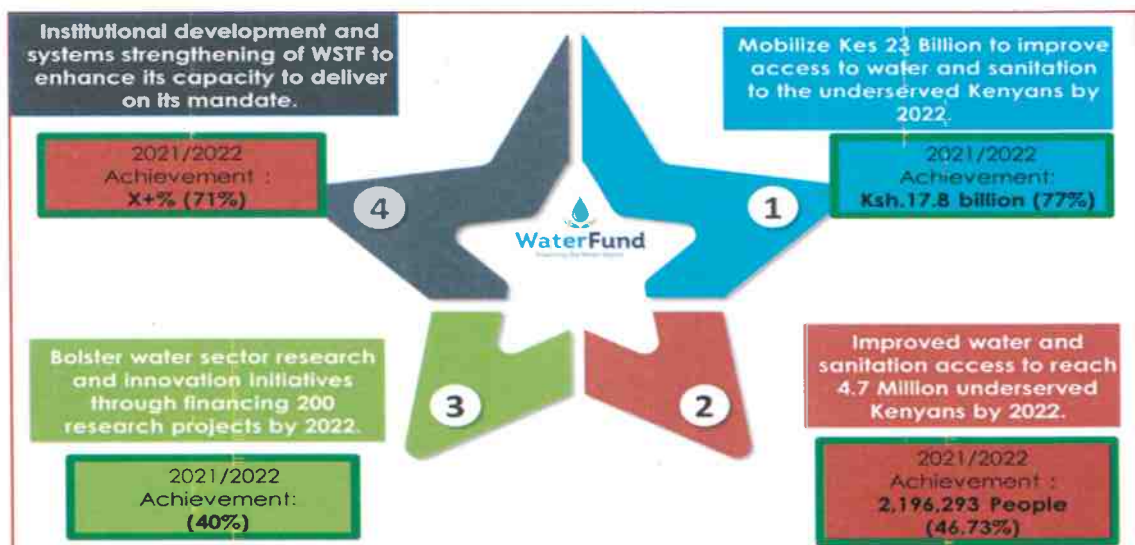
The WaterFund under the leadership of the Board of Trustees has continued the implementation of its Strategic plan 2018-2022 during the period under review. In addition, the Fund undertook mid-year performance review of the implementation progress on the strategic objectives with the aim of documenting the achievements, challenges, lessons learnt and proposed strategies that would support in realization of the object of the Fund in line with its mandate. It is worth noting that the current Strategic Plan 2018-2022 is expiring and the Management has engaged a consultant to support in development of a new Strategic Plan for the period 2023-2027. Further, the consultant is expected to undertake an evaluation of the current Strategy. The development of the Strategic Plan is expected to be a consultative and participatory process to map out the strategic focus areas in line with the object of the WaterFund. The new strategic Plan will be hinged on the Fourth Medium Term Plan (MTP IV) targets drawn from the Kenya Vision 2030 and aspirations of Constitution of Kenya 2010 in addition to the sectoral plans, Strategies and Policies while aligning activities to the Government’s priority areas.

Moreover, WaterFund has requested the Ministry of Water, Sanitation and Irrigation to extend the Strategic Period for implementation of the current Strategic Plan for an additional one financial year to allow WaterFund develop a new strategic plan which will fully align to MTP IV and to the 5th generation of strategic plan development guidelines.

Key challenges affected implementation of the strategic plan 2018-2022 was budget rationalization by The National Treasury this predicament affecting all strategic objectives. Specifically, the rationalization of budgets challenges was; omission/wrong capture of programme budget lines in the printed and supplementary budget estimates; budget reductions to already approved projects for financing; limited budgetary allocation for roll out of research and innovation planned activities and implementation of institutional capacity enhancement programmes.

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

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4. **CHAIRPERSON'S STATEMENT (continued)**

Institutional Performance Management

During the FY 2021/2022, 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 intents 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 2021/2022 which was prepared in accordance with the 18th cycle guidelines. In the same period, the Water Fund's performance for FY 2020/2021 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 2.5041 (**Very Good**) as per the evaluation criteria.

Research and Innovation Financing Framework and Policy

WaterFund developed a robust research and innovation financing framework and policy through a consultative process to guide the financing of incubation of research ideas and innovations that contributed to generation of new knowledge and efficient service delivery in the sector.

However due to complexity in management of research studies and innovations, the WaterFund proposed the development of a Research and Innovation Information Management System (RIIMS) with the intent of operationalizing the Framework and Policy through automation of the processes.

During the period under review, WaterFund initiated the engagement of a consultant to support in development of Research and Innovation Information Management System (RIIMS). The consultant is expected to develop the RIIMS which is scheduled for user acceptability testing, training and commissioning in the next financial year. The System upon completion is expected to be utilized by potential Researchers and Innovators in application for financing. WaterFund and other stakeholders would utilize the system in management of funded research and innovation funded projects and disseminate new knowledge generated and innovations through the Hub.

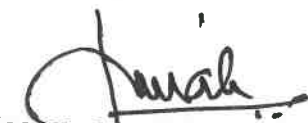
ISO 9001:2015 Recertification

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 was recertified under ISO 9001:2015 in September 2021 through Kenya Bureau of Standards (KEBS). In line with the recertification contract, the Fund has continuously complied with the requirements of the standard and greatly improved its Quality Management System, thereby satisfying its customers. In addition, the Fund conducted internal surveillance quality audit as per the ISO standard and audits report presented to the management during management review meeting for deliberation. Currently, WaterFund is awaiting external surveillance audit, that are to be undertaken by the Kenya Bureau of Standards (KEBS) scheduled on 21st September, 2022

Thank You.



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

WATER SECTOR TRUST FUND
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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 2022.

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 *Sustainable Management and Access to Water and Sanitation in the ASALs*, funded by Danida; an MOU with Kenya Markets Trust (later Gatsby Africa) for strategic and programme support; and an MOU with Strathmore University Business School for collaboration in research and innovation. Three programme extensions were obtained for Danida funded Green Growth and Employment Programme (GGEP), Water and Livelihoods Programme (WLP) and Nairobi Covid-19. All three Programmes closed in June 2022.

During the period, development and negotiations continued on the World Bank Horn of Africa Programme, and the second phase of Conditional Liquidity Support Grant. Notably, World Bank granted approval for the programme, a big milestone in the negotiations. It is expected that the financing and subsidiary agreements for both Programmes will be signed in the next financial year. WaterFund also continued with development and negotiation for the Public Investment Financing Facility (PIF) of Finland, and underwent a final appraisal for the Programme, which returned positive feedback and recommendation for consideration by the PIF Internal Control Board. Further, the WaterFund submitted revised Concept to the Green Climate Fund in pursuit of the GCF Programme on *Enhancing access to finance for green technologies in water and sanitation*.

WaterFund with the support of USAID-WASH FIN undertook a feasibility study in continued effort to establish a Loan Facility, and various engagements with the Government and Development Partners were held in pursuit of a seed fund for the facility.

The Fund commenced development of Revenue Generation Policy and Business Modes Framework, both aimed at enhancing innovative and sustainable financing for WaterFund programmes and operations.

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 the annual Stakeholder and Development Partners Forum which was held to deliberate on pertinent Institutional, Partnerships and Programming issues. The meeting included the Board of Trustees, Ministry of Water, Sanitation and Irrigation, Development Partners, WASREB and Water Resources Authority.

WaterFund participated in the World Water Forum in Dakar, where it exhibited and presented on the impact of its programmes. The Fund also participated and exhibited at the Africities Event in Kisumu. Both were key in showcasing the work of the WaterFund, identifying and nurturing new partnerships, and participating on key water and sanitation sector dialogue.

BUSINESS PERFORMANCE

Revenue

Water Sector Trust Fund earned revenues amounting to KShs. 5,193 million from the development partners, the Government of Kenya and other revenues from exchange transactions. The Government of Kenya contributed KShs. 399 million, development partners contributed KShs. 4,768 million while revenues from exchange transactions amounted to KShs. 26 million.

The Government of Kenya support to WaterFund experienced a decrease of 38% 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 4,768 million representing an increase of 32%. 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.

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5. REPORT OF THE CHIEF EXECUTIVE OFFICER (Continued)

Cash flow

The cash and cash equivalents decreased from KShs. 1,076 million as at 30 June 2021 to KShs. 1,065 million as at 30 June 2022. Towards the end of the financial year, there was significant cash outflow in form of funding of projects to WSPs.

Employees

Water Sector Trust Fund (hereinafter referred to as WaterFund, The 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 2021/2022, the Fund's Staff Establishment stood at 91 staff out of the 175 authorized in the Staff Establishment as compared to 86 staff during the FY 2020/2021. This has continued to increase the efficiency and effectiveness in the delivery of the Fund's strategic objectives.

The Fund values and believes in building strong teams to achieve its objectives and improve staff morale, communication and working relationships. It facilitated a successful team building activity held in Mombasa towards the close of the financial year. The Fund also managed to continue building the capacity of its staff through various trainings and continuous professional development programmes despite the budgetary cuts advanced in the course of the year by the National Treasury.

In the year under review, the Fund continued to deliver on its cross-cutting performance contracting commitments leading to the attainment of an overall performance contractual rating of "Very Good". The staff satisfaction index which measures staff perceptions on interactions with the Fund improved from 82% in the previous year to 84% in the year 2021/2022. The Fund was also evaluated by the Public Service Commission on the extent to which it complied with the values and principles mentioned in Articles 10 and 232 of the Constitution of Kenya, 2010 and was ranked position One (01) countrywide.

The Fund continued to implement the Covid-19 protocols as issued by the Ministry of Health including the provision of Personal Protective Equipment (PPEs) and a safe and healthy work environment for its employees.

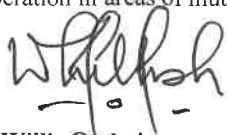
In pursuit to realize the Constitutional requirement and 5% threshold for engagement of Persons with Disability (PWDs), the Fund maintained its score of 5.7% and further ensured the continued balancing of diversity provisions for disadvantaged groups as provided for in the Constitution.

The Fund also acquired an additional three motor vehicles, with the support of World Bank, to its fleet which has greatly impacted positively on monitoring and execution of projects as well as significantly reducing costs of operation that had been occasioned by its aging fleet.

The Fund closed the year by celebrating individual and collective efforts from its staff by issuing gift vouchers to staff following their hard work during the year in the midst of the various challenges that had been presented by the Covid-19 pandemic and other external factors including the Ukraine-Russia Crisis. .

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 PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2021/2022

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 2021/2022 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	1.0% increase in GoK budgetary allocation Kshs 2.129B 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	7 No. Water projects financed increasing access to 217,473 people with improved water services 20No. Sanitation projects financed increasing access to 214,742 people with improved sanitation services 34No. 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	WaterFund engaged a consultant to develop research and innovation information to be utilized by potential Researchers and Innovators in application for financing.

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6. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2021/2022
 (Continued)

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	71No. of staff trained on various courses to institutional address gaps identified.

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7. CORPORATE GOVERNANCE STATEMENT

THE BOARD

Water Sector Trust Fund is established under Section 113 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 framework. 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 Water Act 2016 and provisions of Mwongozo. The structure is designed to ensure an informed decision-making process based on accurate reporting to the Board.

THE BOARD OF TRUSTEES

The Water Act, 2016 provides that the Board shall consist of a chairperson and six other members identified for appointment through a competitive process- and representatives from key government departments such as Ministry of Water, Irrigation and sanitation, National Treasury.

The Board of Trustees are responsible for the long-term strategic direction of the Fund, guide in policy developments and recruitment top leadership at the fund such as the position of of the Chief Executive Officer and the senior management. The Board of Trustees exercises leadership, enterprise, integrity and determination in directing the Fund.

In compliance with Mwongozo provisions the management team ensures timely discharge of all necessary communications and adequate consultation with the Board of the day-to-day running of the operations of WaterFund is delegated to the CEO with proper guidance and supervision of the Board.

Additionally, members of the Board of Trustees are trained both locally and internationally to ensure there is no skill gap in carrying out their duties within the law.

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 2021/2022.

In ensuring that corporate governance and integrity is enhanced in between the governance of WaterFund, the Board of Trustees have established three substantive Board 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

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:

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7. STATEMENT OF CORPORATE GOVERNANCE (continued)

ii) Finance & General Purposes Committee (Continued)

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 FY2021/2022 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. Further in order to enhance compliance, all staff and Board of Trustees sign code of conduct.

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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 and Legal 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. Most of the recommendations in the governance and legal audit have been implemented.

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 carried out the review of the Risk Management Policy and 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. 5,015.7 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.

Commercial Financing/ Urban Investments Programme

Upscaling Basic Sanitation for the Urban Poor (UBSUP)

The UBSUP programme is financed to a total of KShs. 1.46 billion by KfW and is 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 2023. 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 to 105,510 people through the household toilets constructed and additional 440,000 people through the completed Decentralized Treatment Facilities (DTFs) for treatment of sludge.

WSTF continues to support WSPs implementing the construction of the facilities through monitoring. Monitoring of the DTF projects that were not progressing well such as Garissa, Kilifi Mariakani, Lamu and Taita Taveta DTFs was carried out in the month of Jul 2022. Training of DTF operators for the completed and commissioned DTFs was also conducted for Port Victoria Busia, Othaya Mukurweni and Kakamega DTFs. WSTF also recruited a team of the Technical, Finance and Social County Resident Monitors to monitor the UBSUP projects. Joint Mission between KfW and WSTF has been planned for October 2022. WSTF continues to carry out disbursement of Funds to the WSPs implementing UBSUP and provide monitoring for the unfinished projects.

Urban Project Concepts (UPC) 8th Call

WSTF undertook UPC 8th Call for Proposals Desk and Detailed appraisal exercise between 26th July and 5th August 2021. WSTF then proceeded to carry out field appraisals for the the WSPs that passed desk and detailed screening between 15th Aug and 10th Dec 2021. The Projects for WSPs that passed this stage were submitted to WSTF Board of Trustees for approval on 10th December 2021.

Following approval of the successful UPC 8th Call projects for funding by the Board of Trustees (BoT), WSTF submitted a request for No Objection from KfW Bank in line with the with signed Separate Agreement. WSTF then recruited 20No. County Resident Monitors (CRMs) to support UPC 8th Call project implementation and consequently held CRM induction workshop on 13thMarch-18th March 2022. WSTF awarded and signed 51No. of projects to the successful Water Service Providers (WSPs), 38No. being Water supply projects and 13No. being Public Sanitation Facility (PSF) on 6th April 2022. WSTF has held 2No. Implementation workshops with successful WSPs to train them on project implementation process between 19th April and 29th April 2022.

Nairobi Danida Covid-19 Emergency Response Programme

Advertisement for the 2nd phase of activities by the Nairobi City Water and Sewerage Company (NCWSC) done was done on 9th July 2021. WSTF Board of Trustees (BoTs) projects monitoring was done on 21st September 2021 with an objective of reviewing the physical progress achieved in the implementation of the Nairobi Covid-19 Project.

Award and signing of advertised Phase II activities to the lowest evaluated bidder was done on 8th December 2021. The implementation of the activities was not completed in time and Extension of Time (EoT) was sought.

The EoT was approved at No Cost Extension by Danida on 7th February 2022. 2nd Disbursement of Kshs. 66,586,255.40 was done on 24th February 2022. Works were completed and the project closed on 30th June 2022.

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8. MANAGEMENT DISCUSSIONS AND ANALYSIS (Continued)

Aid on Delivery (AoD)

The first capacity building workshop done to sensitize the WSPs on AoD project proposals application. This was followed by Call for proposals which was made on 5th April, 2022. 33 WSPs submitted proposals which were subjected to desk and detailed screening. At the screening stage, 20 WSPs qualified to move to the next stage of field appraisals. The field appraisal for the WSPs was completed on August 2022. Preparation of field visits reports and a short list of 6-8 WSPs to be move forward to the next stage is ongoing.

Advert for National Consultants to support the implementation of the project was made on 5th August 2022. 17 Consultants submitted bid on 16th September 2022.

Conditional Liquidity Support Grant (CLSG) 1

A total of Kshs. 2.95 Million disbursed during the year to 77 WSPs as variable and fixed grants. Capacity building workshops was done where 77 WSPs participated in the training of the monthly financial reporting CLSG under the quick start quick finish interventions has given access to water to a total population of 18,000 and amounts to Kshs. 601 Million which was disbursed as fixed grant. The other amount was disbursed as variable grant.

So far, 52% of completion reports from WSPs have been received (41 WSPs/79 WSPs). An Audit on Financial Management of CLSG 1 was done by the World Bank and recommendations given. In addition, 3 monitoring and expenditure verification exercises were undertaken in 77 participating WSPs. It is worth noting that there have been delays in disbursement of funds consequently delaying the implementation of the CLSG 1 quick start quick finish interventions and the Preparation of draft CLSG 1 Closure report.

The next stage is undertaking project closure activities such as;

- i) Review and compilation of completion reports from WSPs financed, 45 out of 79 WSPs who have submitted their reports
- ii) Preparation of the Programme closure report, this has been submitted to Ministry of Water, Sanitation and Irrigation (MoWSI) for review.

Conditional Liquidity Support Grant (CLSG) 2

CLSG 2 is being implemented after the implementation of CLSG 1. Preparation of CLSG 2 Manual and submission to MoWSI was done as the first requirement. Other requirements were the preparation of MoUs and Agreement with participating WSPs and key partners.

The Preparation of Draft MOU between WSTF and WASREB is complete and submitted for review. The same applies to the Preparation of Draft MOU between WSTF, Commercial Banks and WSPs. Preparation of CLSG II Agreement with WSPs is complete and is being reviewed. WSTF is however waiting for the signing of the CLSG 2 Subsidiary agreement with the National Treasury which has delayed the launch of the Programme. The preparation of CLSG II Roadmap is complete and shared with MoWSI and WASREB.

Performance-Based Contract (PBC)

WSTF procured an International Consultant with experience in the development of PBCs namely Z&A Consulting Engineers International Ltd. The five WSPs proposed under PBC are Naivasha, Nakuru-Rural, Nanyuki, Eldoret and Nyeri.

In the financial year 2020/2021, the consultant submitted 3 reports as follows;

- i) Inception report submitted in October, 2021 under Task A
- ii) Project concept reports submitted in March, 2022 under Task A
- iii) Draft NRW reduction strategy reports in July, 2022 under Task B1

A total of Kshs. 17.8 Million was also paid to the consultant since Programme inception. The next stage is:

- i) Review and approval of the draft Non-Revenue Water reduction strategy reports under Task B1
- ii) Preparation of indicative Performance Based Contracts for Non-Revenue Water Reduction under Task B2

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8. MANAGEMENT DISCUSSIONS AND ANALYSIS (Continued)

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 2021-2022, 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

During the FY, 10 water schemes were completed during the period reaching 11,279 people. In the same FY, to build on County institutional framework, one meeting was held in Lodwar, to revive the County Process on registration of two Water Companies for management of rural and urban water supplies and sanitation services. To enhance capacity of Lokichoggio and Kakuma water operators, the two groups were trained during the year by Kenya Water Institute (KEWI), on billing and revenue, Customer Care, Water Demand Management and Complimentary skills.

A Joint monitoring visit with the Royal Danish Embassy and missions was held in Turkana to benchmark in preparation for Inclusive refugee response programme supported by Danida. During the FY, the implementation and financing of projects under the programme came to the closure at 30th June 2022 and therefore WSTF was focusing on programme closure activities.

Green Growth and Employment Programme

WSTF strengthened partnership with Northern Rangeland Trust (NRT) to provide technical support on completion of the Community Development Management Plans for conservancies financed under the program. A Joint mission with the Royal Danish Embassy, WaterFund and County Water Department officers were undertaken in Isiolo, Lamu and Tana River to monitor the progress of GGEP projects and also create awareness for the new Danida programme.

Under the Programme 5 water and sanitation projects were completed during the period increasing access by 3,913 people. In the FY, WaterFund worked in partnership with Gatsby Africa formerly Kenya Market Trust (KMT), Caritas International and Water Service Regulatory Board (WASREB) to develop the Guidelines for provision of water and sanitation in rural and underserved areas.

In the FY, Operation and Maintenance training was undertaken for 20 water and sanitation projects and 19 water resource management projects. In addition, the implementation and financing of projects under the programme came to the closure at 30th June 2022 and therefore WSTF was focusing on programme closure activities.

Water Resources & Climate Change Investments (WRCCI)

The Upper Tana Natural Resources Management Project (UTaNRMP) is an eight-year programme (2012-2023) having received a project extension till end June 2023. It is supported by the Government of Kenya, the International Fund for Agricultural Development (IFAD) and the Spanish Trust Fund through the Water Sector Trust Fund in the financing of Water Resources Users Associations (WRUAs) and Community Forest Association (CFAs) activities. The programme objective is to enhance sustainable management of water resources and natural resources in the six counties of Nyeri, Embu, Meru, Kirinyaga, Tharaka Nithi and Murang'a at an estimated grand budget of Kshs.750 million. By end of June 2022, 83% of the programme budget had been disbursed to WRUA and CFA activities through the WaterFund.

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8. MANAGEMENT DISCUSSIONS AND ANALYSIS (Continued)

Rural Investment

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

Cumulatively, 59 No. WRUAs and 33 No. CFAs have been supported against programme targets of 61 No. WRUAs and 33 No. CFAs respectively. In the year 2021/2022; 36 No. new groups (comprising of 19WRUAs and 17CFAs) were capacity build on financial management and procurement skills as a strategy to enhance project management, improved funds utilisation and accountability within these benefitting communities. At grassroot level, through the CFA activities hundreds of hectares of gazetted forest area was rehabilitated and tens of tree nurseries established with long term positive impacts of reduced pressure on forests and forest related products. Improved nutrition at household level was also achieved through the procurement and production of fruit and agroforestry seedlings.

In regards to water resource management, several springs were protected; rain water harvesting tanks installed at tree nursery and greenhouse sites with results of improved water resource access and increased water storage within the project area. Key livelihood activities such as beekeeping and fishponds were also supported with the impact of improved livelihoods within the benefitting WRUA and CFA communities.

Climate proofed infrastructure Programme- EU CPIRA

During the FY 3 water, 5 PSFs and 2 CLTS projects were completed serving 46,810 people. Under this Programme review workshops were held in Mombasa and Nakuru to review progress and develop strategies for completion of programme activities. WSTF Management and EDE-CPIRA team participated in 9th World Water Forum in Senegal to enhance programme visibility and expand WSTF network of possible partners. The 2nd Call designs for water and sanitation projects was concluded and projects approved by the board of Trustees. Capacity building workshops were held for 7 WRUAs on project implementation, financial management and procurement management.

SNV under programme result 3 on Public Private Community Partnerships (PPCPs); carried out commercial viability assessment of 20 community water systems in the 8 CPIRA counties. Within the FY, all COVID 19 water projects were completed and closed.

SWASAP

Preliminary activities including programme launch was held on 18th February 2022, call for proposal was released on 22nd April 2022 and projects appraisal exercise were held in May and June 2022.

Saudi Fund for Development (SFD)

Under the Programme, the procurement process for the contractors were carried out during the FY though the exercise was not responsive.

Meetings with the National Treasury, SFD and the consultant were held to review the programme progress and agree on the way forward in regards to Programme implementation.

Major risks

Water Sector Trust Fund has an elaborate risk management policy and framework. In the framework, there are detailed areas of; risk exposure, risk events, risk drivers, risk assessment, mitigation measures, control strategies, risk owners and implementation timeline.

The Board of Trustees (BOT) and Audit and Risk Committee (ARC) of the Board, have responsibility for oversight of risk management within the Fund by determining that appropriate risk management strategies and policies are in place and that these processes are adequate and effective. BOT has assigned responsibilities for risk management to Management. Management constituted a Risk Management Committee that guides in the identification, assessment, prioritization and formulation of appropriate responses to the risks facing the Fund.

High level risks which have been identified are; Competitive trends, external policy and strategy, Governance issues, Economic trends, Political environment, financial environment, Changing demographics, inadequate resources, Climate Change, Socio-Cultural issues and Health issues. Further, risks and mitigating measures have been identified in all departments and divisions.

In formulating risk management strategies and policies, management is guided by the Audit and Risk Committee (ARC) which determines whether the risks will be avoided, transferred to third parties (Insurance), or controlled through appropriate policies, procedures and practices (internal controls).

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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. Establish and manage subsidiary funds for sustainable financing to water services (includes sanitation) and water resources management:

WaterFund is in the process of developing an overarching Business Models Framework and a Revenue Generation Policy to enhance its business case in resource mobilization activities, while ensuring compliance with GOK laws and regulations.

2. 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 and Development Partners to deliver on its expanded mandate, especially the on-lending mechanism through a low interest loan facility. WaterFund has held extensive deliberations with key stakeholders including the Ministry of Water, Sanitation and Irrigation, as well as The National Treasury and Planning, Development Partners, Water Services Providers, local Financial Institutions and the Civil Society, and has received overwhelming support to commence the Concept of affordable loans to Water Services Providers and other implementing agencies in the Sector.

Banks have already been 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 technical support is being provided to target Water Utilities to prepare them for future loan financing for water and sanitation projects.

3. 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, the European Union ASAL Programme, and the new Danida Programme to the ASALs 2021-2025. This County contribution enhances ownership and leverages on County Water Budgets.

4. 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;

5. Developing incentive programmes for water resources management, climate change and disaster management: To enhance financial and programmes sustainability, 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). Many of these conservation projects contain livelihood aspects to incentivize communities and increase resilience.

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9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

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 FY2022/2022, the Ministry chose Lambwe Forest in Homa Bay County as the venue of the ministerial tree-planting exercise slated for April 2022. WaterFund participated in the tree-planting activities by sending a corporate team to Lambwe Forest in April 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.

Kenya Forest Service allocated land for tree planting exercises by Water Sector Institutions. Following the invitation by the Ministry, WaterFund participated in the tree-planting activities by sending a team to Lambwe Forest from 3rd to 8th April, 2022, to collaborate with the Ministry, other Water Sector Institutions, and to extend the conservation activities started and carried out by Lake Victoria South Water Works Development Authority (LVSWWDA), in order to ensure reforestation of Lambwe Forest.

WaterFund Adopts a Section of Forest

WaterFund was allocated a section of the Lambwe forest for rehabilitation purposes. From the year 2020, the total area of section now stands at **18.15 acres** (7.34 hectares), holding 4,500 trees, from the previous **10.6 acres** (4.3 hectares) holding 2,000 trees. 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 4,500 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.

WaterFund supported in the 8th edition Eldama Ravine Half Marathon that was held on 30th October, 2021. Eldama Ravine Half Marathon (formerly Chemususu Dam Half Marathon) is a charity event managed by the Eldama Ravine Half Marathon Community Based Organisation (CBO) whose noble cause is environmental conservation and financially support needy students from Uzalendo School through scholarships. Uzalendo School is a public mixed and boarding secondary school modelled along Starehe Schools. It was started in 2015 to help the needy students to access quality education. This year the school will have its first candidates sit for Kenya Certificate of Secondary Education (KCSE) examination.

The main sponsors of the Eldama Ravine Half Marathon included; Water Sector Trust Fund, Equity Bank, Jumia Kenya, Water Services Regulatory Board, Baringo County Government, Eldama Ravine Constituency Community, Ministry of Youth Gender and Sports and Athletics Kenya.

Eldama Ravine Marathon being a charity marathon utilises the funds received to finance the following activities:

- Conservation of Chemususu Dam catchment area
- Infrastructure support to Uzalendo School, a school that caters for free secondary education of students from needy backgrounds, modelled along the Starehe Schools
- Establishment of police post and construction of perimeter fence around the dam to provide security and safety
- Construction of an information Centre at the dam

WATER SECTOR TRUST FUND
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9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

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.

Market place practices

Water Sector Trust Fund mandate is to provide conditional and unconditional grants to counties to Finance Water Supply, Sanitation and Water Resources Management for the Under-Served and Marginalized Communities in Rural and Urban Areas across all the 47 Counties. At the moment WaterFund is keen to advertise and inform the public on the services offered at the Institution and ways on how Water Service Providers can apply for funding.

Some of the key areas to ensure responsible advertisement and visibility of WaterFund services to the public is through:

- Conformity to the National government and Organizational branding guidelines and Communication Policy. This ensures brand equity and visibility for all financing partners through strategic logo placement of the Court of Arms, WaterFund, Donor partners and Implementing partners logos.
- All advertisements placed are in line with the National Government Circular that recommends all government advertisements to be exclusively placed in the MyGov newspaper pull out coordinated through the Government Advertisement Agency.
- In order to ensure responsibility and accountability of WaterFund as an institution, details on how to report Corruption, request for information and lodge complaints are highlighted through a link to the various redress mechanisms and also highlighted in all advertisements placed by WaterFund. This ensures that the public have a way to report, complain or complement WaterFund projects and implementation modalities for our information and any necessary action.

Corporate Social Responsibility

The Corporate Communication 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. In the FY2021/22, the CSR activities were undertaken:

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9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

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.

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.

From July 2021 to June 2022, Tatu has attended Part of Form three to Form 4 studies. The Corporate Communication team continue to keep in touch with Tatu and her family throughout the year as she continues her studies. Tau is expected to sit for her Form 4 Kenya School of Secondary Education Exams in November 2022.

2. Support to the Eldama Ravine Half Marathon's Conservation Activities in October 2021

Water Sector Trust Fund participated in this year's edition of the Eldama Ravine Half Marathon on 30th October 2021. During the Eldama Ravine sponsors acknowledgement, WaterFund presented its sponsorship cheque of KSh250,000/- to the officials of the CBO, that was utilized towards the aforementioned activities.

WaterFund supported in the 8th edition Eldama Ravine Half Marathon that was held on 30th October, 2021. Eldama Ravine Half Marathon (formerly Chemususu Dam Half Marathon) is a charity event managed by the Eldama Ravine Half Marathon Community Based Organisation (CBO) whose noble cause is environmental conservation and financially support needy students from Uzalendo School through scholarships. Uzalendo School is a public mixed and boarding secondary school modelled along Starehe Schools. It was started in 2015 to help the needy students to access quality education. This year the school will have its first candidates sit for Kenya Certificate of Secondary Education (KCSE) examination.

The main sponsors of the Eldama Ravine Half Marathon included; Water Sector Trust Fund, Equity Bank, Jumia Kenya, Water Services Regulatory Board, Baringo County Government, Eldama Ravine Constituency Community, Ministry of Youth Gender and Sports and Athletics Kenya.

Eldama Ravine Marathon being a charity marathon utilises the funds received to finance the following activities:

- Conservation of Chemususu Dam catchment area;
- Infrastructure support to Uzalendo School, a school that caters for free secondary education of students from needy backgrounds, modelled along the Starehe Schools;
- Establishment of police post and construction of perimeter fence around the dam to provide security and safety; and
- Construction of an information Centre at the dam.

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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 2022, 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 2022 are as set out on page 41.

TRUSTEES

The members of the Board of Trustees who served during the year are as shown on page 3.

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, 2022 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
Water Sector Trust Fund (WaterFund)

30th January 2023

WATER SECTOR TRUST FUND
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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, and the Water Act 2016, require the trustees to prepare financial statements in respect of Water Sector Trust Fund which give a true and fair view of the state of affairs of the WaterFund at the end of the financial year and the operating results of the Water Sector Trust Fund for the year. The trustees are also required to ensure that Water Sector Trust Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of WaterFund. The trustees are also responsible for safeguarding the assets of WaterFund.

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 2022. 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 and the Water Act 2016. 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, 2022, 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 30th September, 2022 and signed on its behalf by:



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



Mr. Willis Ombai
Ag. Chief Executive Officer

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON WATER SECTOR TRUST FUND FOR THE YEAR ENDED 30 JUNE, 2022

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 41 to 68, which comprise of the statement of financial position as at 30 June, 2022, and the statement of financial performance, statement of changes in net assets, statement of cash

else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Failure to Remit Withholding Tax on Interest Income

The statement of financial position reflects trade and other payables of Kshs.150,356,547 as disclosed under Note 22 to the financial statements which includes withholding tax payable of Kshs.6,970,665. However, the balance includes Kshs.915,581 relating to withholding taxes on interest income earned from project accounts that was not remitted to KRA. Failure to remit withholding taxes on interest income deducted by the payee at 15% and remit to KRA by 20th of the following months contravenes the Income Tax Act and could result in penalties and interest being levied by KRA.

In the circumstances, Management was in breach of the law.

2. Abandoned Project

As previously reported, the Fund entered into a financing support and implementation agreement with Athi Water Works Development Agency (AWWDA) for Gatundu priority project on 28 April, 2020. The Agency 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.

3. Anomalies in Projects Implementation

The statement of financial performance Includes project expenses of Kshs.4,887,013,318 as disclosed under Note 12 to the financial statements out of which Kshs.46,621,785 relates to costs that had anomalies in the procurement, payment of VAT from donor funds and non-compliance with development partners guidelines among other factors. The costs relate to project costs arising from the project expenditure incurred by implementing partners as detailed below:

Donor	Costs (Kshs.)
CLSG	30,104,506
Danida Covid 19	1,040,899
EU CPIRA	4,362,791
GGEP	1,918,766

Report of the Auditor-General on Water Sector Trust Fund for the year ended 30 June, 2022

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. Long Outstanding Receivables

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.596,033,165 as disclosed under Note 16 to the financial statements which includes Kshs.26,172,547 (28,091,171 2020-21) that has been long outstanding with movement of only Kshs.1,919,170 during the year under review. Further, adequate control measures and safeguards to the signed agreements to repay the debts were not provided for audit.

In the circumstances, the adequate control measures and recoverability of the receivables from non-exchange transactions balance of Kshs.26,172,547 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.

- 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

21 February, 2023

WATER SECTOR TRUST FUND
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13. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 KShs	2021 KShs
REVENUE			
Revenue from non-exchange transactions			
Government of Kenya grants	6	399,000,000	643,555,000
Restricted donor funds	7	<u>4,768,240,933</u>	<u>3,601,977,405</u>
		<u>5,167,240,933</u>	<u>4,245,532,405</u>
Revenue from exchange transactions			
Miscellaneous income	8	20,865,404	56,120,808
Finance income - external investments	9 (a)	<u>5,508,202</u>	<u>10,160,328</u>
		<u>26,373,606</u>	<u>66,281,136</u>
Total revenue		<u>5,193,614,539</u>	<u>4,311,813,541</u>
EXPENDITURE			
Staff costs	10	(256,588,307)	(230,822,700)
Remuneration of trustees	11 (a)	(26,475,044)	(25,419,020)
Repairs and maintenance	11 (b)	(809,139)	(434,272)
Depreciation and amortization expense	11 (c)	(10,941,523)	(8,796,702)
General expenses	11 (d)	(200,468,471)	(173,477,776)
Project expenses	12	<u>(4,887,013,318)</u>	<u>(4,098,370,763)</u>
Total expenditure		<u>(5,382,295,802)</u>	<u>(4,537,321,233)</u>
Deficit for the year		<u>(188,681,263)</u>	<u>(225,507,692)</u>

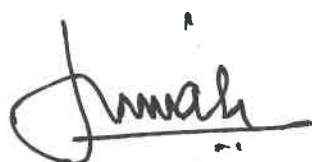
The notes set out on pages 46 to 68 form an integral part of these financial statements.

WATER SECTOR TRUST FUND
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14. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

	Notes	2022 KShs	2021 KShs
ASSETS			
Current assets			
Cash and cash equivalents	17	1,065,019,562	1,075,847,333
Receivables from non-exchange transactions	16	596,033,165	1,150,454,800
Inventories	15	1,010,191	818,396
		<u>1,662,062,918</u>	<u>2,227,120,529</u>
Non - current assets			
Property and equipment	13	44,226,966	17,613,228
Intangible assets	14	6,681,600	1,945,883
		<u>50,908,566</u>	<u>19,559,111</u>
TOTAL ASSETS		<u>1,712,971,484</u>	<u>2,246,679,640</u>
LIABILITIES			
Current liabilities			
Deferred income from capital grants	20	679,429	1,641,982
Staff gratuity	21	-	30,340,414
Trade and other payables	22	150,356,547	82,973,675
		<u>151,035,976</u>	<u>114,956,071</u>
Non-current liabilities			
Deferred income from capital grants	20	7,287,486	5,815,790
Staff gratuity	21	16,476,734	34,463,715
		<u>23,764,220</u>	<u>40,279,505</u>
Net assets			
Accumulated surplus	18	82,500,631	271,181,894
Unexpended grants	19	1,455,670,657	1,820,262,170
TOTAL NET ASSETS AND LIABILITIES		<u>1,712,971,484</u>	<u>2,246,679,640</u>

The financial statements on pages 43 to 68 were signed on behalf of the Board of Trustees on 2023 by;



Mr. Fredrick Odhiambo Josiah
Trustee

Date: 30th January 2023



Mr. Willis Ombai
Ag. Chief Executive Officer

Date: 30th Jan, 2023.



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

Date: 30th Jan 2023

WATER SECTOR TRUST FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
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15. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2022

	Revenue reserves KShs	Unexpended grants KShs	Total KShs
Year ended 30 June 2021			
Balance at 1 July 2020	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)
As at 30 June 2021	271,181,894	1,820,262,170	2,091,444,064
Year ended 30 June 2022			
Balance at 1 July 2021	271,181,894	1,820,262,169	2,091,444,063
Deficit for the year	(188,681,263)	-	(188,681,263)
Funds received from development partners	-	4,373,516,904	4,373,516,904
GoK counterpart funding	-	86,360,000	86,360,000
Refunds	-	649,000	649,000
Donor interest income	-	30,132,518	30,132,518
Total project expenditure	-	(4,855,249,934)	(4,855,249,934)
As at 30 June 2022	82,500,631	1,455,670,657	1,538,171,288

The notes set out on pages 46 to 68 form an integral part of these financial statements

WATER SECTOR TRUST FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
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16. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 KShs	2021 KShs
Cash flows from operating activities			
Receipts			
Government grants		399,000,000	393,555,000
Restricted revenue from development partners	19	4,373,516,904	2,932,112,079
Miscellaneous income		18,724,547	53,012,307
Finance income	9 (a)	5,508,202	10,160,328
Donor interest income	19	30,132,518	24,854,404
Total Receipts		4,826,882,171	3,413,694,118
Payments			
Employee costs		(243,470,452)	(194,134,746)
Remuneration of directors	11 (a)	(26,475,044)	(25,419,020)
Repairs and maintenance	11 (b)	(809,139)	(434,272)
General expenses		(184,662,277)	(150,862,344)
Disbursements to implementing partners		(4,034,215,331)	(3,777,512,577)
Refunds by implementing partners		21,038,541	42,349,797
Gratuity paid	21	(60,143,216)	(36,687,954)
Project expenses paid directly by WSTF		(267,398,639)	(994,374,615)
Total Payments		(4,796,135,557)	(5,137,075,731)
Net cash flows used in operating activities	23	(30,746,614)	(1,723,381,613)
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	13 & 14	(42,290,980)	(9,678,468)
Gains from sale of property, plant, equipment	8	716,595	-
Net cash flows used in investing activities		(41,574,385)	(9,678,468)
Net decrease in cash and cash equivalents		(10,827,771)	(1,733,060,081)
Cash and cash equivalents as at 1 July		1,075,847,333	2,808,907,414
Cash and cash equivalents as at 30 June		1,065,019,562	1,075,847,333

The financial statements on pages 43 to 68 were signed on behalf of the Board of Trustees on 2023 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

Date: 30th January 2023

Date: 30th Jan, 2023

Date: 30th Jan 2023

**WATER SECTOR TRUST FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
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17. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2022

	Original budget 2022 KShs	Adjustments 2022 KShs	Final Budget 2022 KShs	Actual 2022 KShs	Performance difference 2022 KShs	% of Utilization	Notes
REVENUE FROM NON-EXCHANGE TRANSACTIONS							
Government of Kenya grants	583,800,000	(70,000,000)	513,800,000	399,000,000	(114,800,000)	78%	
Donor funds	5,445,979,000	665,530,000	6,111,509,000	4,768,182,323	(1,343,268,063)	78%	(a)
REVENUE FROM EXCHANGE TRANSACTIONS							
Miscellaneous income	-	-	-	20,865,404	20,166,556	100%	
Finance income – external investments	2,000,000	-	2,000,000	5,508,202	3,508,202	275%	
Total Revenue	6,031,779,000	595,530,000	6,627,309,000	5,193,614,542	(1,433,694,458)	78%	
EXPENSES							
Administration expenses	(622,099,500)	(28,180,000)	(593,919,500)	(495,282,484)	98,637,016	83%	(b)
Project expenses	(5,409,679,500)	623,710,000	(6,033,389,500)	(4,887,013,318)	1,146,376,182	81%	(c)
Total expenses	(6,031,779,000)	595,530,000	(6,627,309,000)	(5,382,295,802)	1,245,013,198	81%	
Deficit for the period	-	-	-	(188,681,259)	(188,681,259)		(d)

- a) WSTF had budgeted to finance projects to the tune of KShs. 6,343,509,000 using funds from development partners and the government (development budget). 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. 4,373,516,904. Project funds held at Central Bank of Kenya amounted to KShs. 170,837,849 and have been recognized as cash-in-transit. WSTF's policy is to recognize funds from development partners as income when utilized for project expenditure hence funds disbursed at the end of the year were not recognized as expenditure for the year because the projects had not accounted for the use of these funds. They were recognized as receivables. Total project expenditure for the year amounted to KShs. 4,887,013,318; of this KShs. 31,763,384 was financed directly by the Government of Kenya (GoK) and KShs. 4,855,249,934 by the development partners. Additionally, of the KShs 4,855,249,934 incurred under project expenses, GoK made a contribution of KShs. 86,360,000 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 less funds realised in the year for project implementation also captured in a) above.
- d) The deficit for the period is attributable to the excess of the expenditure over the income of the recurrent funding from Government of Kenya. The part of the expenditure reported is attributable under budgeted administration costs.

WATER SECTOR TRUST FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

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 on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying WaterFund's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5 of these financial statements.

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, Water Act 2016, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. New and amended standards and interpretations in issue effective in the year ended 30 June 2022.

IPSASB deferred the application date of standards from 1st January 2022 owing to Covid 19. This was done to provide entities with time to effectively apply the standards. The deferral was set for 1st January 2023.

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022

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;

WATER SECTOR TRUST FUND
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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 2022 (Continued)

- 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 amendments did not have an effect on WSTF'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.

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

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 amendments did not have an effect on WaterFund's financial statements.

Other improvements to IPSAS: Applicable 1st January 2023

- a) IPSAS 22 Disclosure of Financial Information about the General Government Sector.
Amendments to refer to the latest System of National Accounts (SNA 2008).
- b) IPSAS 39: Employee Benefits. Now deletes the term composite social security benefits as it is no longer defined in IPSAS.
- c) IPSAS 29: Financial instruments: Recognition and Measurement. Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.

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

IPSAS 43: Leases: Applicable 1st January 2025

The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.

WATER SECTOR TRUST FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

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 2022 (Continued)

IPSAS 43: Leases: Applicable 1st January 2025 (Continued)

The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.

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

IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations: Applicable 1st January 2025

The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and: Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.

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

iii Early adoption of standards

WaterFund did not early – adopt any new or amended standards in year 2021/2022

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.

WATER SECTOR TRUST FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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.

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.

WATER SECTOR TRUST FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 original budget for FY 2021-2022 was approved by the National Assembly on 30 June 2021. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Entity recorded additional appropriations of Ksh 595.5million on the 2021-2022 budget following the governing body's approval.

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

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section 17 of these financial statements.

Taxation

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

Cash and cash equivalents

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

Provisions

Provisions are recognized when 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.

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 (Continued)

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.

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.

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)

Financial Instruments (Continued)

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:

Property and equipment

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

WATER SECTOR TRUST FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
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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)

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 2022.

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:

	2022 KShs	2021 KShs
Development	232,000,000	227,300,000
Recurrent	167,000,000	166,255,000
Emergency Fund	-	250,000,000
	<u>399,000,000</u>	<u>643,555,000</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:

	2022 KShs	2021 KShs
European Union	277,688,940	316,271,248
Government of Germany – KfW/BMGF	54,097,619	152,372,250
Government of Germany – KfW Phase IV	16,736,121	-
Government of Denmark	205,361,608	695,578,383
Government of Denmark – Covid 19	118,171,846	40,417,990
International Fund for Agricultural Development - IFAD	40,710,194	73,033,846
World Bank	4,025,467,858	2,045,484,105
Government of Denmark - SWASAP	20,201,165	-
Sweden/Finland – J6P	9,805,582	278,819,583
Total (Note 19)	<u>4,768,240,933</u>	<u>3,601,977,405</u>

WATER SECTOR TRUST FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 MISCELLANEOUS INCOME

	2022 KShs	2021 KShs
Management fee earned on disbursement to some projects*	17,805,976	52,815,863
Deferred income recognized (note 20)	2,140,857	3,108,501
Other income **	201,976	196,444
Net gain on disposals of assets	716,595	-
	<u>20,865,404</u>	<u>56,120,808</u>

*Management fee represents the administration cost recovered as a percentage of funds disbursed to projects as per the respective donor agreements currently at 5% of funds 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.

	2022 KShs	2021 KShs
European Union (EU)	11,474,388	17,613,470
Sweden/Finland – J6P	-	7,344,585
Danida - GGEP	-	7,623,884
Danida - COVID 19	3,329,313	4,072,500
Danida - WLP	3,002,275	16,161,424
	<u>17,805,976</u>	<u>52,815,863</u>

9 FINANCE INCOME

Finance income

Bank interest	<u>5,508,202</u>	<u>10,160,328</u>
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This relates to interest earned on interest bearing current account balances.

10 STAFF COSTS

Salaries and wages	190,603,071	161,934,472
Staff gratuity	13,117,855	36,687,954
Staff training expenses	33,374,059	20,560,686
NSSF contribution	238,800	225,600
Other staff expenses	19,254,522	11,413,988
	<u>256,588,307</u>	<u>230,822,700</u>

11 ADMINISTRATION EXPENSES

(a) Remuneration of Trustees

Chairman's Honoraria	577,143	1,037,000
Trustee emoluments	22,922,915	8,120,000
Other allowances	2,974,986	16,262,020
Total	<u>26,475,044</u>	<u>25,419,020</u>

WATER SECTOR TRUST FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. ADMINISTRATION EXPENSES

	2022 KShs	2021 KShs
(b) Repairs and maintenance		
Furniture and fittings	809,139	434,272
Total	809,139	434,272
(c) Depreciation and amortization expense		
Property, plant and equipment	10,666,041	7,143,816
Intangible assets	275,482	1,652,886
Total	10,941,523	8,796,702
(d) General expenses		
Communications expenses	4,584,922	4,582,137
Printing and stationery	1,912,072	1,573,400
Resource centre expenses	67,876	86,933
Traveling and accommodation	36,934,579	25,928,688
Motor vehicle expenses	13,487,344	13,408,241
Computer expenses	5,519,366	3,220,135
Consultancy and professional fees	34,832,391	35,219,791
Audit fees	6,689,683	7,440,251
Resource Mobilization expenses	1,175,040	2,030,691
Planning	5,505,324	7,331,404
Advocacy	22,939,314	9,834,972
Office running expenses	3,785,716	3,455,280
Insurance	23,293,944	19,051,805
Office rent & land rates	15,312,232	17,143,754
Bank charges	8,622,482	554,862
Movement in provision for bad and doubtful debts (note 16)	15,806,186	22,615,433
Total	200,468,471	173,477,776

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
ANNUAL REPORT AND FINANCIAL STATEMENTS
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18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. PROJECT EXPENSES (Continued)

	2022 KShs	2021 KShs
Rural Programme		
Water and Sanitation	452,472,274	795,344,330
Water Resources	117,100,216	327,328,565
Water and Livelihood	70,555,000	266,030,165
	<u>640,127,490</u>	<u>1,388,703,060</u>
Note 19 (b)	<u>640,127,490</u>	<u>1,388,703,060</u>
Total – Rural Programme	<u>640,127,490</u>	<u>1,388,703,060</u>
Urban Programme		
Water and Sanitation	158,503,549	74,189,593
Up-scaling Basic Sanitation for the Urban Poor (UBSUP)- Bill & Melinda Gates Foundation (BMGF)	30,502,037	81,573,821
Water Sanitation and Hygiene (WASH)	-	40,417,990
OBA (World Bank)	-	504,540,835
Conditional Liquidity Support Grant (World Bank)	4,026,116,858	1,540,943,270
	<u>4,215,122,444</u>	<u>2,241,665,509</u>
Note 19(a)	<u>4,215,122,444</u>	<u>2,241,665,509</u>
Water and Sanitation – Direct funding from GOK	31,763,384	468,002,194
	<u>4,246,885,828</u>	<u>2,709,667,703</u>
Total – Urban Programme	<u>4,246,885,828</u>	<u>2,709,667,703</u>
Total project expenses*	<u>4,887,013,318</u>	<u>4,098,370,763</u>

*Included in the amount of Kshs 4,887,013,318 above is an amount of Kshs 46,621,785 (2021 - Kshs 18,087,012) 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.

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18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. PROPERTY AND EQUIPMENT

	Furniture KShs	Motor Vehicle KShs	Computer Equipment KShs	Office Equipment KShs	Fixtures and Fittings KShs	Total KShs
COST						
At 1 July 2020	8,501,247	49,578,799	24,966,347	7,879,912	15,315,525	106,241,830
Additions	-	-	1,731,908	97,500	6,178,660	8,008,068
Disposal	-	-	-	-	-	-
At 30 June 2021	8,501,247	49,578,799	26,698,256	7,977,412	21,494,185	114,249,899
At 1 July 2021	8,501,247	49,578,799	26,698,256	7,977,412	21,494,184	114,249,898
Additions	351,000	35,113,083	-	-	1,815,697	37,279,780
Disposal	(24,995)	(5,000,000)	-	(26,995)	-	(5,051,990)
At 30 June 2022	8,827,252	79,691,882	26,698,256	7,950,417	23,309,881	146,477,688
DEPRECIATION						
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	-	-	-	-	-	-
At 30 June 2021	6,777,808	47,659,209	20,113,237	6,667,914	15,418,503	96,636,671
At 1 July 2021	6,777,808	47,659,209	20,113,237	6,667,914	15,418,503	96,636,671
Charge for the year	534,019	4,557,132	3,587,097	507,626	1,480,167	10,666,041
Disposal	(24,995)	(5,000,000)	-	(26,995)	-	(5,051,990)
At 30 June 2022	7,286,832	47,216,341	23,700,334	7,148,545	16,898,670	102,250,722
NET BOOK VALUE						
At 30 June 2021	1,723,439	1,919,590	6,585,019	1,309,498	6,075,682	17,613,228
At 30 June 2022	1,540,420	32,475,539	2,997,922	801,874	6,411,213	44,226,966

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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
COST						
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
At 30 June 2021	3,749,392	12,729,739	588,312	8,264,427	1,670,400	27,002,270
At 1 July 2021-Not fully amortized	414,364	-	-	8,264,427	1,670,400	8,678,791
At 1 July 2021-Fully amortized	3,335,028	12,729,739	588,312	-	-	16,653,079
Additions	-	-	-	-	5,011,200	5,011,200
At 30 June 2022	3,749,392	12,729,739	588,312	8,264,427	6,681,600	32,013,470
AMORTIZATION						
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
At 30 June 2021	3,749,392	12,729,739	588,312	7,988,944	-	25,056,387
At 1 July 2021	3,749,392	12,729,739	588,312	7,988,944	-	25,056,387
Charge for the year	-	-	-	275,483	-	275,483
At 30 June 2022	3,749,392	12,729,739	588,312	8,264,427	-	25,331,870
CARRYING VALUE						
At 30 June 2021	-	-	-	275,483	1,670,400	1,945,882
At 30 June 2022	-	-	-	-	6,681,600	6,681,600

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.

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

15. INVENTORIES

	2022 KShs	2021 KShs
Office stationery	1,010,191	818,396

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

	2022 KShs	2021 KShs
Project receivables – Urban Investments	452,463,091	803,174,041
- Rural Investments	174,823,998	354,376,496
- GoK priority projects	7,228,053	15,684,726
Prepayments	12,776,902	12,011,708
Staff receivables	5,102,676	5,763,198
Provision for bad debts	(56,361,555)	(40,555,369)
	<u>596,033,165</u>	<u>1,150,454,800</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:

	2022 KShs	2021 KShs
At start of year	40,555,369	17,939,937
Provision in the year	20,253,123	40,560,048
Amounts recovered/accounted for	(4,446,937)	(17,944,616)
At end of year	<u>56,361,555</u>	<u>40,555,369</u>

18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. CASH AND CASH EQUIVALENTS

	2022 KShs	2021 KShs
National Bank of Kenya Limited – Recurrent	307,476	307,477
National Bank of Kenya Limited – OBA	49,718	49,718
National Bank of Kenya Limited – OBA II	799	799
Kenya Commercial Bank Limited – Recurrent	29,898,698	126,661,147
Short Term Deposits – Kenya Commercial Bank	-	110,000,000
NCBA KfW PHASE KShs	59,599,689	91,961,846
NCBA KfW PHASE EURO	10,265,938	10,614,111
NCBA BMGF KShs	101,849,234	120,105,368
NCBA BMGF USD	9,221,969	8,386,346
NCBA KfW PHASE IV	361,099,895	-
National Bank of Kenya – IFAD	34,445,416	3,758,947
Kenya Commercial Bank-Staff	63,849,809	1,348,164
NCBA Bank – EU SHARE	2,566,859	1,660,249
NCBA Bank – GGEP	33,450,536	87,727,122
Kenya Commercial Bank Limited – Sweden/Finland (J6P)	9,760,463	7,027,978
NIC - EU CPIRA	4,674,448	137,556,422
Co-operative Bank - WLP	17,348,572	84,596,147
Equity Bank - WSDP	128,613,024	60,542,032
Equity Bank - Covid 19	26,962,311	94,800,672
Cash on hand*	216,859	26,122
Cash in transit**	170,837,849	128,716,666
	1,065,019,562	1,075,847,333

*Cash on hand includes amounts received from staff after surrender of imprest totalling to KShs 215,655 and petty cash balance of Ksh 1,204. The balance as at 30 June 2022 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 2022.

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:

	2022 KShs	2021 KShs
Opening accumulated surplus	271,181,894	496,689,586
Deficit for the year	(188,681,263)	(225,507,692)
Closing accumulated surplus	82,500,631	271,181,894

19. UNEXPENDED GRANTS

Unexpended grants – Urban Investments	1,139,778,834	1,168,458,610
Unexpended grants – Rural Investments	315,891,823	651,803,560
	1,455,670,657	1,820,262,170

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 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	-	-	3,391,164	-	3,391,164
Donor interest income	6,857,078	9,353,980	-	320,942	16,532,000
Total project Expenditure	(152,372,250)	(2,045,484,105)	(3,391,164)	(40,417,990)	(2,241,665,509)
As at 30 June 2021	295,245,076	737,378,140	-	135,835,394	1,168,458,610
As at 1 July 2021	295,245,076	737,378,140	-	135,835,394	1,168,458,610
Funds received from development partners	-	3,798,541,174	361,104,547	-	4,159,645,721
GoK Counterpart funding	-	-	-	-	-
Interest income	4,714,511	18,877,666	-	2,555,769	26,147,946
Refund	-	649,000	-	-	649,000
Total project expenditure	(54,097,619)	(4,026,116,859)	(16,736,121)	(118,171,845)	(4,215,122,444)
As at 30 June 2022	245,861,968	529,329,121	344,368,426	20,219,318	1,139,778,834
Donor income recognized in the year (note 7) - Total project expenditure less GoK counterpart funding, interest income and foreign exchange gain/(loss)					
2021	152,372,250	2,045,484,105	-	40,417,990	2,238,274,345
2022	54,097,619	4,025,467,859	16,731,469	118,171,845	4,219,197,759
Represented by:					
Cash and cash equivalents	180,936,829	128,663,541	361,099,895	26,962,311	697,662,577
Project Receivables	71,823,103	379,292,942	-	1,347,046	452,463,091
Assets	-	32,463,083	-	-	32,463,083
Other Receivables	-	2,197,815	-	3,803,065	6,000,880
Payables	(6,897,964)	(13,288,260)	(16,731,469)	(11,893,104)	(48,810,797)
Total	245,861,968	529,329,121	344,368,426	20,219,318	1,139,778,834

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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	Government of Denmark – SWASAP	IFAD	Total
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
Donor interest income	-	1,444,492	3,266,885	3,611,028		-	8,322,405
Total project Expenditure	-	(278,819,583)	(341,271,248)	(695,578,383)		(73,033,845)	(1,388,703,060)
As at 30 June 2021	14,682,006	13,329,695	318,715,626	247,277,787		57,798,444	651,803,557
As at 1 July 2021	14,682,006	13,329,695	318,715,626	247,277,787		57,798,444	651,803,558
Funds received from development partners	-	-	-	11,972,962	130,337,849	71,560,372	213,871,183
GoK Counterpart funding	-	-	86,360,000	-	-	-	86,360,000
Interest income	-	204,547	1,352,046	2,427,979	-	-	3,984,572
Total project expenditure	-	(9,805,581)	(364,048,940)	(205,361,610)	(20,201,165)	(40,710,194)	(640,127,490)
As at 30 June 2022	14,682,006	3,728,661	42,378,733	56,317,117	110,136,684	88,648,622	315,891,823
Donor income recognized in the year (note 7) - Total project expenditure less GoK counterpart funding, interest income and foreign exchange gain/(loss)							
2021	-	278,819,583	316,271,248	695,578,383		73,033,845	1,363,703,060
2022	-	10,115,082	277,688,940	206,269,183	20,201,165	40,710,194	554,984,564
Represented by:							
Cash and cash equivalents	-	9,760,463	7,241,306	50,799,108	-	34,445,416	102,246,293
Cash in transit	-	-	-	-	130,337,849	-	130,337,849
Project Receivables	-	1,469,415	106,390,808	11,756,376	-	55,180,876	174,797,475
Other Receivables	-	-	-	11,311,927	-	-	11,311,927
Receivable from WSTF recurrent account	14,682,006	-	-	-	-	-	14,682,006
Payables	-	(7,501,217)	(71,253,381)	(17,550,294)	(20,201,165)	(977,670)	(117,483,727)
Total	14,682,006	3,728,661	42,378,733	56,317,117	110,136,684	88,648,622	315,891,823

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

20. DEFERRED INCOME FROM CAPITAL GRANTS

	2022 KShs	2021 KShs
As at 1 July	7,457,772	260,927,653
Additions	2,650,000	-
Transfer to income - expensed	-	(250,361,380)
Transfer to income – depreciated (note 8)	<u>(2,140,857)</u>	<u>(3,108,501)</u>
As at 30 June	<u>7,966,915</u>	<u>7,457,772</u>
Current	679,429	1,641,982
Non – current	<u>7,287,486</u>	<u>5,815,790</u>
As at 30 June	<u>7,966,915</u>	<u>7,457,772</u>

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

	2022 KShs	2021 KShs
At start of year	64,804,129	59,958,254
Provision for the year	11,815,820	41,533,829
Paid during the year	<u>(60,143,216)</u>	<u>(36,687,954)</u>
As at 30 June	<u>16,476,734</u>	<u>64,804,129</u>
Current	-	30,340,414
Non-current	<u>16,476,734</u>	<u>34,463,715</u>
As at 30 June	<u>16,476,734</u>	<u>64,804,129</u>

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

	2022 KShs	2021 KShs
Trade payables	128,517,034	69,602,482
Staff leave accrual	14,868,848	5,799,963
Withholding tax payable	6,970,665	7,527,985
Other trade payables	<u>-</u>	<u>43,245</u>
	<u>150,356,547</u>	<u>82,973,675</u>

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18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. NOTES TO THE STATEMENT OF CASH FLOWS

	2022 KShs	2021 KShs
Reconciliation of Net Cash Flows from Operating Activities to the deficit		
Deficit from ordinary activities	(188,681,263)	(225,507,692)
Non cash movements		
Depreciation	10,666,042	7,143,816
Amortization	275,483	1,652,886
Decrease/ (increase) in receivables from non-exchange transactions	554,421,635	(632,182,657)
Increase in inventories	(191,795)	(223,005)
Decrease in unexpended grants	(364,591,513)	(645,010,922)
Increase/ (decrease) in deferred income	509,143	(253,469,881)
(Decrease)/ increase in staff gratuity	(48,327,395)	4,845,874
Increase in trade and other payables	67,382,872	19,369,968
Gain on disposal of assets	(716,595)	-
Net cashflows from operating activities	<u>30,746,614</u>	<u>(1,723,381,613)</u>

Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and balances with banks. Cash and cash equivalents included in the cashflow statement comprise of the following statement of financial position amounts

	2022 KShs	2021 KShs
Cash on hand and balances with banks	<u>1,065,019,562</u>	<u>1,075,847,333</u>

24. COMMITMENTS

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

Capital Assets Commitments	2022 KShs	2021 KShs
Authorised for	-	-
Authorised and contracted for	<u>44,000,000</u>	<u>57,565,177</u>
Total	<u>44,000,000</u>	<u>57,565,177</u>

Project commitments

The Fund had committed to fund projects to the tune of KShs. 5,984 Million (2021: KShs 5,498 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:

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18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. COMMITMENTS (Continued)

	2022 KShs	2021 KShs
Authorised for		
Water and sanitation – Rural	1,079,296,500	1,715,545,000
Water Resources	262,800,000	373,600,000
Water and sanitation - Urban	4,642,793,000	3,409,099,200
Total	5,984,889,500	5,498,244,200

25. OPERATING LEASE ARRANGEMENTS

Minimum lease payments under operating leases recognized through Statement of financial performance	15,312,232	17,143,754
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At the end of the reporting period, WaterFund had outstanding commitments under operating leases, payable as follows:

	2022 KShs	2021 KShs
Within one year	21,354,929	21,239,451
In the second to fifth years inclusive	85,708,886	10,149,983
	107,063,815	31,389,434

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

26. RELATED PARTY TRANSACTIONS

i) Key management compensation

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

	2022 KShs	2021 KShs
Salaries and other short-term benefits	24,387,673	25,638,581
Gratuity	5,679,733	7,197,162
NSSF	12,000	12,000
	30,079,406	32,847,743
Trustees emoluments	8,519,000	9,157,000
Other emoluments (included in key management compensation above)	17,956,044	15,128,527

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

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18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. 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.

28. 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.

(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:

	Total KShs	Fully performing KShs	Past due KShs	Impaired KShs
Cash at bank	1,065,019,562	1,065,019,562	-	-
Project receivables	634,515,142	578,153,587	56,361,555	-
Staff receivables	5,102,676	5,102,676	-	-
Prepayments and other trade debtors	12,776,902	12,776,902	-	-
At 30 June 2022	1,717,414,282	1,661,052,727	56,361,555	-
Cash at bank	1,075,847,333	1,075,847,333	-	-
Project receivables	1,173,235,263	1,132,679,804	40,555,369	-
Staff receivables	5,763,198	5,763,198	-	-
Prepayments and other trade debtors	12,011,708	12,011,708	-	-
At 30 June 2021	2,266,857,502	2,226,302,043	40,555,369	-

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18. NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL RISK MANAGEMENT POLICIES (Continued)

(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.

	Less than 1 month KShs	Between 1-3months KShs	Over 5 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
At 30 June 2021	49,273,815	5,836,225	326,477,282	381,587,322
Trade payables	61,079,216	9,779,091	57,658,724	128,517,031
Withholding tax payable	6,970,665	-	-	6,970,665
Staff leave	-	14,868,848	-	14,868,848
Staff gratuity	-	-	16,476,734	16,476,734
Deferred income	-	-	7,966,915	7,966,915
At 30 June 2022	68,049,881	24,647,939	82,102,373	174,800,196

(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)

28. 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	2022	2021
NCBA Bank - KfW Phase II Euro	82,776	82,776
NCBA Bank – KfW USD	<u>78,263</u>	<u>77,501</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
2022			
Euro	10%	1,026,590	1,026,590
USD	10%	922,192	922,192
2021			
Euro	10%	1,061,408	1,061,408
USD	10%	835,848	835,848

29. 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 unexpended grants. The Fund was not geared as at 30 June 2022 and 30 June 2021 as follows:

	2022 Kshs	2021 Kshs
Revenue reserve	82,500,631	271,181,894
Unexpended grants	<u>1,455,670,657</u>	<u>1,820,262,170</u>
Total Funds	<u>1,538,171,288</u>	<u>2,091,444,064</u>
Total Borrowings	<u>-</u>	<u>-</u>

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19. APPENDICES

APPENDIX I: – IMPLEMENTATION STATUS OF PRIOR AUDIT RECOMMENDATIONS

Description	Recommendation	Management comments	Status as at 30 June 2022																																															
<p>Questioned costs There were instances of questioned project costs amounting to KES 28,877,102 arising from project expenditure incurred by implementing partners as detailed below. The questioned costs arose from expenditure transactions that were not adequately supported, anomalies in the procurement and payment of VAT from donor funds among other factors.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #d3d3d3;">Donor</th> <th style="background-color: #d3d3d3;">Amount KES</th> </tr> </thead> <tbody> <tr> <td>Sweden/Finland – J6P</td> <td style="text-align: right;">20,000</td> </tr> <tr> <td>Government of Denmark (DANIDA) – GGEP</td> <td style="text-align: right;">450,349</td> </tr> <tr> <td>IFAD</td> <td style="text-align: right;">3,723,740</td> </tr> <tr> <td>World Bank</td> <td style="text-align: right;">18,205,212</td> </tr> <tr> <td>KFW & BMGF</td> <td style="text-align: right;">6,477,801</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">28,877,102</td> </tr> </tbody> </table> <p>The below questioned costs have been provided for and therefore, removed from the project expenses balance.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #d3d3d3;">Program</th> <th style="background-color: #d3d3d3;">Partner</th> <th style="background-color: #d3d3d3;">Amount (KES)</th> </tr> </thead> <tbody> <tr> <td>Rural</td> <td>Irangi CFA</td> <td style="text-align: right;">1,963,000</td> </tr> <tr> <td>Urban</td> <td>Naromoru Household Sanitation project</td> <td style="text-align: right;">130,924</td> </tr> <tr> <td>Urban</td> <td>Mbale Household Sanitation Project</td> <td style="text-align: right;">1,837,102</td> </tr> <tr> <td>Urban</td> <td>Mumias Household Sanitation Project</td> <td style="text-align: right;">1,593,243</td> </tr> <tr> <td>Urban</td> <td>Kirinyaga Household Sanitation Project</td> <td style="text-align: right;">140,605</td> </tr> <tr> <td>Urban</td> <td>Busia Port Victoria Household Sanitation</td> <td style="text-align: right;">933,514</td> </tr> <tr> <td>Urban</td> <td>Ukunda Household Sanitation project</td> <td style="text-align: right;">1,053,108</td> </tr> <tr> <td>Urban</td> <td>Mitunguu Town Household Sanitation Project</td> <td style="text-align: right;">836,042</td> </tr> <tr> <td>Urban</td> <td>Bulla Arabia and Bulla Garal Call 7</td> <td style="text-align: right;">2,302,552</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">10,790,090</td> </tr> </tbody> </table>	Donor	Amount KES	Sweden/Finland – J6P	20,000	Government of Denmark (DANIDA) – GGEP	450,349	IFAD	3,723,740	World Bank	18,205,212	KFW & BMGF	6,477,801	Total	28,877,102	Program	Partner	Amount (KES)	Rural	Irangi CFA	1,963,000	Urban	Naromoru Household Sanitation project	130,924	Urban	Mbale Household Sanitation Project	1,837,102	Urban	Mumias Household Sanitation Project	1,593,243	Urban	Kirinyaga Household Sanitation Project	140,605	Urban	Busia Port Victoria Household Sanitation	933,514	Urban	Ukunda Household Sanitation project	1,053,108	Urban	Mitunguu Town Household Sanitation Project	836,042	Urban	Bulla Arabia and Bulla Garal Call 7	2,302,552			10,790,090	<p>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.</p>	<p>Management will follow up with the implementing partners to ensure that the reported questioned costs are accounted for.</p> <p>Other measures put in place include the following;</p> <ol style="list-style-type: none"> 1. Currently, the Fund has made it as a policy that monthly reports from Implementing Partners to WaterFund are submitted together with all the supporting documents. The documents are reviewed and any anomalies are followed up with the Implementing Partners. The hard and soft copy documents are filed appropriately for future reference. 2. In future the Fund will allocate a budget to Implementing Partners (IP) to procure safes for hard copy documents at the IP offices where there are none. 3. The Fund has developed Project Implementation guidelines and will enhance the capacity building of IPs. 4. The Fund has made it a mandatory requirement that WSTF Resident Engineers participate in joint measurement of works and also a review Payment Certificates before payments are made. 5. The Fund is also liaising with Commercial Banks to put in place 	<p>Not resolved</p>
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Description		Recommendation			Management comments	Status as at 30 June 2022	
<p>Variations between WSP records and WSTF records</p> <p>We identified instances where the expenditure as per WSTF's records did not match those of the WSPs as detailed below;</p>							
Donor	WSP	Expense reported at WSTF	Expense reported at WSP	Variance	<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>measures where the Fund can access bank statements of IPs. WSTF putting measures to ensure that all IPs comply with tax laws and regulations including capacity building of the IPs.</p> <p>The auditor's recommendation is noted. The variances are attributable to delays in the submission of monthly financial reports by WSPs resulting to expenditure incurred in a prior period being recorded in the subsequent period. As such expenditure recognised by the WSP in the current period is reported and recognised by WaterFund in the subsequent period. Management will strive to ensure that all reports not received from the implementing partners are promptly followed up</p>	Resolved
		KES	KES	KES			
KFW	Mumias Household Sanitation Project in Mumias	6,182,996	5,055,865	1,127,131			
KFW	Naivasha Water, Sewerage and Sanitation Company	3,757,369	4,038,879	(281,510)			
KFW	Imetha Water and Sanitation Co. Ltd	8,253,727	8,449,492	(195,765)			
KFW	Rumuruti Town Household Sanitation Project	2,907,746	2,935,881	28,135			
BMGF	Busia Water and Sewerage Company	11,059,796	11,860,943	(801,147)			
World Bank CLSG	Kitui Water & Sanitation Project	29,741,833	25,871,370	3,870,463			
BMGF	Yatta Water and Sewerage Company	4,729,989	2,582,171	2,147,818			

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World Bank CLSG	Eldoret Water and Sanitation Company	81,818,850	62,870,446	18,948,404	
World Bank CLSG	Kisumu Water and Sanitation Company	131,985,769	132,749,010	(763,241)	
			Total	24,024,018	
<p>Long outstanding partner receivables</p> <p>There were instances of project receivable balances outstanding for more than 365. These advances were assed as doubtful and have been provided for by WSTF as at 30 June 2021.</p>					
Program	Partner			Amount (KES)	
Rural	Kimangao Water and Sanitation Project			1,075,603	
Rural	Mchelelo Primary School			26,525	
Rural	Kone Community			6,142,945	
Rural	Manda Maweni Watsan Project			383,034	
Rural	Nairobi WRUA			3,628,450	
Rural	Kochodin WRUA			5,536,954	
Rural	Mrima Sanitation Project			4,788	
Rural	Mwangani Sanitation Project			5,121	
Urban	Ongata Rongai Sanitation (Safisan Pilot) Project			302,689	
Urban	Baba Dogo Water Extension			698,677	
Urban	Mathare Sustainability Water Project			3,493,298	
Urban	Machakos Household San			118,546	
Urban	Noluresh Nzau Household San			5,467,479	
Urban	Kimende Pipeline Call 7			43,200	
Urban	Garissa Primary Playground PSF			77,774	
Urban	Kibwezi Household San			2,760,197	
				Total	29,765,280
<p>The below additional provisions relate to questioned project expenditure.</p>					
			Management should ensure consistent and regular follow up of partner balances to ensure that no funds are unaccounted for by the lapse of the financing agreement.	Follow up on the long outstanding receivables is ongoing and is yet to be finalised.	Not resolved

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<p>The total provision in the financial statements is KES 40,555,370.</p> <p>Non-compliance with the PSC Act on acting roles</p> <p>Officer holding the following positions at WSFT had been in acting capacities for more than 6 months;</p> <ul style="list-style-type: none"> • Chief Manager HR and Administration • Chief Manager Finance 	<p>Management should ensure compliance to the provisions of the Public Service Commission Act by ensuring that no acting appointment exceeds 6 months.</p>	<p>The Fund was undergoing restructuring under the approved Human Resources Policy documents therefore there was a need to implement the HR instruments as a whole. The matter has now been resolved.</p>	<p>Resolved</p>																																	
<p>Late submission of monthly reports</p> <p>There were instances where Kitui Water and Sewerage Company submitted the monthly operational and financial reports past the due date as detailed below:</p> <table border="1"> <thead> <tr> <th>Due Date</th> <th>Submission Date</th> <th>No. of Days Late</th> </tr> </thead> <tbody> <tr> <td>01 November 2020</td> <td>16 December 2020</td> <td>6</td> </tr> <tr> <td>01 January 2021</td> <td>16 February 2021</td> <td>6</td> </tr> <tr> <td>01 March 2021</td> <td>22 April 2021</td> <td>12</td> </tr> <tr> <td>01 April 2021</td> <td>25 May 2021</td> <td>15</td> </tr> </tbody> </table>	Due Date	Submission Date	No. of Days Late	01 November 2020	16 December 2020	6	01 January 2021	16 February 2021	6	01 March 2021	22 April 2021	12	01 April 2021	25 May 2021	15	<p>Kitui Water and Sewerage Company should ensure timely submission of reports to WSTF and communicate to WSTF in the event of any challenges in submitting the reports on time to obtain approvals for late submission.</p>	<p>County Resident Monitors, County Resident Engineers and Field Monitors will be tasked to follow up and ensure reports are submitted without delay.</p>	<p>Resolved and continuous follow-up is being undertaken</p>																		
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<p>Expenditure incurred contrary to the financing agreement</p> <p>There were instances where the expenditure incurred and reported by Eldoret Water and Sanitation Company under the Conditional Liquidity Support Grant (CLSG) project was ineligible considering the requirements of the financing agreement. This related to funds used to pay loans and to reinstate customer deposits which Eldoret Water and Sanitation Company had used to cover their expenses. The expenditure total expenditure is as detailed below:</p> <table border="1" data-bbox="587 1283 770 2145"> <thead> <tr> <th>Payment Voucher number</th> <th>Date</th> <th>Description</th> <th>Amount in (KES)</th> </tr> </thead> <tbody> <tr> <td>21-1405</td> <td>16 June 2021</td> <td>Being transfer of money into the customer deposits account</td> <td>6,882,254</td> </tr> </tbody> </table> <p>The amounts of KES 6,882,254 are therefore ineligible and have been questioned in our report.</p>	Payment Voucher number	Date	Description	Amount in (KES)	21-1405	16 June 2021	Being transfer of money into the customer deposits account	6,882,254	<p>Management should ensure that only eligible expenditure is incurred and should refund KES 6,882,254 to WSTF.</p>	<p>The WSTF is following up on the matter to have the amounts refunded.</p>	<p>Unresolved</p>
Payment Voucher number	Date	Description	Amount in (KES)								
21-1405	16 June 2021	Being transfer of money into the customer deposits account	6,882,254								

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<p>Delay in project implementation</p> <p>WSTF entered into a financing support and implementation agreement with Athi Water Works Development Agency (AWWDA) for the Gatundu priority project on 28 April 2020. AWWDA contracted Drill Rite Africa Ltd for LOT 3 and 4 of the works relating to ground water exploitation project, drilling and equipping of Gatundu boreholes for KES 54,632,385 and KES 61,238,383 respectively. Drill Rite Africa Ltd was paid an initial sum of KES 7,388,808 however they did not complete the construction works.</p> <p>Following abandonment of the construction works in March 2021 by Drill Rite with no prior consultation or approval by the Project Manager, Athi Water Works Development Agency held meetings with the contractor however there was no resolution of the dispute. Subsequently, AWWDA issued a notification to terminate the contract on 30 November 2021 and recalled the performance guarantee no. EKI/SM/20-G16690 amounting KES 5,463,238 issued by Bank of Africa. On 10 January 2022 AWWDA wrote to Bank of Africa to recall the performance guarantee no. EKI/SM/20-G16689 amounting to KES 6,123,839 for LOT 4 construction works.</p> <p>Following the above actions, the contractor notified AWWDA of their intent to institute judicial process on 31 December 2021.</p> <p>The court recommended the two parties AWWDA and Drill Rite Construction Ltd to settle the matter through arbitration. As at the time of the audit in May 2022, the arbitration process was still underway.</p>	<p>Water Sector Trust Fund should follow up with AWWDA for prompt completion of the works</p>	<p>The Management agrees with the auditor's observation. The contractor has failed to undertake the works claiming escalation of fuel prices and steel prices. Being a fixed contract, price adjustment was not provided for and as such the contractors request to change the contract rates was rejected. The procuring entity commenced the termination of the contract following the contractor's non-performance and abandonment of site. The contractor took the procurement entity to court because of recalling the contracts performance guarantee. The Court recommended the matter be settled through arbitration. Negotiations process is ongoing. This is being closely followed up to uphold the interest of the procuring entity.</p>	<p>Not Resolved</p>
<p>ICT Policy deficiencies</p> <p>The current IT Policy in place at Water Sector Fund does not clearly define controls, processes and procedures with regards to Network Administration, Backup Management and user creation in the application systems.</p>	<p>The ICT Policy should be reviewed and updated to ensure that it incorporates: All the user access creation guidelines are addressed and properly outlined. Administration of the entity's network i.e controls in relation to network security.</p>	<p>User access account creation will be further defined in an update to the ICT Policy, and a template for capturing these requests developed. The administration of the network in relation to network security will be further clarified in the policy update</p>	<p>Resolved</p>

Description	Recommendation	Management comments	Status as at 30 June 2022																																												
<p>Password deficiencies on Aren Register Application The Aren application does not have a password configuration in place that would allow the administrators of the system to implement the password policy as per industry standards/the organisation's IT policy. The below deficiencies in password settings were noted:</p> <table border="1" data-bbox="300 421 497 1473"> <thead> <tr> <th>Password Setting</th> <th>Units</th> <th>Recommended settings</th> <th>Aren Register Application</th> </tr> </thead> <tbody> <tr> <td>Account lockout threshold</td> <td>Attempts</td> <td>3</td> <td>Not Defined*</td> </tr> <tr> <td>Password history</td> <td>Passwords</td> <td>6 or more</td> <td>Not Defined*</td> </tr> <tr> <td>Minimum Password Length</td> <td>Characters</td> <td>8</td> <td>Not Defined*</td> </tr> <tr> <td>Maximum Password Age</td> <td>Days</td> <td>30 to 90</td> <td>Not Defined*</td> </tr> <tr> <td>Password Complexity</td> <td>Complex</td> <td>Enabled</td> <td>Not Defined*</td> </tr> <tr> <td>Account lockout duration</td> <td>Minutes</td> <td>Until admin unlocks</td> <td>Not Defined*</td> </tr> </tbody> </table> <p>*Denotes deficiency</p> <p>The Aren application does not have a password configuration in place that would allow the administrators of the system to implement the password policy as per industry standards/the organisation's IT policy. The below deficiencies in password settings were noted:</p> <table border="1" data-bbox="300 698 1050 1473"> <thead> <tr> <th>Password Setting</th> <th>Units</th> <th>Recommended settings</th> <th>Aren Register Application</th> </tr> </thead> <tbody> <tr> <td>Account lockout threshold</td> <td>Attempts</td> <td>3</td> <td>Not Defined*</td> </tr> <tr> <td>Password history</td> <td>Passwords</td> <td>6 or more</td> <td>Not Defined*</td> </tr> <tr> <td>Minimum Password Length</td> <td>Characters</td> <td>8</td> <td>Not Defined*</td> </tr> </tbody> </table>	Password Setting	Units	Recommended settings	Aren Register Application	Account lockout threshold	Attempts	3	Not Defined*	Password history	Passwords	6 or more	Not Defined*	Minimum Password Length	Characters	8	Not Defined*	Maximum Password Age	Days	30 to 90	Not Defined*	Password Complexity	Complex	Enabled	Not Defined*	Account lockout duration	Minutes	Until admin unlocks	Not Defined*	Password Setting	Units	Recommended settings	Aren Register Application	Account lockout threshold	Attempts	3	Not Defined*	Password history	Passwords	6 or more	Not Defined*	Minimum Password Length	Characters	8	Not Defined*	<p>process to maintain availability of networks, remote connections to the network.</p> <p>The vendor should include a password module to enable the administrators to set up the password configuration in line with industry standards or WSTF's password policy.</p>	<p>This observation is accepted as recommended. Management is in consultation with the Aren software vendor to include an updated password configuration that allows for the password policy as per industry standards and WaterFund password policy.</p>	<p>To be resolved by 31st December 2022</p>
Password Setting	Units	Recommended settings	Aren Register Application																																												
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Description				Recommendation	Management comments	Status as at 30 June 2022
Maximum Age	Password	Days	30 to 90	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.	To be resolved by 31 st December 2022
Password Complexity	Account lockout duration	Complex	Enabled			
		Minutes	Until admin unlocks			
*Denotes deficiency						
<p>Change Management Tool</p> <p>We noted that issues raised during production are recorded in manual spreadsheets.</p>						

Mr. Willis Ombai
Ag. Chief Executive Officer

Date

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APPENDIX II: PROJECTS IMPLEMENTED

Project title	Project Number	Donor	Period/ duration (Year)	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
Up-scaling of Basic Sanitation for the Urban Poor (UBSUP)	1109104900	Development Bank of Germany (KfW) and Bill Malinda Gate Foundation	13	942	Yes	Yes
Water Sector Development (Support WSTF)	1109100900	Development Bank of Germany (KfW)	8	1,234	Yes	Yes
Kenya Urban Water and Sanitation OBA Project	1109101900	World Bank	7	1,185	Yes	Yes
Support to Equitable Access to quality water/16P	1109105100	Government of Sweden	7	843	Yes	Yes
Support to the Water Resources Management and Water Service Provision	1109100300	Government of Finland	7	515	Yes	Yes
Green growth and employment creation-Access to and management	1109105200	Royal Danish Embassy-DANIDA	6	1,629	Yes	Yes
Water Supply and Sanitation for the Urban Poor -KfW-Phase IV	1109105000	German Development Bank-KfW	4	1,265	Yes	Yes
Ending drought Emergencies Support to drought Risk Management	1109112300	European Union	8	2,200	Yes	Yes
The Saudi Programme for Drilling of Wells and Rural Development in Africa	1109114201	Government of Kingdom of Saudi Arabia	5	500	Yes	Yes
Water and Sanitation Programme (PIF)		Government of Finland	6	2,800	Yes	Yes
COVID -19 Response Programme	1109121400	Royal Danish Embassy-DANIDA	2	176	Yes	Yes
Sustainable Management and Access to Water and Sanitation in the ASALs		Royal Danish Embassy-DANIDA	5	1,210	Yes	Yes

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APPENDIX III: STATUS OF PROJECTS COMPLETION

	Project	Total programme Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	1109104900 Up-scaling of Basic Sanitation for the Urban Poor (UBSUP)	1,242	945	97%	1,242	1,205	Development Bank of Germany (KfW) and Bill Malinda Gate Foundation
2	1109100900 Water Sector Development (Support WSTF)	1,707	1,365	89%	1,707	1,519	Development Bank of Germany (KfW)
3	1109101900 Kenya Urban Water and Sanitation OBA Project	1,385	936	97%	1,385	1,345	World Bank
4	1109105100 Support to Equitable Access to quality water/J6P	1,143	915	97%	1,143	1,109	Government of Sweden
5	1109100300 Support to the Water Resources Management and Water Service Provision	920	740	93%	920	856	Government of Finland
6	1109105200 Green growth and employment creation-Access to and management	2,222	1,540.4	90%	2,222	2,000	Royal Danish Embassy-DANIDA
7	1109105000 Water Supply and Sanitation for the Urban Poor -KfW-Phase IV	1,771	376	20%	747	354.2	Development Bank of Germany (KfW)
8	1109112300 Ending drought Emergencies Support to drought Risk Management	2,653	590	24%	2,653	637	European Union
9	1109114201 The Saudi Programme for Drilling of Wells and Rural Development in Africa	600	22	8%	600	48	Government of Kingdom of Saudi Arabia
10	Water and Sanitation Programme (PIF)	3,300	30	0%	3,300	0	Government of Finland
11	1109121400 COVID -19 Response Programme	176	-	100%	176	176	Royal Danish Embassy-DANIDA
12	Sustainable Management and Access to Water and Sanitation in the ASALs	1,400	130	11%	1,400	154	Royal Danish Embassy-DANIDA

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APPENDIX IV – INTER-ENTITY TRANSFERS

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

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature:	Total Amount - KES	Statement of Financial Performance	Where Recorded/recognized				Total Transfers during the Year
					Capital Fund	Deferred Income	Receivables	Others – Accounted /Expensed	
MOWSI	11.08.2021	Recurrent	13,916,667	13,916,667	-	-	-	13,916,667	13,916,667
MOWSI	07.09.2021	Recurrent	13,916,667	13,916,667	-	-	-	13,916,667	13,916,667
MOWSI	29.09.2021	Recurrent	13,916,666	13,916,666	-	-	-	13,916,666	13,916,666
MOWSI	04.11.2021	Recurrent	13,916,667	13,916,667	-	-	-	13,916,667	13,916,667
MOWSI	02.12.2021	Recurrent	13,916,667	13,916,667	-	-	-	13,916,667	13,916,667
MOWSI	10.01.2022	Recurrent	13,916,666	13,916,666	-	-	-	13,916,666	13,916,666
MOWSI	07.02.2022	Recurrent	13,916,667	13,916,667	-	-	-	13,916,667	13,916,667
MOWSI	02.03.2022	Recurrent	13,916,667	13,916,667	-	-	-	13,916,667	13,916,667
MOWSI	04.04.2022	Recurrent	13,916,666	13,916,666	-	-	-	13,916,666	13,916,666
MOWSI	09.05.2022	Recurrent	13,916,667	13,916,667	-	-	-	13,916,667	13,916,667
MOWSI	07.06.2022	Recurrent	13,916,667	13,916,667	-	-	-	13,916,667	13,916,667
MOWSI	30.06.2022	Recurrent	13,916,666	13,916,666	-	-	-	13,916,666	13,916,666
Sub-total			167,000,000	167,000,000	-	-	-	167,000,000	167,000,000
MOWSI	26.08.2021	Development	75,500,000	75,500,000	-	-	-	75,500,000	75,500,000
MOWSI	01.11.2021	Development	75,500,000	75,500,000	-	-	-	75,500,000	75,500,000
MOWSI	16.05.2022	Development	40,500,000	40,500,000	-	-	-	40,500,000	40,500,000
MOWSI	30.06.2022	Development	40,500,000	40,500,000	-	-	-	40,500,000	40,500,000
Sub-total			232,000,000	232,000,000	-	-	-	232,000,000	232,000,000
World Bank	25.11.2021	Development	2,125,734,200	2,125,734,200	-	-	-	2,125,734,200	2,125,734,200
World Bank	03.03.2022	Development	683,536,190	683,536,190	-	-	-	683,536,190	683,536,190
World Bank	23.05.2022	Development	78,727,408	78,727,408	-	-	-	78,727,408	78,727,408
Sub-total			2,887,997,798	2,887,997,798	-	-	-	2,887,997,798	2,887,997,798

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Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature:	Total Amount - KES	Statement of Financial Performance	Where Recorded/recognized				Total Transfers during the Year
					Capital Fund	Deferred Income	Receivables	Others – Accounted /Expensed	
DANIDA - SWASAP	30.06.2022	Development	130,337,849	20,201,165	110,136,684		20,201,165	130,337,849	
Sub-total			130,337,849	20,201,165	110,136,684	-	20,201,165	130,337,849	
KFW	08.06.2022	Development	361,104,547	16,736,121	344,368,426		16,736,121	361,104,547	
Sub-total			361,104,547	16,736,121	344,368,426	-	16,736,121	361,104,547	
DANIDA WLP	27.10.2021	Development	11,972,962	11,972,962	11,972,962		-	11,972,962	
Sub-total			11,972,962	11,972,962	11,972,962	-	-	11,972,962	
Total			3,790,413,156	3,335,908,046	466,478,072	-	3,323,935,084	3,790,413,156	

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APPENDIX V: REPORTING OF CLIMATE RELEVANT EXPENDITURES

Project Name	Project Description	Project Objectives	Project Activities	Source Of Funds				Implementing Partners
				Q1	Q2	Q3	Q4	
1.0 Upper Tana Natural Resources Management Project(UTaNRMP)	The UTaNRMP programme supports Water Resources Users Associations (WRUAs) and Community Forest Associations (CFAs) in implementing conservation activities with the aim of contributing to rural poverty reduction in the Upper Tana Catchment	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.	1.0 Financing of WRUAs to implement Catchment Conservation Activities. 2.0 Financing of CFAs to support forest rehabilitation and increase the forest cover.	-	8.0	10.2	18.2	WRUAs, CFAs, KFS (Kenya Forest Service), UTaNRMP CPCs (County Project Coordinators).
2.0 Ending Drought Emergencies: Climate Proofed Infrastructure Programme (EDE-CPIRA)	Ending Drought Emergencies: Climate Proofed Infrastructure for Improved Water Supply and Sanitation in the Arid and Semi - Arid Land (ASAL) areas.	Sustainable management of Water Resources in ASALs is improved	Financing of WRUAs to undertake catchment conservation activities and implement climate proofed water resources infrastructure projects	-	5.34	8.5	9.5	WRUAs/WSPs (Water Service Providers)
3.0 Green Growth Employment Programme (GGEP)	The Green Growth and Employment Programme (GGEP) is to support access to and management of water resources in the	Sustainable and community-based management of water resources improved	1.0 Financing of WRUAs to undertake catchment conservation and water resource protection activities.	3.0	2.93	-	-	WRUAs/ Conservancies/Northern Rangeland Trust (NRT)

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Project Name	Project Description	Project Objectives	Project Activities	Source Of Funds				Implementing Partners
				Q1	Q2	Q3	Q4	
	Arid and Semi-Arid Lands.		2.0 Financing of Conservancies to undertake Water Resource Management Activities					

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APPENDIX VI – 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 2022, there were no losses.