WASREB
Water Services Regulatory Board

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30TH JUNE, 2019

2019 ANNUAL REPORT

Water Services for All

WATER SERVICES REGULATORY BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30TH JUNE, 2019

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

TABLE CONTENTS

1.0 INSTITUTIONAL DETAILS/INFORMATION

1.1 Establishment

Water Services Regulatory Board is a body corporate established under the provisions of the Water Act 2016 and operating under the provisions of the State Corporations Act, Cap 446 of the laws of Kenya and it is domiciled in Kenya. On April 21st 2017 the Water Act 2002 was repealed by the Water Act 2016.

Background

Water Services Regulatory Board is a body corporate established under the provisions of the Water Act 2016 and operating under the provisions of the State Corporations Act, Cap 446 of the laws of Kenya and it is domiciled in Kenya. The mandate of the institution is to oversee the implementation of policies and strategies relating to provision of water and sewerage services. WASREB sets rules and enforces standards that guide the sector towards ensuring that consumers are protected and have access to efficient, adequate, affordable and sustainable services.

Vision

The Vision of the Board is "A proactive and dynamic water services regulator".

Mission

To provide a regulatory environment that facilitates efficiency, effectiveness and equity in the provision of water services in line with the human right to water and sanitation.

Strategic Objectives

The Boards five objectives are as follows: -

a) Enhance consumer and other stakeholders' confidence in water services regulation

b) Strengthen governance in water services provision,

c) Ensure a financially sustainable and socially responsive water services sector.

d) Enhance compliance with regulations.

e) Strengthen institutional capacity.

Responsibilities

The responsibilities of the Water Services Regulatory Board according to the Water Act 2016 which repealed the Water Act 2002 are to:-

a) Determine and prescribe national standards for the provision of water services and asset development for water services providers;

(b) Evaluate and recommend water and sewerage tariffs to the county water services providers and approve the imposition of such tariffs in line with consumer protection standards;

(c) Set licence conditions and accredit water services providers;

(d) Monitor and regulate licensees and enforce licence conditions;

(e) Develop a model memorandum and articles of association to be used by all water companies applying to be licensed by the regulatory board to operate as water services providers;

(f) Monitor compliance with standards including the design, construction, operation and maintenance of facilities for the provision of water services by the water works development bodies and the water services providers;

(g) Advice the cabinet secretary on the nature, extent and conditions of financial support to be accorded to water services providers for providing water services;

(h) Monitor progress in the implementation of the water strategy and make appropriate recommendations;

(i)Maintain a national database and information system on water services;

(j) Establish a mechanism for handling complaints from consumers regarding the quality or nature of water services;

(k) Develop guidelines on the establishment of consumer groups and facilitate their establishment;

(l) Inspect water works and water services to ensure that such works and services meet the prescribed standards;

(m) Report annually to the public on issues of water supply and sewerage services and the performance of relevant sectors and publish the reports in the gazette;

(n) Make regulations on water services and asset development which shall include business, investment and financing plans in order to ensure efficient and effective water services and progressive realization of the right to water services;

(o) Advise the cabinet secretary on any matter in connection with water services; and

(p) Make recommendations on how to provide basic water services to marginalised areas.

Principal Legal Advisor

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2.0 BOARD OF DIRECTORS

Hon. Joshua W. Irungu

He was appointed on 8th February 2019. He holds an MSC Degree in Agriculture and Rural Development. He has over 20 years' experience in public administration and agriculture. He has served the government as the first governor of Laikipia County and previously worked for PACT Kenya.

Mr. Ezra K. Ronoh

He is an independent director appointed on 8th February 2019. He holds a Master of Business Administration (MBA). He is currently pursuing a PHD in Entrepreneurship Management. He serves as the Program's Co-ordinator at Kabarak University Nakuru Town Campus. He previously served as aa Consultant in Assessing SMEs with Best Practices and as a Business Advisor Ministry of Industrialization.

Mrs. Fakira Kassim

She is an independent director appointed on 8th February 2019. She holds a Higher National Diploma in Clinical Medicine and Surgery. She is also qualified in Quality Assurance and Standards. She has worked for National Hospital Insurance Fund (NHIF) as a Quality Assurance Officer, Mandera District Hospital and KICC, Nairobi.

Ms Esther W. Njogu

She is an independent director appointed on 8th February 2019. She holds a Diploma in Leadership. She is an astute businesswoman in real estate and construction. Currently she works as an Administration Manager at Jubilee Party Headquarters where she provides guidance in leadership and governance. Previously, she served at Nyandarua County Council in Alcoholic Drinks Regulation Committee.

Dr. Erick K. Ruto

He is an independent director appointed on 8th February 2019. He holds a Masters Degree in Tropical and Infectious Diseases and a Bachelors Degree in Medicine and Surgery. He is currently pursuing a PHD in Medical Microbiology. He is the Medical Director and Chairman of Reale Hospital and Clinics and a lecturer at Moi University School of Medicine.

Mr. Kennedy Onditi

He is an independent director appointed on 8th February 2019. He holds a Masters Degree in Executive Business Administration. He is currently pursuing a PHD in Business Management and Strategic Business Management respectively.

He is the Executive Chairman of Contemporary Electrical Enterprises Ltd. accomplished engineer with over 20 years of experience in the sector.

Ms. Irene W. Kamau

She is an independent director appointed on 8th February 2019. She is a holder of Masters in Counselling Psychology. She is the Founder and Managing Director of 3M Overseas Education Advisory Committee. She was also the Headmistress at Pan African Girls High School.

Eng. Fidelis.K. Kyengo Alternate Member PS Ministry of Water and Sanitation and Irrigation

Eng. Kyengo is the Deputy Director Water Services under the Ministry of Water and Sanitation and Irrigation.

He has held senior positions in the Ministry and has been Project Coordinator/Programme Manager for the major Development Partners. He holds BSc in Engineering from the University of Nairobi. He is a corporate member of the Institution of Engineers of Kenya and a professional Engineer with the Engineers Board of Kenya.

KEY MANAGEMENT STAFF

Eng Robert N. Gakubia, HSC

Eng. Gakubia is the Chief Executive Officer of Wasreb. He has held senior positions in the Ministry of Water and Irrigation, rising to the position of Director of Water services. He holds BSc degree in Engineering from University of Nairobi and a MSc degree at IHE Delft, Netherlands. He is a corporate member of the Institution of Engineers of Kenya and a Professional Engineer with the Engineers Board of Kenya.

Dr. Julius Itunga

Dr. Julius K. Itunga is the Director Corporate Services. He holds a Doctor of Philosophy (PhD) in Business Administration from Jomo Kenyatta University of Agriculture and Technology (JKUAT), Master in Business Administration and Bachelor of Commerce, Finance Option both from the Catholic University of Eastern Africa (CUEA). He is a Certified Public Accountant of Kenya (CPAK), Certified Public Secretary of Kenya (CPSK); a member of the Institute of Certified Public Accountant of Kenya (ICPAK) and Institute of Certified Public Secretaries of Kenya (ICPSK). Dr. Itunga has over 25 years of experience in public sector management having worked previously in senior positions in Kenya Posts and Telecommunications Corporation/Telkom Kenya, Agricultural Development Corporation and National Biosafety Authority. He also worked as an Associate Lecturer at the Kenya Methodist University and has published extensively in refereed journals.

Ms. Bernadette Njoroge

Ms. Bernadette Njoroge is the Director Legal and Enforcement Services. She is an advocate of the High Court of Kenya. She holds an LLB (Hons) degree from the University of Nairobi; an LLM degree from the University of Nairobi, she is a Certified Public Secretary CPS (K) and an associate arbitrator at the CIArb (Kenya).

Eng Peter Njaggah

Eng Peter Njaggah is the Director Technical Services. He holds a Bachelor of Science degree in Civil Engineering from the University of Nairobi and Master of Science degree in Environmental Engineering from the University of New Castle –Upon Tyne in UK.

Eng. Njaggah has over 23 years experience and knowledge in the water sector having previously worked as a senior manager in several water utilities as the Managing Director of Western Water Services Company; as Head of Water and Wastewater departments in Central District Council, South East District Council and Ghanzi District Council- all in the Republic Of Botswana, and also in the then Water & Sewerage Department- Nairobi City Council- Republic of Kenya.

He is a Professional Engineer with the Engineers Board of Kenya, a Corporate Member of the Institution of Engineers of Kenya (I.E.K) and member of Institute of Waste Management of Southern Africa.

Herbert A Kassamani

Mr. Kassamani is the Director Consumer and Public Affairs. He holds an MBA (Marketing) and a Post-Graduate Diploma in Mass Communication from the University of Nairobi; and a Bachelor of Education from Kenyatta University. He has held senior positions in marketing and communications both in the public and private sector. He has also published extensively in magazines, journals and the local media

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REPORT OF THE AUDITOR-GENERAL ON WATER SERVICES REGULATORY BOARD FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Water Services Regulatory Board set out on pages 25 to 46, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Water Services Regulatory Board as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Water Act, 2016, the Public Finance Management Act, 2012 and the State Corporations Act, Cap 446 of the laws of Kenya.

Basis for Opinion

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Composition of Board of Directors

The Cabinet Secretary appointed seven (7) independent Directors to the Board instead of five (5) as provided for under the Water Act, 2016, resulting to an excess of two (2) members. Further, the Audit and Risk Committee did not have any member with expertise in auditing, financial management or accounting experience and knowledge in risk management and membership of professional body in good standing, as required under the Mwongozo Code of Governance for State Corporations. The Board was therefore, not properly constituted.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance to ISSAI 2315 and 2330. The standards require that I plan and perform the audit to obtain assurance on whether effective processes and systems of internal control, risk management and overall governance, were operating effectively, in all material respects. I believe that the 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 Public Sector Accounting Standards (Accrual Basis), and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of the internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Board's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to terminate the Board or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions which may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner which achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Board to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

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

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

05 July, 2021

4.0 CHAIRMAN'S STATEMENT

We are proud to say that Wasreb has grown in leaps and bounds. The regulatory framework has fully been developed, with most of the regulatory tools in place. They include guidelines on corporate governance, tariffs and customer service. These tools have been useful in guiding the sector in issues of governance, responsiveness and sustainability.

On the basis of work done in the period under review, there has been a significant improvement in the sector, particularly in the provision of water and sanitation services. While we have not achieved our set targets, we can say the foundation laid in the past phase has enabled us have a well regulated sector, which is crucial in facilitating universal access to water services.

As we reflect on our work at this stage, one of the main achievements is the stakeholder engagement that Wasreb has undertaken so far. A lot of discussions have been held on how all stakeholders can be brought on board to improve performance of the sector. We are happy to say that we have taken a lead on this issue.

For the Regulator to continue building on these gains, there is need now, for a comprehensive sector investment plan indicating the investment necessary to achieve the progressive realization of the right to water and sanitation.

As the Regulator focuses on our next strategic phase, our main challenge will be to ensure commercial viability, create possibilities for cross-subsidization to benefit vulnerable people, and avoid unjustified costs to consumers. Thus, the issue of sustainability will be paramount. To achieve these, it will be necessary to re-examine the concept of clustering with a view to ensuring economies of scale.

While the future is bright, the task ahead is huge and the challenges numerous. I must, however, say that each new day offers us a chance to work together, pursue new opportunities and improve upon the past.

Hon. Joshua Irungu
Chairman of the Board of Directors

5.0 REPORT OF THE CHIEF EXECUTIVE OFFICER

The enactment of the Water Act 2016 which repealed the Water Act 2002 in April 2017 has brought a raft of changes in the sector. The new law provides for the regulation, management and development of water resources and water services in line with the Constitution. This is the law that finally aligns the water sector to the Constitution of Kenya 2010 and anchors the reforms introduced by the Water Act 2002 onto the Constitution of Kenya 2010.

One key tenet under this Act, is the recognition that if water is to be governed effectively and sustainably, national standards will have to be set at both resources and at service subsectors. Independent national regulators will have to be given the mandate to monitor the implementation of the national strategies on water resources and water services, including monitoring and regulating all permit and license holders. These principles have to be respected by all, to ensure progressive realisation of the right to water and that water resources are sustained and protected for use by present and future generations.

The projections of population growth and urbanisation indicate that by the year 2030 the urban population will have increased from 13 million in year 2010 to 46 million. This puts a huge strain on water supply, demand and the resource itself. The drought experienced in year 2016/17 and the projections of climate change and their potential impacts, should be a lesson to us that development of water resilience systems is fundamental to achieving the SDG goals.

The sector reforms had the goals of improving access, ensuring cost recovery and reducing losses. It is regrettable that no significant improvement in all the three indicators has been realised in the last few years. The foregoing situation is partly driven by inadequate investments which are not in tandem with rapid population growth, system inefficiencies and tariffs that do not cover full costs. The need for increasing blended financing and efficiency of the sector cannot be overemphasized, on the road to the realisation of the Vision 2030 goal of universal access. This notwithstanding, Wasreb continues to facilitate and build an environment that makes the water services sub sector open to blended financing. The annual assessment of utilities technical performance, corporate governance and creditworthiness is an integral part of this endeavour.

Good governance and sustainable development are at the centre of national values and principles of governance in our constitution. It is paramount for all organs in the water sector to be guided by this principle in administering the new law to guarantee human dignity, equity, social justice, inclusiveness and non-discrimination.

Eng. Robert Gakubia,
Chief Executive Officer

6.0 CORPORATE GOVERNANCE STATEMENT

The Water Services Regulatory Board is committed to the values and principles of good corporate governance. Good corporate governance requires that the board of directors must govern the corporation with integrity and enterprise in a manner which entrenches and enhances the mandate it has under section 71 of the Water Act 2016. This mandate is not only regulatory but embraces the corporation's interaction with government and other stakeholder such as the water services boards and their providers, consumers of water services, the media, public opinion makers and pressure groups.

The directors and management of WASREB regard corporate governance as pivotal to the successes of the corporation and are unreservedly committed to ensuring that good corporate governance is practised so that WASREB remains a sustainable and viable vehicle for regulating water services in Kenya.

As a public service organization, the Board's decisions are guided by the core tenets prescribed in MWONGOZO, the Public Officers Ethics Act, and signed internal codes of conduct. We continually strive to strengthen and sustain the trust that the government, the water sector and the public have placed on us. Accordingly, the Board and its committees regularly evaluate the latest national and international standards with the aim of incorporating them in the business processes of WASREB so as to consistently deliver on our mandate.

Board of Directors

The directors are given appropriate information so that they can maintain full and effective control over strategic, financial, operational and compliance issues. Except for direction and guidance on general policy, the board has delegated authority for conduct of day to day business to the Chief Executive Officer. The board nonetheless retains oversight responsibility for establishing and maintaining the control of financial, operational and compliance issues.

Committees of the Board

The board has set up the following committees which meet under well defined terms of reference set by the board. This is intended to facilitate efficient decision making of the board in discharging its duties and responsibilities.

Corporate Services Committee

This Committee deals with strategic, financial, employment and administrative issues. Its responsibilities include; Performance contract negotiation; Reviewing of Annual Accounts; Reviewing Development and Recurrent Budgets; Recommendation of Board's Strategic Document, monitoring all human resources matters and monitoring the financial management of the corporation and matters of WASREB information, communication and media system and plans.

Technical Services Committee

There is a Technical Services Committee whose responsibilities include; Overseeing development and enforcement of regulations and laws; Approval of tariffs; Reviewing of water service standards and ensuring compliance; Approval of Service Provision Agreements; Recommending issuance of licenses to water service boards and making recommendations as regard setting and determination of fees, levies, premiums and other charges to be imposed for water services.

Audit and Risk Management Committee

As per the requirements of the Public Finance Management Act 2012, there is the audit and risk management committee. Its responsibilities include; examining and assessing the effectiveness of the internal control system; approving the Internal Audit programs; carry out special audits, verifying Boards assets and liabilities and receiving reports from the Internal Auditor and to adopt a pro- active risk based approach in the internal audit system.

Corporate Social Responsibility

WASREB acknowledges its responsibility to society in its capacity as a corporate citizen; consequently, it endeavours to play an active role in national matters as per its mandate besides contributing to various worthy causes. In the financial year under review WASREB continued to offer advices to different stakeholders in the sector to facilitate access to quality water services.

7.0 MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance: Crucial Facet for Sustainability

Wasreb recognizes that the financial health of any institution is a key determinant for sustainability. Therefore, in the review period, the Regulator continued employing measures to ensure that a sound financial base was maintained. Among the measures put in place in the year included increased surveillance of the sector to ensure the payment of the regulatory levy and imposing penalties to those who failed to comply with regulatory requirements. Thus, a steady growth in regulatory levy was sustained leading to enhanced delivery of services. In addition, cost control measures were undertaken to ensure efficiency in all operations.

During the period under review, the regulatory levy drooped from Kshs.188 million to Kshs 171 million. This facilitated the internal financing of development and operational expenditures.

Government grant support was about 8% which assisted in attaining full cost coverage. The approved budget for the period was strictly followed and this, coupled with cost control measures, ensured a healthy cash flow position during the year.

Internal Controls

Wasreb has defined procedures and financial controls to ensure accurate reporting and safeguarding of resources. The system of internal control defines procedures to ensure that assets are safeguarded, transactions are authorized and recorded, and that material errors and irregularities are either prevented or detected within a reasonable period of time. The performance of Wasreb is reported regularly to the Board of Directors through performance trends, forecasts, actual performance analysis and budgets. The Board reviews the effectiveness of internal control systems by assessing the work of both internal and external assurance providers. Internal assurance is carried out by the Internal Audit section, which reports to the Audit and Risk management Committee. The section provides confirmation that standards and policies are complied with. External assurance is provided by the Office of the Auditor General.

The Board is responsible for reviewing internal control systems. Over the period of reporting, the Board was satisfied that the system was effective. However, it is recognized that any system of internal control can only provide reasonable but not absolute assurance against material mis-statement or loss. Internal control and risk management systems are designed to mitigate rather than eliminate the risks identified in the financial reporting process.

Risk Assessment and Control Activities

The risk assessment process related to financial reporting is conducted annually. The significant accounts in the financial statements are identified based on the evaluation of the impact and likelihood of the risks materializing. Internal audit ensures objective and independent assessment of the adequacy, efficacy and quality of internal controls.

Management is responsible for ensuring that internal control activities are performed and documented, and is required to report to the Corporate Services Committee on compliance on a quarterly basis. In addition, Wasreb has implemented a formal audit of the strategy, budget and financial performance. The monitoring of internal controls and risk management systems is performed at multiple levels such as periodical reviews of documentation. The audits are performed by the internal audit and monitored by the Audit Committee. The Audit Committee charter outlines its roles and responsibilities related to supervision and monitoring of internal control and risk management systems. The monitoring is performed on the basis of periodical reporting from Finance, Internal and External Audits.

Challenges

While it can be reported that the financial health of the institution was generally sound, challenges were encountered in the collection of the regulatory levy as most companies were unable to clear their arrears and this led to a high receivable figure of 442 million. In addition, water companies did not fully adhere to the tariff condition on the remission of levy provided in the approved tariff and this contributed to the high debtor's figure.

The support from the government to the Regulator has slightly increased from 45 million to 49 million provided in the last year.

Water Service Provision Registers Growth

Wasreb undertakes a continuous exercise of monitoring the performance of the water services sector as a way of taking stock on gains made so that desired improvements can be made. The product of this monitoring exercise is IMPACT Report which is published annually.

The period under review saw the production and launch of the 11th issue of IMPACT Report. The 11th edition of Impact covers the period 2017/2018 and analyses the performance of a total of 88 water service providers (86 public and 2 private), Water Services Boards, and 47 counties. The population in the service area of the 88 utilities was 22.85 million. At an average of 4 members per household, this represents 5.71 million households. Out of these, the utilities were able to serve 12.93 million people, representing 3.23 million households.

The average Water Coverage was 57%, which is a growth of 2% from 2017 where coverage was 55%. In 2018, an additional 80,472 people.

Sewered Sanitation Coverage remained unchanged at 16%. Sewer services was available in only 32 urban centres spread across 26 counties. 21 counties have no sewer services and rely on onsite solutions.

The number of sewer connections increased by 5%. The number of sewer connections increased by 19,452 compared to 43,658 in the previous period. In the area of sanitation, sewerage coverage in urban areas generally declined from 17% to 15%. Considering that the average annual growth within the last four years is about 1%, the sector must grow annually at fivefold of the current rate to reach the 2030 target of universal access.

Hours of Supply declined from 14 to 13. Less hours of supply imply poor service quality (less reliability) and lower customer satisfaction.

Non-Revenue Water Reduction improved from 42% to 41%. Lower levels mean less wastage and imply improvement in professional management. Metering improved from 93% to 95%. Higher metering levels mean metering is being utilised as a tool for accounting for the water produced.

Cost Coverage declined from 102% to 99%. Higher cost coverage means improved sustainability for the sector. Lower cost coverage would be a threat to sustainability.

While positive growth was recorded in the sector, a number of factors continued to hamper this growth. They included poor governance, high water losses, and inadequate investment planning and reporting.

Regulatory Actions to Improve Performance in the Sector

Policy

The National Water Policy is intended to guide National and County governments in matters related to water. It addresses Water Resources Development and Management issues while balancing water use and water development across the country. The Policy provides comprehensive policy statements and actions to deal with pertinent issues in the water sector.

It also proposes a coordination framework for various sub-sectors involved in water resources development and management, including planning and implementation. The Policy also forms the basis for County governments to prepare policies and strategies that can help them effectively discharge their mandate. Since water services are a shared function, County governments have to discharge their mandate in collaboration with the National government.

Legislation

A key pillar of the Bill of Rights in the Constitution is the right to clean and safe water in adequate quantities and to reasonable standards of sanitation (Article 43). Art. 21 (2) obliges the State to take legislative, policy and other measures, including the setting of standards, to achieve the progressive realisation of the rights guaranteed under Article 43.

Further, the Constitution under Article 191, lays down the importance of national standards in this regard. The law assigns the National government functions like consumer protection, capacity building, technical assistance to Counties, national public works, and protection of the environment and natural resources. This is with a view to establishing a durable sustainable system of development including water protection, securing sufficient residual water, hydraulic engineering, and the safety of dams. On the other hand, County functions include implementation of specific National government policies including County public works and water and sanitation services.

The Water Act 2016 recognizes the shared mandate of the two levels of government with respect to water related functions and is meant to align water governance to the devolved structure. Under section 42 of the Act, the Cabinet Secretary is required to make regulations that give effect to the Act. The regulations should deliver legislation that is outcomes-based and combine the requirements of the Constitution, the Water Act 2016, the National Water Master Plan 2030, the National Water Services Strategies, as well as the existing and proposed water sector policy. Water Services Regulations 2019 have now been developed and are awaiting consent by Parliament.

Licensing

Section 74 of the Water Act 2016 requires any person(s) providing or intending to provide water services to apply to the Regulator for issuance of a Licence. The Licence is proof that the Licensee is operating under national regulatory standards and as such, is under legal obligation to adhere to sector national standards, rules, regulations and guidelines. The Act further provides that Wasreb shall regulate all Water Service Providers (WSPs) to ensure consumer protection and commercial viability.

The Licensee's area of jurisdiction covers the geographical area within which the Licensee resides and where the Licensee provides water services as directed by the County government. The purpose of licensing is to ensure consumer protection in respect to the following:

- The quality of service levels in the delivery of water and sewerage services. Water quality and effluent standards should guarantee the health and safety of consumers
- Protection of low-income household through pro-poor tariffs
- Non-discrimination of infrastructure development by extension of services to the unserved and underserved

- Economic interests of the public through affordable and sustainable tariffs that pay for the service
- Information provided by the water service provider to enable consumers gain full benefit of the services, demand accountability and participate in decisions that affect them.

The Licence issued to WSP bestows the following obligations on County governments as owners of utilities:

- Transforming water services in the County through correct vision
- Conforming to relevant laws and standards in the management of the utility
- Concordance with other players in the sector for progressive realisation of the right to water
- Providing / facilitating provision of resources
- Demanding accountability and results

Wasreb has already received applications from major utilities in the country and is progressing the licensing process.

Collaboration

Since the State and every state organ is obliged to fulfil the right to water (Article 21), both National and County governments have a shared mandate to ensure universal access to water services. In line with this, a collaboration framework has been developed to ensure smooth working relations between the two levels of government. The goal of the water sector intergovernmental consultation and co-operation framework is to steer the attainment of a robust and sustainable water sector through the coordination of the attainment of policy goals and standards. The liaison framework provides a practical platform for dialogue and engagement of critical stakeholders in the sector. This is necessitated by the fact that consumers of services rendered by the two levels of government are the same citizens of Kenya although located in different parts of the country.

Service to Low Income Areas

Low-income areas (LIAs) are often unplanned settlements, where a majority of the population is poor/lives below the poverty line and where infrastructure is missing. This makes living conditions unbearable, especially when the evacuation of human waste and other effluent is non-existent or insufficient.

Approximately 40% of the urban population in Kenya lives in Low Income Areas (LIAs). Considering the rapid growth rate, providing services to LIAs remains the greatest challenge of Kenya's water sector for the decades to come. Given the inadequacy of water services regulated by utilities, informal service providers operate a thriving business in many LIAs. Such services in general are unregulated and illegal, particularly where they operate in the licensed service area of WSPs.

Article 56 (a) of the Constitution obliges the State to put in place affirmative action programmes designed to ensure that minorities and marginalized groups participate and are represented in governance systems and also that they have reasonable access to water, health services and infrastructure.

Appreciating the need to attain minimum standards outlined in the Bill of Rights, water and sanitation have to be provided under regulation for the safety of consumers. In addition, the crucial nature of these services makes it imperative for the Regulator to ensure that the services are provided in a sustainable manner to ensure the survival of people and the development of society.

Pro-poor interventions need to be embedded within the water sector so as to:

- Implement the constitutional right to water and sanitation by increasing service coverage in LIAs
- Replace informal services which discriminate the underserved
- Achieve equitable access while ensuring quality and adequate service levels
- Improve long-term commercial viability of utilities by increasing revenues
- Collect accurate data on LIAs (underserved) to make informed decisions
- Eliminate discrimination and exploitation of the poor in accessing water services

Mitigate Climate Change

Improving access is increasingly being threatened by the effects of climate change. This mainly comes in form of either prolonged drought or floods. For the year under review, overall production declined mainly due prolonged drought. The law requires utilities to secure their water sources. The licence issued to the utilities requires that they develop climate change and disaster preparedness strategies to increase resilience and ensure mitigation measures. The Regulator is in the process of defining the characteristics of a climate resilient utility.

The United Nations has identified implementation of integrated water resources management, including trans-boundary cooperation, as a key requirement for reaching the targets under goal number six of the SDGs. In terms of implementation of integrated water resources management, Kenya was rated at 52% (SDG report 6), indicating there is still a lot of ground to be covered to attain the target of 100%.

Pay Attention to Non-Sewered Sanitation

Sewerage coverage levels in the country remain relatively low putting in jeopardy the attainment of national targets on sanitation. This slow development in access is mainly attributed to the high cost of investment required for sewerage infrastructure. Achieving the 2030 target of safely managed sanitation services requires an inclusive urban sanitation approach that combines both sewered and non-sewered sanitation services. Consequently, recognizing that 84% of the population in urban areas depends on non-

sewered sanitation, a pragmatic approach is needed to regulate service delivery from an inclusive perspective that acknowledges sewered and non-sewered technology modes and the importance of regulatory touch points along the entire value chain of non-sewered sanitation. We commend the increased high level
commitment by government.

Reduce Water Loss

Non-Revenue Water continues to be a big threat to the financial sustainability of the sector. During the current period, the sector lost slightly more than seven billion shillings. Looked at in terms of volume, the amount lost annually is equivalent to 90 million cubic metres. This amount is adequate to serve the current population of Nairobi County for almost 15 months. All stakeholders must put in place deliberate measures to deal with this challenge.

Improve Sustainability

Inefficiencies in utilities, coupled with tariffs that do not cover cost, continue to hamper progress to full cost recovery. At the current average tariff of Kshs 79 per cubic meter, consumers are paying Kshs 12 per cubic meter for inefficiencies and the balance of Kshs 1 per cubic meter is covered by subsidies or deterioration of service levels. A tariff that is less than the unit cost of water billed starves the utility of funds to put into asset renewal and overall sustainability of the service. The sector needs to embrace efficiency in their operations as a sure way of promoting sustainability.

Governance

The Constitution of Kenya 2010 allocated increasingly complex and resource-intensive
responsibilities to County governments, resulting in inter-dependencies that require coordination to ensure efficiency, effectiveness and equity in service delivery.

Good stewardship ensures proper deployment of resource and curbs revenue leaks in enterprises. Wasreb will aim at promoting improved governance both at National and County levels. The Board will foster mutual co-operation with the County governments on governance of water (WSPs), identify and prescribe solutions for regulatory issues and ensure seamless service delivery to the citizenry. The capacity of WSPs will require enhancement to enable them carry out effective, efficient and sustainable water services provision. Wasreb will consequently enhance monitoring of licensees and ensure compliance with the regulatory framework.

8.0 CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Wasreb acknowledges its responsibility to society in its capacity as a corporate citizen; consequently, it endeavours to play an active role in national matters as per its mandate besides contributing to various worthy causes. In the financial year under review WASREB continued to offer advices to different stakeholders in the sector to facilitate access to quality water services through the following activities;

Shows and Exhibitions

Wasreb participated in the main Agriculture Society of Kenya shows in Kisumu, Mombasa and Nairobi between July and October 2018. Wasreb also took part in major sector events which included the 6th Annual Devolution Conference in Kirinyaga County, World Water Day held in Kakamega County and at the 3rd Water Service Providers Association (WASPA) International Conference cum Expo held at KICC, Nairobi. Wasreb staff engaged in face to face engagement discussions with consumers where they handled various inquiries and complaints on services. They also disseminated Information, Education and Communication materials with key messages on consumer rights and responsibilities aimed at increasing awareness among the public on their rights to water.

Charitable Events

Wasreb carried out a tree planting exercise of 2,500 indigenous seedlings at Malindi Water and Sewerage Company's intake along Sabaki River, as part of CSR activities and in line with the Presidential Directive on tree planting.

Consumer Engagement Activities

Memorandum of Understanding were signed between Wasreb and four consumer groups namely; Nairobi, Mombasa, Kisumu and Kakamega. The signing of MoUs with the Communitu Based Organizations paved way for Wasreb to support them with funding to hold consumer engagement activities in Nairobi, Mombasa, Kisumu and Kakamega. The exercise was to encourage public participation in matters affecting consumers and service delivery of Water Service Providers.

Public Consultation for Renewal of Licences among WSPs

Wasreb held a series of public consultation meetings for licencing of 22 Water Service Providers in the country. These were Nairobi, Nyeri, Naivaisha, Embu, Kakamega, Eldoret, Nyandarua, Kiambere Mwingi, Othaya-Mukurweini, Nyahururu, Oloolaiser, Thika, Murang'a South, Kisumu, Kirinyaga, Isiolo, Tavevo, Homa Bay, Mavoko, Tetu Aberdare, Murang'a and Tatu City. Stakeholders gave their views on services provided by the WSPs.

Media Interventions

Notices to the public on licencing process of several WSPs were published in the dailies, news stories on Non-Revenue Water management was published and aired on Television. Other interventions were carried on Radio.

9.0 REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of Water Services Regulatory Board (WASREB) affairs.

Principal activities

The principal activity of WASREB is to protect the interests and rights of consumers in the provision of water services.

Results

The results of the entity for the year ended June 30, 2019 are set out on page 23-26

Directors

The members of the Board of Directors who served during the year are shown on page 5-7.

Auditors

The Auditor General is responsible for the statutory audit of WASREB in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board

John Hosea Muruka
Corporate Secretary
Nairobi
Date: ---------------------

10.0 STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and (*section 14 of the State Corporations Act, water Act 2016*, require the Directors to prepare financial statements in respect of that *entity*, which give a true and fair view of the state of affairs of the *entity* at the end of the financial year/period and the operating results of the *entity* for that year/period. The Directors are also required to ensure that the *entity* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *entity*. The Directors are also responsible for safeguarding the assets of the *entity*.

The Directors are responsible for the preparation and presentation of the *entity's* financial statements, which give a true and fair view of the state of affairs of the *entity* for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the 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 *entity*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *entity's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act), *Water Act 2016* . The Directors are of the opinion that the *entity's* financial statements give a true and fair view of the state of *entity's* transactions during the financial year ended June 30, 2019, and of the *entity's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the *entity's* financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The *entity's* financial statements were approved by the Board on 23rd September 2019 and signed on its behalf by:

Hon. JOSHUA IRUNGU **CHAIRMAN**	**ENG. ROBERT GAKUBIA** **CHIEF EXECUTIVE OFFICER**	**MR. EZRA K.RONOH** **BOARD MEMBER**
DATE:	**DATE:**	**DATE:**

1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2019

	Note	2018-2019 Kshs	2017-2018 Kshs
Revenue from non-exchange transactions			
GOK Grants	4	49,012,500	41,500,000
Regulatory Levy	5	171,248,473	188,648,504
Miscellaneous Income	6	3,010,966	7,887,519
Donor Grants	7	0	15,701,600
Total revenue		**223,271,939**	**253,737,623**
Expenses			
Employee costs	8	152,348,940	119,736,012
Board expenses	9	9,919,326	13,969,448
Administrative Expense	10	57,460,290	112,762,728
Depreciation	14	4,205,917	4,849,699
Total expenses		**223,934,473**	**251,317,887**
(Deficit)/Surplus for the period		**(662,534)**	**2,419,736**

II STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2019

	Note	2018-2019 Kshs	2017-2018 Kshs
Assets			
Current assets			
Cash and cash equivalents	11	69,923,698	50,763,059
Receivables from non- exchange transactions	12	115,736,344	158,922,384
Other current assets	13	14,287,386	9,074,897
		199,947,428	**218,760,340**
Non-current assets			
Property, plant and equipment	14	12,317,016	11,357,041
Long-term Mortgage Facility	19	33,292,919	15,771,795
Total assets		**245,557,363**	**245,889,176**
Liabilities			
Current liabilities	15	9,565,172	13,996,786
Net assets		**235,992,191**	**231,892,390**
Capital Reserve	16	36,487,577	36,487,577
Revaluation Reserve	17	5,250,000	492,665
Accumulated surplus	18	194,254,614	194,912,148
Total net assets and liabilities		**235,992,191**	**231,892,390**

Hon. JOSHUA IRUNGU	**ENG. ROBERT GAKUBIA**	**DR. JULIUS ITUNGA**
CHAIRMAN	**CHIEF EXECUTIVE OFFICER**	**DIR. CORPORATE SERVICES**
		ICPAK NO.8541
DATE:	**DATE:**	**DATE:**

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

	Capital Reserves	Revenue Reserve	Revaluation Reserve	Total
	Kshs	Kshs	Kshs	Kshs
Balance as at 1st July 2017	36,487,577	192,492,412	3,089,465	232,069,454
Depreciation on the revalued assets	-	-	(2,596,800)	(2,596,800)
Surplus/ (Deficit) for the period	-	2,419,736	-	2,419,736
Balance as at 30th June 2018	**36,487,577**	**194,912,148**	**492,665**	**231,892,390**
Balance as at 1st July 2018	36,487,577	194,912,148	492,665	231,892,390
Amortisation of revalued assets	-	-	(492,665)	(492,665)
Salary advance restated	-	5,000	-	5,000
Surplus/ (Deficit) for the period	-	(662,534)	-	(662,534)
Revaluation of motor vehicles	-	-	5,250,000	5,250,000
Balance as at 30th June 2019	**36,487,577**	**194,254,614**	**5,250,000**	**235,992,191**

III. STATEMENT OF CASH FLOWS
AS AT 30TH JUNE 2019

	Note	2018/2019	2017/2018
		KShs.	KShs.
Surplus/Deficit generated from Operating activities		(662,534)	2,419,736
Adjustment for			
Depreciation	14	4,205,917	4,849,699
Cashflow from operating activities before			
Working capital changes		**3,543,383**	**7,269,435**
(Increase)/Decrease in Receivables & other			
Current assets		37,973,551	(25,019,969)
Increase/ (Decrease) in Payables		(4,431,614)	(4,391,405.05)
		33,541,937	(29,411,374)
Net Cash flow from operating activities		**37,085,320**	**(22,141,939)**
Cash flow from investing activities			
Acquisition of assets	14	(408,557)	(948,554)
Cash flow from financing activities		**36,676,763**	**(23,090,493)**
Increase in Longterm Mortgage Facility		(17,521,124)	-
Decrease/Increase in Revaluation Reserves		-	-
Decrease/Increase in Revenue reserves		5,000	-
Net increase in cash and cash equivalent		**19,160,639**	**(23,090,493)**
Cash and cash equivalents at start of year		50,763,059	73,853,552
Cash and cash equivalents at end of year		**69,923,698**	**50,763,059**

IV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS AS AT 30TH JUNE 2019

	Original Budget 2018-2019	Adjustments	Final Budget 2018 – 2019	Actual on comparable basis 2018-2019	Performance difference 2018-2019
Revenue					
Regulatory levies	190,000,000	20,000,000	210,000,000	171,248,473	(38,751,527)
Government grants and subsidies	60,000,000	-	60,000,000	49,012,500	(10,987,500)
Miscellaneous Income	-	-	-	3,010,966	3,010,966
Donor Grants	-	-	-	-	-
Retained Earnings	-	-	-	-	-
Total income	**250,000,000**	**20,000,000**	**270,000,000**	**223,271,939**	**(46,728,061)**
Expenses					
Compensation of employees	149,100,000	19,296,629	168,396,629	152,348,940	(16,047,689)
Administrative expenses	83,900,000	3,567,371	87,467,371	57,460,290	(30,007,081)
Board Expenses	13,000,000	(3,000,000)	10,000,000	9,919,326	(80,674)
Other payments - Depreciation	4,000,000	136,000	4,136,000	4,205,917	69,917
Total expenditure	**250,000,000**	**20,000,000**	**270,000,000**	**223,934,473**	**(46,065,527)**
Surplus for the period	**-**	**-**	**-**	**(662,534)**	**(662,534)**

*** Notes on Performance differences**

- On the Compesantion of employees and Administrative expenses we underutilized the budget due to austerity measures put in place by the National treasury.
- On the regulatory levies we fell short of our target

NOTES TO THE FINANCIAL STATEMENTS

1. **GENERAL INFORMATION**
   Water Services Regulatory Board (WASREB) is established by and derives its authority and accountability from Water Act 2016. WASREB is wholly owned by the Government of Kenya and is domiciled in Kenya. WASREB's principal activity is to protect the interests and rights of consumers in the provision of water services.

2. **Statement of compliance and basis of preparation – IPSAS 1**

Wasreb's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity and all values are rounded to the nearest shilling. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the in-direct method. The financial statements are prepared on accrual basis.

3. **ADOPTION OF NEW AND REVISED STANDARDS**
   i) **Relevant new standards and amendments to published standards effective for the year ended 30th June 2019**

IPSAS 40: Public Sector Combinations
Wasreb has not undergone any form business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations.

IPSAS 33: First time adoption of Accrual Basis IPSAS
Wasreb adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to Wasreb.

IPSAS 34: Separate Financial Statements
Wasreb does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.

IPSAS 35: Consolidated Financial Statements
Wasreb does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.

IPSAS 36: Investments in Associates and Joint Ventures

The entity does not have investments in associates or joint ventures.

IPSAS 37: Joint Arrangements
The entity does not have an interest in a joint arrangement and therefore the standard does not apply.

IPSAS 38: Disclosure of Interests in Other Entities
The entity does not have any interests in other entities and therefore the standard does not apply.

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

IPSAS 39: Employee Benefits
Applicable: 1st January 2018
The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.

IPSAS 40: Public Sector Combinations
Applicable: 1st January 2019:
The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018.

4. **Summary of significant accounting policies**

a) Revenue recognition

i) **Revenue from non-exchange transactions – IPSAS 23**

Regulatory levy, license fees and fines

The Board recognizes revenues from levies, penalties and fees when received. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

ii) **Revenue from exchange transactions – IPSAS 9**

Miscellaneous income

These include penalties charged, sale of tender and interest income which is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Budget information – IPSAS 24

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

c) Taxes – IAS 12

Current income tax

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

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

e) Property, plant and equipment – IPSAS 17

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

Per Annum		**%**
Motor Vehicle	-	20
Furniture, Fittings and Office Equipment	-	15
Computers, software	-	33.33

g) Intangible assets – IPSAS 31

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

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

h) Research and development costs

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

- The technical feasibility of completing the asset so that the asset will be available for use or sale

- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

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

i) Provisions – IPSAS 19

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

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

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

Contingent liabilities

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

Contingent assets

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

j) Nature and purpose of reserves

Wasreb creates and maintains reserves in terms of specific requirements. Wasreb maintains both capital and revenue reserves.

k) Changes in accounting policies and estimates – IPSAS 3

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

l) Employee benefits – IPSAS 25

Retirement benefit plans

Wasreb provides retirement benefits for its employees. Defined contribution plans are post employment benefit plans under which an entity pays 20% fixed contributions based on the employees basic salaries and the employee contributes 10% of their basic salaries into a separate fund, and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

m) FINANCIAL RISK MANAGEMENT

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

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

i) **Liquidity risk management**

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

ii) Capital Risk Management

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

	2018-2019	2017-2018
	Kshs	**Kshs**
Revaluation reserve	5,250,000	492,665
Retained earnings	194,254,614	194,912,148
Capital reserve	36,487,577	36,487,577
Total funds	**235,991,861**	**231,892,390**
Total borrowings	-	-
Less: cash and bank balances	69,923,698	50,763,059
Net debt/(excess cash and cash equivalents)	(60,358,526)	(36,766,273)
Gearing	-26%	-16%

n) Related parties – IPSAS 20

Wasreb regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the board directors, the chairperson, the CEO, senior managers, Ministry of Water and Sanitation, Athi Water Services Board and GIZ.

o) Dividends/Surplus remission

The entity did not make any surplus during the year financial year 2018/2019 and hence no remittance to the Consolidated Fund.

p) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term deposits, cash and cash at bank.

q) Comparative figures

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

r) Significant judgments and sources of estimation uncertainty – IPSAS 1

The preparation of Wasreb's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

s) Provisions for bad debts

Trade receivables are recognized and carried at original amount less any unrecoverable amount and the general provision for bad debts at 10% of the amount outstanding and specific provision at 50%.

t) Subsequent events – IPSAS 14

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

u) Currency

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

NOTES TO THE FINANCIAL STATEMENTS

4. GOK Grants

	2018/2019 Shs	2017/2018 Shs
Unconditional grants		
Recurrent/ Development Grant	49,012,500	41,500,000
Total government grants and subsidies	**49,012,500**	**41,500,000**

5. Regulatory Levy

Regulatory levy	171,248,473	188,648,504
Total	**171,248,473**	**188,648,504**

6. Miscellaneous Income

Prequalification of suppliers	1,000	379,100
Surcharges & Loss Recovery	-	78,718
Insurance Compensation	159,966	-
Licenses	2,850,000	1,050,000
Reduction in Provision	-	6,305,728
Interest Income	-	73,973
Total other income	**3,010,966**	**7,887,519**

7. Donor Grants

Athi Water Services Board	0	14,000,000
GIZ	0	1,701,600
Total Donor Grants	**0**	**15,701,600**

8. Employee costs

No of employees	**34**	**34**
Salaries and wages	84,074,827	98,543,738
Housing benefits and allowance	18,854,462	-
Travel, motor car allowances	22,412,193	-
Performance and other bonuses	3,110,790	-
Contributions to pensions	9,262,651	8,502,753
Staff Welfare and HIV AIDS	980,000	-
Gratuity	7,809,945	7,419,237
Surcharge	-	78,718
Leave Allowance	5,844,072	5,191,566
Employee costs	**152,348,940**	**119,736,012**

NOTES TO THE ACCOUNTS CONT'

9. Board Expenses

	2019	2018
Chairpersons Honoraria	403,750	-
Sitting Allowance	9,515,576	13,969,448
Total Board remuneration	**9,919,326**	**13,969,448**

10. Administrative Expenses

	2019 Shs	2018 Shs
Advertising & Publicity	10,157,661	5,613,169
Audit fees	464,000	464,000
Conferences expenses	2,166,969	5,965,987
Consulting fees	2,422,395	7,563,675
Office running Expenses	3,252,091	4,094,239
Computer Expense	510,453	741,053
Staff Welfare Expenses	-	936,110
Insurance expenses	9,347,582	12,281,361
Internet	1,658,258	1,277,570
Printing	751,470	-
Rental	16,558,054	15,440,209
Bank Charges & Other Operating Exp	1,668,829	1,499,878
Telecommunication	259,673	278,678
Capacity building	5,324,475	8,700,737
Charges in provision for the year	-	16,206,215
Travel & Accommodation Expenses	-	30,255,208
Fuel and oil	2,918,380	1,444,639
Total Administrative Expenses	**57,460,290**	**112,762,728**

11. Cash and cash equivalents

	2019 Shs	2018 Shs
National Bank of Kenya Account No 01001032110300)	40,286,106	8,556,954
National Bank of Kenya (Account No 01001032110301)	755,978	755,978
National Bank of Kenya (Account No 01288032110300)	5,758,229	25,400,000
Kenya Commercial Bank (Account No 1117496953)	18,564,182	12,877,772
Cooperative Bank of Kenya (Account No 01136160928601)	4,466,439	3,075,331
Cooperative Bank of Kenya (Account No 01136160928600)	92,764	97,024
Total cash and cash equivalents	**69,923,698**	**50,763,059**

12. Receivables from non-exchange transaction

Current receivables

Staff Debtors	1,739,704	1,529,288
Water Service Boards	576,500	576,500
Trade debtors	183,182,600	226,579,056
Less: impairment allowance	(69,762,460,)	(69,762,460)
Total current receivables	**115,736,344**	**158,922,384**

Reconciliation of impairment of receivables

As at 1st July 2018	69,762,460	59,861,973
Charges in provision for the year (General)	-	(6,305,728)
Charges in provision for the year (Specific)	-	16,206,215
As at June 2019	**69,762,460**	**69,762,460**

13. Other Current Assets	**2019**	**2018**
	Shs	**Shs**
Mortgage Facility	6,048,192	3,928,205
Car loan	-	-
Accrued Interest	-	-
Prepaid Insurance	8,239,194	5,146,692
Total	**14,287,386**	**9,074,897**

Note;

Due to changes in the accounting policy on revenue recognition to non - exchange transaction, the board has not accounted for KES 385 million which is yet to be realized from the Water Service Providers in respect of license fees for the financial year. The board will Continue to pursue the debtors and recognize the revenue once received.

14. Property, plant and equipment

	Motor Vehicles	Furniture & Fittings	Computer& Equipment	Total
Cost	**Shs**	**Shs**	**Shs**	**Shs**
At 1st July 2017	**12,984,000**	**9,039,990**	**29,904,850**	**51,928,840**
Additions	-	483,600	464,954	948,554
At 30th June 2018	**12,984,000**	**9,523,590**	**30,369,804**	**52,877,394**
Depreciation and impairment				
At 1st July 2017	**(7,790,400)**	**(7,138,419)**	**(19,145,036)**	**(34,073,855)**
Charge for the Year	(2,596,800)	(682,540)	(4,167,159)	(7,446,499)
At 30th June 2018	**(10,387,200)**	**(7,820,959)**	**(23,312,195)**	**(41,520,354)**
Net book values				
At 30th June 2018	**2,596,800**	**1,702,631**	**7,057,610**	**11,357,041**
Cost	**Shs**	**Shs**	**Shs**	**Shs**
At 1st July 2018	**12,984,000**	**9,523,590**	**30,369,804**	**52,877,394**
Additions	-	-	408,557	408,557
Revaluation	**5,250,000**	**-**	**-**	**5,250,000**
At 30th June 2019	**18,234,0000**	**9,523,590**	**30,778,361**	**53,285,951**
Depreciation and impairment				
At 1st July 2018	**(10,387,200)**	**(7,820,959)**	**(23,312,195)**	**(41,520,354)**
Charge for the year	-	(605,657)	(3,600,259)	(4,205,917)
Amortization	**(492,665)**	**-**	**-**	**(492,665)**
At 30th June 2019	**(10,879,865)**	**(8,426,616)**	**(26,912,454)**	**(46,218,935)**
Net book values				
At 30th June 2019	**7,354,135**	**1,096,974**	**3,865,907**	**12,317,016**

15. Trade and other payables

	2019 Shs	2018 Shs
Trade payables `	-	3,000
Audit fees	928,464	928,464
Performance Guarantee	979,500	979,500
Gratuity	7,657,208	12,085,822
Total trade and other payables	**9,565,172**	**13,996,786**

16. Capital Reserve

Brought Forward	36,487,577	36,487,577
Carried Forward	**36,487,577**	**36,487,577**

17. Revaluation Reserve	492,665	3,089,465
Amortization in the year	(492,665)	(2,596,800)
Revaluation in the year	5,250,000	-
Carried Forward	**5,250,000**	**492,665**

18. Revenue Reserve

Brought Forward	194,912,148	192,492,412
Salary Advance Restated	5,000	
Surplus for the years	(662,534)	2,419,736
Carried Forward	**194,254,614**	**194,912,148**

19. Mortgage Facility

Total Fund	45,100,000	45,100,000
Cash & Cash equivalent	(5,758,229)	(25,400,000)
Bank Charges	(660)	-
Outstanding Mort. Payable	39,341,111	19,700,000
Current Assets	(6,048,192)	(3,928,205)
Long Term Mortgage	**33,292,919**	**15,771,795**

20. RELATED PARTIES TRANSACTIONS

	2019 Shs	2018 Shs
Wasreb's CEO & Senior Management	**34,362,690**	**30,886,495**
Board of Directors	**9,515,576**	**13,969,448**
Athi Water Services Board	**-**	**14,000,000**
GIZ	**-**	**1,701,600**
Ministry of Water and Sanitation	**49,012,500**	**41,500,000**
TOTAL	**92,890,766**	**102,057,543**

Appendix 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
1	**Outstanding Receivables** It was noted that the board has long outstanding debtors with over 50% of the debt being over one year old.	The board is undertaking rigorous revenue reconciliation and arrears collecting exercise, that will ensure that the outstanding receivables amounts is reduced.	DCS	Resolved	30th June 2019
2	**Unbudgeted for funds** During the year under audit the board received additional donor funding amounting to Kshs 15,501,600 that were utilized during the year. The funds were not included in the final approved budget of the Board.	The amounts provided for as donor grants were from Athi Water Services Board (AWSB) which they had already budgeted for and are recognized in the financial statements. Wasreb accounted to AWSB on how the funds were utilized. The other donor grants from GIZ were in kind.	DCS	Resolved	30th June 2019

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the State Corporation/ SAGA Funded by development partners

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1	N/A					
2	N/A					

Appendix III: INTER-ENTITY TRANSFERS

	ENTITY NAME:	**WATER SERVICES REGULATORY BOARD**		
	Break down of Transfers from the MINISTRY OF WATER & SANITATION			
	FY 18/19			
a.	GOK Grants			
		Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
	Ministry of Water & Sanitation	3rd July 2018	4,012,500	2018/2019
	‘’	18th October 2018	15,000,000	2018/2019
	‘’	28th December 2018	15,000,000	2018/2019
	‘’	27th June 2019	15,000,000	2018/2019
		Total	**49,012,500**	

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

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