

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA WATER SECURITY AND CLIMATE
RESILIENCE PROJECT (IDA CREDIT
NO.5668/5674-KE)

FOR THE YEAR ENDED
30 JUNE, 2021

MINISTRY OF WATER, SANITATION
AND IRRIGATION

Public Disclosure Authorized

Public Disclosure Authorized

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

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2021

ANNUAL REPORT AND FINANCIAL STATEMENTS

PROJECT GRANT NUMBER TFOA0761A /CREDIT NUMBER 5268/5674-KE

MINISTRY OF WATER, SANITATION AND IRRIGATION

KENYA WATER SECURITY AND CLIMATE RESILIENCE PROJECT

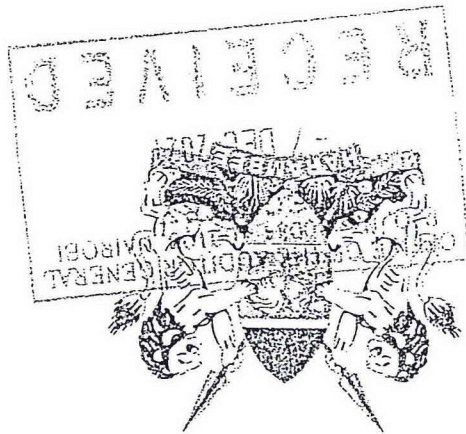


TABLE CONTENTS

1.	PROJECT INFORMATION AND OVERALL PERFORMANCE	
2.	STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETRMINED OBJECTIVES	
3.	CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING	xvi
4.	STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES	xx
5.	REPORT OF THE INDENDENT AUDITOR ON THE xxxx PROJECT	xxiii
6.	STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30TH JUNE 2021.	1
7.	STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2021	3
8.	STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2021	4
9.	STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS	6
10.	SIGNIFICANT ACCOUNTING POLICIES	7
11.	NOTES TO THE FINANCIAL STATEMENTS	15
12.	OTHER IMPORTANT DISCLOSURES	33
13.	PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS	38
14.	ANNEXES	49

1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name

The project's official name is Kenya Water Security and Climate Resilience Project.

Objective

The key objective of the project are: (i) increase availability and productivity of irrigation water for project beneficiaries; and (ii) enhance the institutional framework and strengthen capacity for water security and climate resilience for the country.

Address

The project headquarters offices are Nairobi, Nairobi County, Kenya.

The address of its registered office is:

Kenya Water Security and Climate Resilience Project,
Ministry of Water & Sanitation and Irrigation-Ngong Road,
Maji House
P.O Box 49720-00100 Nairobi

The project also has offices/branches at Mombasa-Imara House

Contacts: The following are the project contacts

Telephone: (254) 2716103
E-mail: info@kwscrp.org
Website: www.kwscrp.go.ke

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.2 Project Information

Project Start Date:	The project start date for the project preparation advance was 5 th January 2012 and Loan Credit 24 th October 2013
Project End Date:	The project end date for project preparation advance was 31 st December 2013 and Loan Credit is 31 st December 2022
Project Manager:	The project manager is Eng. Simon G. Mwangi
Project Sponsor:	The project sponsor is Ministry of Water & Sanitation and Irrigation.

1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Ministry of Water & Sanitation and Irrigation.
Project number	Credit No. 5268/5674-KE/ TF A0761
Strategic goals of the project	The strategic goals of the project are as follows: (i) To improve water security and build climate resilience by strengthening water and climate risk investment planning, preparation and implementation that is supported by an enhanced institutional framework.
Achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) Increase availability and productivity of irrigation water for project beneficiaries and enhance the institutional framework and strengthen capacity for water security and climate resilience for the country.
Other important background information of the project	The project is funded by the Government of Kenya (GOK), International Development Association (IDA), KfW, Korea-World Bank Group Partnership Facility Single-donor Trust Funds Grant and the Beneficiaries. The project total cost is US\$ 253 million as indicated below and is to be implemented over seven years. <ul style="list-style-type: none"> • IDA (USD 213M), • KfW (USD20.1M), • GOK (USD 15.2M),

<p>The project has seven categories as per the Financing Agreement Category 1 Goods, Category 2: Works, Category 3 Consultancy Services, Category 4 Operating costs, Category 5 Refunds of Preparation Advance and Category 6: Unallocated, Category 7, Goods, Works, Consultancy services and Training.</p> <ul style="list-style-type: none"> • Korea-WB Trust Fund (USD3.5M), • Beneficiaries (USD 1.2M) 	<p>The project was formed to intervene in the following areas: (i) Component 1: Water Resource Development, SC1.1 Water Sector Investment SC1.2 Water Investment Pipeline. (ii) Component 2 Effective Water Sector Institutions SC2.1 Support for Water Sector Transition and Reforms SC2/2 Strengthening Water Management and Planning (iii) Support for Project Implementation</p>	<p>The project started on 5th January 2012 and is expected to run until 31st December 2022</p>
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1.4 Bankers

The following are the bankers for the current year:

- (i) Designated Account-Central Bank of Kenya-Account No. 1000214244
- (ii) NCBA Bank, NCBA House-Account No. 1000591738
- (iii) NCBA Bank, NCBA House-Account No. 1004150167
- (iv) Equity Bank, NHIF Building-Account No. 0180269867060

1.5 Auditors

The project is audited by the Office of the Auditor General (OAG).
 P.O Box 30084 University Way, Nairobi

1.6 Roles and Responsibilities

Names	Title designation	Contact	Key qualification	Responsibilities
Joseph W. Irungu	Principal Secretary	Pswater631@gmail.com Tel: 020 2728703	Executive Masters in Business Administration	Accounting Officer
Eng. Samuel Alima	Water Secretary	saoalima@gmail.com 0722646064	BSC Civil Engineering	Coordination of the Project
Eng. Simon G. Mwangi	Project Manager	sgmwangi@kwscrp.org 0722897389	BSC Civil Engineering	Overall Project Management
CPA Agnes W. Waweru	Head of Accounting Unit	agwawe2006@gmail.com 0722785858	Bcom. CPA(K)	Financial Management

1.7 Funding summary

The project total cost is US\$ 146.06 million and is jointly funded by the Government of Kenya (US\$ 14.80 mil), International Development Association (US\$ 111.32 mil), KfW (US\$ 16.44 mil), and Korea-World Bank Group Partnership Facility Single-donor Trust Funds Grant (US\$ 3.50 mil). The status of project funding is summarized in the table below:

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

Below is the funding summary:

A. Source of Funds

Source of funds	Donor Commitment-		Amount received to date – (30 th June 2021)		Undrawn balance to date	
	Donor currency USD	KShs	Donor currency USD	KShs	Donor currency USD	KShs
(i) Grant						
Korean-WB Trust Fund	3,500,000	350,000,000	1,902,403	190,240,290	1,597,597	159,759,720
(ii) Loan						
IDA	111,320,000	11,132,000,000	93,134,948	9,313,494,822	18,185,052	1,818,505,178
Germany KfW	16,440,000	1,644,000,000	6,875,152	687,515,167	9,564,848	956,484,833
Counterpart funds						
Government of Kenya	18,700,000	1,870,000,000	15,946,520	1,594,652,000	2,753,480	273,348,000
Total	14,996,000,000	14,996,000,000	117,859,023	11,785,902,279	32,101,977	3,208,097,731

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

B. Application of Funds

Application of funds	Amount received to date – (30 th June 2021)		Cumulative Amount paid to date – (30 th June 2021)	Unutilised balance to date (30 06 2021)	
	Donor currency USD	Kshs		Donor currency	Kshs
	(A)	(A')	(B')	(A)-(B)	(A')-(B')
(i) Grant					
Korean Trust Funds	1,902,403	190,240,290	180,466,567	97,737	9,773,723
(i) Loan					
IDA	93,134,948	9,313,494,822	9,130,107,673	1,833,871	183,387,149
KfW	6,875,152	687,515,167	687,515,167	-	-
(ii) Counterpart funds					
Government of Kenya	15,946,520	1,594,652,000	183,387,149	14,112,648	1,411,264,851
Total	117,858,023	11,785,902,279	10,181,476,556	16,044,257	1,604,425,723

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.8 Summary of Overall Project Performance:

i) Budget performance against actual amounts for current year and for cumulative to-date,

	2020/2021		2019/2020		2018/2019	
	Budget	Actual	Budget	Actual	Budget	Actual
Receipts from Government of Kenya	200,000,000	700,000,000	175,000,000	200,000,000	769,652,000	-
Proceeds from Domestic and Foreign Grants	120,000,000	19,769,723	180,000,000	170,466,567	-	-
Loan from External Development Partners	3,800,000,000	1,941,356,100	2,943,500,000	2,957,936,894	1,250,000,000	1,179,845,890
	4,120,000,000	1,961,125,823	3,823,500,000	3,303,403,461	1,450,000,000	1,949,497,890

	2017/2018		2016/2017		2015/2016	
	Budget	Actual	Budget	Actual	Budget	Actual
Receipts from Government of Kenya	569,652,500	-	250,000,000	500,000,000	150,000,000	150,000,000
Proceeds from Domestic and Foreign Grants	-	-	-	-	-	-
Loan from External Development Partners	2,942,000,000	2,370,217,578	550,000,000	512,649,809	550,000,000	465,765,334
	3,511,652,500	2,370,217,578	800,000,000	1,012,649,809	700,000,000	615,765,334

Variance %	2014/2015		2013/2014		2012/2013		TOTAL	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Receipts from Government of Kenya	100,000,000	-	-	-	-	-	2,169,652,500	1,594,652,000
Proceeds from Domestic and Foreign Grants	-	-	-	-	-	-	300,000,000	190,240,290
Loan from External Development Partners	300,000,000	390,616,107	108,094,860	100,926,796	146,000,000	81,695,187	15,059,247,360	11,785,902,985
	400,000,000	390,616,107	108,094,860	100,926,796	146,000,000	81,695,187	15,059,247,360	11,785,902,985

ii) Physical progress based on outputs, outcomes and impacts since project commencement,

(1) Lower Nzoia Irrigation project - Phase I - The objective of this sub-component is to increase availability and productivity of irrigation water for communities in the Lower Nzoia Irrigation Scheme. The project, which is located in Busia and Siaya Counties in Western Kenya, targets to develop infrastructure to irrigate 4,043 hectares of land for sustainable production of food and high value crops amongst other project benefits. Once fully developed, the project will directly benefit approximately 20,000 people of whom about 12,600 people (2,100 households) are currently farming on land in the project area and another additional 8,000 people who are expected to work on the scheme as hired labour. The main project tasks include: (a) construction of irrigation and drainage infrastructure, including rehabilitation of the existing Bunyala

Irrigation Scheme (about 705 hectares); (b) support to agricultural production and establishment of market linkages through a value chain approach; and (c) support to the efficient operation of the infrastructure and to the progressive transfer of responsibilities and decision-making to Irrigation Water Users Associations. The success of the project is premised on the vision that, once completed, the beneficiary farmers will transition from the current rain-fed subsistence agriculture to commercial farming based on horticulture, and on the uptake of efficient irrigation management, operation and maintenance processes that will ensure scheme functionality and sustainability. The status of the physical progress is as follows:

- Construction of Diversion Weir, Intake and Headworks Infrastructure: Diversion weir: 97% complete; Intake works: 85% complete; Covered connecting channel: 8%; Headworks Canal: 87% complete; Emergency weir: 85% complete; Sand Trap: 95% complete; Headworks Access Road: 90% complete; Headworks canal box culverts: 95%.
- Construction of Main canal: Aqueduct: 100% complete; main canal box culverts: 21%; Main canal duckbill weir: 36%; Main canal cross drainage structures: 80%.
- Rehabilitation of Bunyala Irrigation Scheme: 72% complete.
- Rehabilitation of Bunyala buildings: 80% complete.
- Construction of Scheme Management Facilities at Nyadorera: 95% complete.
- Manufacture of Gates for flushing sluice, intake structure, emergency weir and sand trap 40% complete.

Besides the physical progress of Works detailed above, the land acquisition milestones in respect to irrigation infrastructure is: All 554 parcels of land in Blocks 1 to 4 have been compensated and vested in favour of MWSI; compensation and acquisition of Blocks 5 – 7 and 6 – 14 to be accomplished in October 2021 and February 2022 respectively.

(2) *Lower Nzoia Integrated Flood Mitigation Structures (IFMS)* – The objective of this sub-component is to improve and strengthen existing flood mitigation infrastructures (Dykes) to provide enhanced flood protection to the communities of the Lower Nzoia, as well as the new irrigation scheme, including infrastructure and crops. The dykes span a length of 17 Km on either side of River Nzoia downstream of Rwambwa Bridge towards Lake Victoria. Specific project interventions being undertaken include construction of 5.8 Km of new dykes, improvement of 28.4 Km of existing dykes, and construction of culverts and drains. The main works comprise an earth embankment of about 5.0 m high, which also provides a 5.0 m wide gravel road along the crest, a seepage grout curtain and rainfall run off control gates. Though the works contract was signed in November 2017, actual works on the ground have progressed very slowly due to challenges in land acquisition. Construction works were also recently slowed down due to heavy rains in the project area that made the project sites inaccessible for about three months (March to June 2020). The status of the physical progress is as follows:

- Construction of the Northern Dyke is 90% complete (Primarily on the riverside).
- Construction of the Southern Dyke is 73.5% complete (i.e. Solely on the river side).

(3) *Lower Nzoia Flood Forecasting and Early Warning System (FFEWS)* – The objective of this sub-component is to improve the existing flood early warning system for the Lower Nzoia River watershed in order to minimize damage to life and property in the event of a flood. The existing system is currently used for daily flood forecasting by the Kenya Meteorological Department (KMD). Through the project, the existing flood early warning system is being upgraded to include a combination of IT and technology for real-time monitoring of river flow (Telemetry), and instantaneous broadcast technology for flood early warning messages to concerned

communities based on alarm criteria. Other interventions being implemented include upgrading of existing rainfall & water level monitoring stations and construction of additional new ones; strengthening flood analysis capabilities, including inundation mapping, and refinement of flood warning criteria for Lower Nzoria River; establishment of a customized flood control system with monitoring system and control centres; and technology transfer and international knowledge sharing, as well as other community preparedness activities.

The ongoing upgrading of the Lower Nzoria Flood Forecasting and Early Warning System (FFWS) is progressing very well and the upgraded FFWS now receives data from the field monitoring stations, computes forecasts, and prepares and sends Flood Advisories. Specifically, the following achievements have so far been made under this sub-component:

- Existing FFWS monitoring infrastructure has been upgraded through supply and installation of assorted Hydromet equipment (i.e. 10no. Automatic Weather Stations, 7no. Automatic Water Level Stations and 2no. ADCPs). The 17 upgraded stations have started transmitting real time data to KMD/WRA servers for issuance of flood forecasts.
- Renovation of Server rooms and installation of computer base stations & servers at WRA HQ, WRA Kakamega and KMD has been completed.
- Technical training has been conducted for 32 WRA and KMD staff in operation and maintenance of the upgraded FFWS and in flood analysis and mapping.
- Completed detailed LiDAR surveys to acquire high resolution topographic data for three most flood prone areas in Lower Nzoria (Cheyawa community), Mumias (Shibale community), and Nyadorea community to improve on the accuracy and reliability of the flood forecasts issued.

- (4) *Nzoria Watershed Management* - The objective of this sub-component is to improve livelihoods of the local communities through promotion of sustainable land and management practices and reduction of sediment loads in the Lower Nzoria watershed. This will ultimately lead to increased effectiveness and lifespan of the improved Nzoria flood protection infrastructure and decreased maintenance costs at the Lower Nzoria Irrigation Project – Phase 1. Project interventions under this sub-component focus on strengthening sediment monitoring and provision of support for planning and implementation of watershed management activities in the areas with the highest rates of erosion (hotspots) in the Nzoria watershed. Beneficiary communities, through their respective WRUAs, are being assisted by the project in the preparation of Sub Catchment Management Plans (SCMPs). The project is supporting five WRUAs in implementation of some of priority interventions, especially those that are directly relevant to soil erosion control e.g. tree planting, terracing, construction of gabions, and marking & pegging of riparian areas. The project is also supporting limited livelihood improvement activities as an incentive to communities to actively participate in watershed conservation activities. The following achievements have been made so far:
- Rehabilitation of 160 ha of degraded land in five sub-catchments i.e.: Safu, Bukhungu, Chebalywa, Terem and Upper Kibisi.
 - Mobilized and sensitized 8no. WRUAs (Kabeywan, Kiaswai, Nangeni, Lower Seo, Kipkabus, upper middle Nzoria, Charangai and Sasala Lubao) on watershed conservation and facilitated development of 13no. Sub-catchment management plans.
 - Established a sediment monitoring network covering five priority (hot-spot) sub-catchments i.e. Ishukhu, Bukhungu, Mumias, Kiasama and Safu. Sediment load sampling is being conducted from the network on a quarterly basis to monitor soil erosion.

- Trained 381 WRUA members on project management, procurement, record keeping, and resource mobilization.
 - Trained 52 WRA staff in different fields relevant to SCMP development and technical support to catchment management.
- (5) *Improvement of Water Services in Mombasa* - Availability of water in Mombasa will significantly increase when Mwache Dam becomes operational. Therefore, there is need for MOWASCO to adequately prepare for this scenario to effectively and efficiently absorb the water from Mwache Dam when it becomes available. This sub-component is providing support to MOWASCO to improve its operational efficiency and water distribution capacity as well as improve billing and revenue collection. Priority activities include MOWASCO turnaround focusing on improved institutional arrangements and the formation of DMAs. Improved water service delivery will be reflected by corresponding reduction in NRW and increase in revenues collected by MOWASCO. With support from the project, MOWASCO has made good progress with regard to the above two areas of improvement. NRW has reduced from 61% to 47% and the number of household water connections increased from 1,475 to 4,102 within a period of four years. Similarly, the revenue collection efficiency has improved greatly during the same period from 86% to 94%. This is attributed to increased vigilance on the part of MOWASCO to identify dormant and/or illegal connections and have them reconnected or regularized. This positive trend can be attributed to a number of management and operational changes that MOWASCO has been implementing to turn around its image from a loss making utility to a more commercially viable entity. MOWASCO has recently gone through significant institutional changes with the aim of strengthening its management and operational capacity. The MOWASCO Board is now formally constituted and fully operational. The Board has recruited and filled all the vacant managerial and technical positions and the entire Senior Management Team is now in place. Regarding the planned NRW reduction works, good progress has been made following completion of the Likoni works. West Mainland works are proceeding well and 90% complete.
- (6) *Water Investment Pipeline* - The goal of this sub-component is contribute to closing the large infrastructure gap in Kenya's water sector, estimated at around US\$ 5to US\$7 billion. Specifically, this sub-component is financing a number of pre-feasibility studies, feasibility studies and detailed designs, RAP & ESIA preparation, etc. The sub-component is also supporting the development of an Investment Framework (IF) with agreed quality assurance standards and guidelines for planning, preparing, implementing and operating water investments. The IF is envisioned to become an overarching sector-wide instrument for enhancing the quality and speed of investment preparation, and consequently a critical element for strengthening the pipeline of investment-ready projects. The following achievements have been realized under the sub-component:
- Development of the Investment Framework Analysis Tool (IFAT) and Investment Plan is complete.
 - Feasibility studies for Malewa Dam, and Ol Kalou, Naivasha & Gilgil Towns have been completed.
 - ESIA & RAP for Malewa Dam, and Kwale, Ukunda, Msambweni & Lunga Lunga Towns have been completed.
 - The Kwale County Water Supply Master Plan has been prepared.
 - Kwale, Ukunda, Msambweni and Lunga Lunga Water Supply Designs & Bid documents have been prepared.

(7) *Support for Water Sector Transition and Reforms* - The objective of this sub-component is to enhance the capacity of water sector institutions to effectively perform their mandates and functions, thereby contributing both to meeting project objectives and to improving the broader reform process. The following has been achieved under the sub-component:

- All new national water sector institutions (NWSHA, WRA, WaSREB, WSTF) were launched and their respective establishment reports approved by the new Boards.
- KEWI and MWSI organizational review finalised.
- Final draft Vol. 1 and 2 of the Water Sector Transition Plan ready.
- The 7th and final version session paper on the National Water Policy was submitted to Cabinet for review and adoption.
- MWS organizational review and staff competency-skills assessment was conducted.
- Subsidiary legislations for new water sector institutions (WR, WS, WHS, and Water Tribunal) have been developed.
- The first cycle of staff inductions on new water laws and unbundled mandates was conducted for 456 public officers.
- Competency and skills assessments were conducted for water sector staff.
- Final WSR Roadmap and Water Sector Transition-transfer Plan has been developed.
- Water Works Development Agencies (WDA) establishment criteria were developed and gazetted vide LN 27 & 28 of 26.04.2019.
- Water Works Development Agencies (WDAs) have been established.
- 9th WDA Legal Notice No. 4 of 7th February 2020 split RVWDA into N-RVWDA and C-RVWDA\
- Draft Legal Notice and Schedules of Staff to be transferred from former WSBS to WDAs drafted – list of staff undergoing accuracy verification by respective WDAs.
- Draft Legal Notice for National Public Water Works(NPWWS) drafted, and list of NPWWS plus statutory criteria undergoing verification by respective WDAs.
- Draft Legal Notices of assets and liabilities drafted and the same undergoing verification by respective WDAs.
- The reforms communication strategy has been developed.
- Water sector reforms information portal, and technical staff information management system (intranet) has been developed.
- Transaction Advisor (TA) for Coast Bulk Water has been procured. TA presented Diagnostics Survey Report 1, establishment of the Joint Authority (JA), its mandates and institutional structure and technical options for formation of the bulk water mechanism to the Client.

(8) *Support to Water Resources Management and Planning* - The objective of this sub-component is to improve the capacity and knowledge base for basin-level water resources management in Kenya, including integrated basin planning and mainstreaming climate resilience. The sub-component builds on the strengthened sector wide institutional and legal frameworks by focusing on the information, technical capacity, and participatory aspects of water resource planning that will contribute to the sustainability and climate resilience of Kenya's water resources and associated investments. The following achievements have been realized under the sub-component:

- Preparation of six Basin Plans is complete and final reports submitted.

- 98 Sub Catchment Management Plans (SCMPs) have been developed in collaboration with respective Water Resources User Associations (WRUAs) several of which are under implementation.
- 41 Hydromet monitoring stations have been rehabilitated. Installation of an additional 61 stations (45 Automatic Weather Stations and 16 Automatic Water Level Stations) is ongoing.
- Drilling and equipping of 25 groundwater monitoring wells is on-going and is expected to be completed by end of October 2020.
- Water Testing Laboratories in Nairobi and Kisumu have been renovated and equipped.
- Various capacity building and training activities have been conducted for WRA staff.
- A National Water Resources Atlas and Web portal has been developed.

iii) Comment on value-for-money achievements,

All project operations are in strict compliance with World Bank and GoK financial and procurement policies and guidelines. This, coupled with a comprehensive monitoring and evaluation system and rigorous quality control and quality assurance measures, has ensured value-for-money in all project interventions.

iv) Indicate the absorption rate for each year since the commencement of the project.

	Loan amount	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Receipts from Government of Kenya					150,000,000	500,000,000
Proceeds from Domestic and Foreign Grants				-	-	-
Loan from External Development Partners		81,695,187	100,926,796	390,616,107	465,765,334	512,649,809
	23,904,000,000	81,695,187	100,926,796	390,616,107	615,765,334	1,012,649,809
Absorption rate %		0.34%	0.004	2%	3%	4%

	2017/2018	2018/2019	2019/2020	2020/2021	Summary of Overall Performance
Receipts from Government of Kenya	-	769,652,000	175,000,000	-	1,594,652,000
Proceeds from Domestic and Foreign Grants	-		170,466,567	19,773,723	190,240,290
Loan from External Development Partners	2,370,217,578	1,179,845,890	2,957,936,894	1,941,356,100	10,001,009,696
	2,370,217,578	1,949,497,890	3,303,403,461	1,942,047,765	11,785,901,928
Absorption rate %	10%	8%	14%	8%	49%

v) List the implementation challenges and recommended way forward.

The major project implementation challenge is the slow process of land acquisition that has resulted in significant delays in all major project construction works. This is mainly due to lengthy bureaucratic processes involved in the land acquisition process most of which are legal

requirements and can thus not be circumvented. Land acquisition being the exclusive mandate of the National Land Commission (NLC), the project has very little leeway in influencing the process. As a way forward to address the challenge, the project has sought high level intervention from relevant offices to raise the profile of the project and ensure that its land requirements are prioritized by NLC. A number of correspondences/meetings between Principal Secretaries of the relevant ministries (Water & Lands) and NLC leadership have been shared/held to try and unlock existing bottlenecks in the land acquisition process. These interventions have yielded positive results as there is now a sense of urgency by all concerned parties to deploy the necessary resources to fast track the land acquisition process for the project.

1.9 Summary of Project Compliance:

The project has not had any cases of non-compliance with applicable laws and regulations including the project financing agreement.

2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETRMINED OBJECTIVES

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives.

The key development objectives of the *project's agreement/* plan are to:

- a) To increase availability and productivity of irrigation water for project beneficiaries; and
- b) To enhance the institutional framework and strengthen capacity for water security and climate resilience in certain regions of the country

Progress on attainment of Strategic development objectives

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

Project	Objective	Outcome	Indicator	Performance
Kenya Water Security and Climate Resilience Project	To increase availability and productivity of irrigation water for project beneficiaries.	Improved farm productivity and livelihoods.	Area provided with irrigation and drainage services – new and improved	In FY 20/21 no area was provided with irrigation and drainage services by the project. However on account of rehabilitation activities in the existing Bunyala Irrigation Scheme, improved productivity has been actualised.. At the end of June 2021, over 5000 farmers had benefited from the project interventions through the different approaches leading to adoption of improved crop varieties, efficient husbandry techniques, profitable

marketing approaches and longer post-harvest life of stored produce. The cumulatively will result to increased food security, better nutrition due to dietary diversity, increased incomes and improved livelihoods				
In FY 20/21, 45,000 people were provided with increased flood protection by the project.	Number of people provided with increased flood protection			
In FY 20/21, 4no. new national water sector institutions (NWSHA, WRA, WASREB, WSTF) were launched and new Boards inaugurated; 8noWSB transitioned fully to 9no. WWDAs.	Number of Institutions Mandated by the Water Act established	New water sector institutions fully operational with improved service delivery	To enhance the institutional framework and strengthen capacity for water security and climate resilience in certain regions of the country	
By FY 20/21 six Basin Plans had already been developed	Number of Basin Plans developed	Improved delivery of water resources planning and management services		
In FY 20/21 41no. new water resources monitoring stations were established	Number of new or upgraded monitoring stations established			
In FY 20/21 MOWASCO NRW increased from 47% to	% decrease in MOWASCO Non-Revenue Water	Improved delivery of water supply		

		services by MOWASCO		56% due to increased volumes of water.
			Number of Household Water Connections	MOWASCO household connections decreased from 3,660 to 3,114.

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING (Two-to-three pages)

XXX exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

1. Sustainability strategy and profile

The top management especially the accounting officer should make reference to sustainable efforts, broad trends in political and macroeconomic affecting sustainability priorities, reference to international best practices and key achievements and failure.

2. Environmental performance

Outline clearly, environmental policy guiding the organisation, provide evidence of the policy. Outline successes, shortcomings, efforts to manage biodiversity, waste management policy and efforts to reduce environmental impact of the organisation's products.

3. Employee welfare

Give account of the policies guiding the hiring process and whether they take into account the gender ratio, whether they take in stakeholder engagements and how often they are improved. Explain efforts made in improving skills and managing careers, appraisal and reward systems. The organisation should also disclose their policy on safety and compliance with Occupational Safety and Health Act of 2007, (OSHA)

Market place practices-

The organisation should outline its efforts to:

- a) Responsible competition practice.**
Explain how the organisation ensures responsible competition practices with issues like anti-corruption, responsible political involvement, fair competition and respect for competitors.
- b) Responsible Supply chain and supplier relations-**
explain how the organisation maintains good business practices, treats its own suppliers responsibly by honouring contracts and respecting payment practices.
- c) Responsible marketing and advertisement-**
outline efforts to maintain ethical marketing practices.
- d) Product stewardship-**
Outline efforts to safeguard consumer rights and interests.

4. Community Engagements

Give evidence of community engagement including charitable giving (cash & material), Community Social Investment and any other forms of community. (The project gives details of CSR activities carried out in the year and the impact to the society. The statement may also include how the organisation promotes education, sports, healthcare, labour relations, staff training and development, and water and sanitation initiatives)

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Principal Secretary for the Ministry of Water & Sanitation and Irrigation and the Project Coordinator for Kenya Water Security and Climate Resilience project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2021.

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

The Principal Secretary for the Ministry of Water & Sanitation and Irrigation and the Project Coordinator for Kenya Water Security and Climate Resilience project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Principal Secretary for the Ministry of Water & Sanitation and Irrigation and the Project Coordinator for Kenya Water Security and Climate Resilience project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year/period ended June 30, 2021, and of the Project's financial position as at that date. The Principal Secretary for the Ministry of Water & Sanitation and Irrigation and the Project Coordinator for Kenya Water Security and Climate Resilience project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

*Kenya Water Security and Climate Resilience
Reports and Financial Statements
For the financial year ended June 30, 2021*

The Principal Secretary for the Ministry of Water & Sanitation and Irrigation and the Project Coordinator for Kenya Water Security and Climate Resilience project confirm that the Project has complied with applicable Government Regulations and the terms of external financing covenants, and that Project received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Principal Secretary for the Ministry of Water & Sanitation and Irrigation and the Project Coordinator for Kenya Water Security and Climate Resilience project on 21st 2021 and signed by them.

Principal Secretary
Joseph W. Irungu

Project Coordinator
Eng. Simon G. Mwangi

Head of Accounting Unit
Agnes W. Waweru
ICPAK Member Number: 5514

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON KENYA WATER SECURITY AND CLIMATE RESILIENCE PROJECT (IDA CREDIT NO.5668/5674-KE) FOR THE YEAR ENDED 30 JUNE, 2021 - MINISTRY OF WATER, SANITATION AND IRRIGATION

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kenya Water Security and Climate Resilience Project set out on pages 1 to 48, which comprise the statement of

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.4,120,000,000 and Kshs.1,974,134,243 respectively, resulting in underfunding of Kshs.2,145,865,757 or 52% of the budget. Similarly, the project spent Kshs.2,902,257,520 against the budgeted amount of Kshs.4,120,000,000 resulting in under expenditure of Kshs.1,217,801,569 representing 30% of the estimated expenditure. Management has attributed the low absorption to slow pace of completing land compensation and delay in release of counterpart funding.

Budgetary Control and Performance

Other Matter

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.

Key Audit Matters

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Water Security and Climate Resilience Project 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.

Basis for Opinion

In addition, the special accounts statement presents fairly the special account transactions and the closing balance has been reconciled with the books of account.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Water Security and Climate Resilience Project as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the Financing Agreement Credit No.5668/5674-KE, and Grant No.TFOA0761 dated 7 September, 2015 between International Development Association (IDA) and the Republic of Kenya.

purpose of the audit.

financial assets as at 30 June, 2021, and the statement of receipts and payments 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.

The underfunding and under expenditure is an indication that the Project's objectives may not be achieved and may impact negatively on service delivery to the public.

Other Information

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing 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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Financing Agreement Credit No.5268/5674-KE, dated 7 September, 2015, between International Development Association (IDA) and the Republic of Kenya, I report based on my audit, that:

i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;

ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and,

iii. The Project's financial statements agree with the accounting records and returns.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using applicable basis of accounting, unless Management is aware of the intention to terminate the Project 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 financial reporting process, reviewing the effectiveness of how the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error,

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

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

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


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

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

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

08 December, 2021

Nairobi


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

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.

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

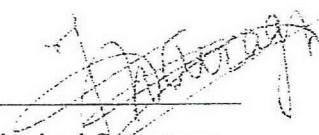
- Perform such other procedures as I consider necessary in the circumstances.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Evaluate the overall presentation, structure and 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.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to continue to sustain its services.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.


Kenya Water Security and Climate Resilience Project
 Reports and Financial Statements
 For the financial year ended June 30, 2021

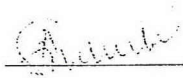
7. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2021

	Note	2020-2021	20
		KShs	
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	11.A	480,509,254	299,737,172
Cash Balances	11. B	-	-
Cash Equivalents (short-term deposits)	11.C	-	-
Total Cash and Cash Equivalents		480,509,254	299,737,172
Accounts Receivables	12	31,097,185	871,957,990
TOTAL FINANCIAL ASSETS		511,606,439	1,171,695,162
FINANCIAL LIABILITIES			
Payables- Deposits and Retentions	13	269,357,965	
NET ASSETS		242,248,475	1,171,695,162
REPRESENTED BY			
Fund balance b/fwd	14	1,171,695,162	928,991,303
Prior year adjustments	15	(1,705,300)	(24,575,188)
Accounts Payable		322,800	1,323,411
Surplus/(Deficit) for the year		(928,064,187)	265,955,637
NET FINANCIAL POSITION		242,248,475	1,171,695,162

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 3/12/21 2021 and signed by:


 Principal Secretary
 Joseph W. Irungu


 Project Coordinator
 Eng. Simon G. Mwangi

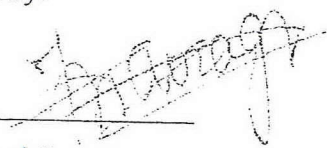

 Head of Accounting Unit
 Agnes W. Waweru
 ICPAK Member No. 5514

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


2019-2020	2020-2021	Note	
			CASHFLOW FROM OPERATING ACTIVITIES
			Receipts from operating activities
175,000,000	-	1	Transfer from Government entities
68,664,996	19,773,723	2	Proceeds from domestic and foreign grants
2,301,143	13,008,421	4	Miscellaneous receipts
			Payments from operating activities
(1,907,210)	(2,183,775)	5	Compensation of employees
(981,849,708)	(424,180,980)	6	Purchase of goods and services
-	-	7	Social security benefits
-	-	9	Transfers to other government entities
(279,000)	-	10	Other grants and transfers
			Adjustments during the year
(24,575,188)	-	15	Prior Year Adjustments
53,132,417	840,860,805	16	Decrease/(Increase) in Accounts Receivable
23,251,777	(267,975,465)	17	Increase/(Decrease) in Accounts Payable:
708,189,139	715,253,658		Net cash flow from operating activities
			CASHFLOW FROM INVESTING ACTIVITIES
			Acquisition of Assets
(401,091,584)	(1,525,418,119)	8	
(401,091,584)	(1,525,697,431)		Net cash flows from Investing Activities
			CASHFLOW FROM BORROWING ACTIVITIES
1,405,117,000	990,936,543	3	Proceeds from Foreign Borrowings
1,405,117,000	990,936,543		Net cash flow from financing activities
			NET INCREASE IN CASH AND CASH EQUIVALENTS
295,836,277	180,772,082		
			Cash and cash equivalent at BEGINNING of the year
3,900,897	299,737,172	11	
			Cash and cash equivalent at END of the year
299,737,172	480,509,254	11	

*Kenya Water Security and Climate Resilience
Reports and Financial Statements
For the financial year ended June 30, 2021*

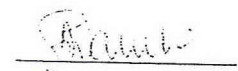
The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 21/21 2021 signed by:



Principal Secretary
Joseph W. Irungu



Project Coordinator
Eng. Simon G. Mwangi



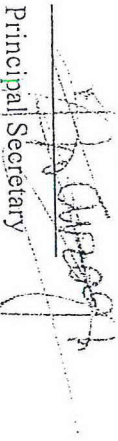
Head of Accounting Unit
Agnes W. Waweru
ICPAK Member No: 5514

*Kenya Water Security and Climate Resilience Project
Reports and Financial Statements
For the financial year ended June 30, 2021*

9. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

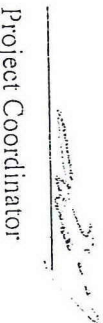
Receipts/Payments/Item	Original Budget A	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilization Difference e=c-d	% of Utilization f=d/c %
Receipts						
Transfer from Government entities	200,000,000	-	200,000,000		200,000,000	100%
Proceeds from domestic and foreign grants	120,000,000	-	120,000,000	19,773,723	100,226,277	16%
Proceeds from borrowings	4,200,000,000	(400,000,000)	3,800,000,000	1,941,352,100	1,858,647,900	51%
Miscellaneous receipts				13,008,421	13,008,421	100%
Total Receipts	4,520,000,000	(400,000,000)	4,120,000,000	1,974,134,243	2,145,865,757	48%
Payments						
Compensation of employees	3,000,000	-	3,000,000	2,183,775	816,225	73%
Purchase of goods and services	1,817,000,000	-	1,817,000,000	604,972,716	1,212,027,284	33%
Social security benefits						
Acquisition of non-financial assets	2,700,000,000	(400,000,000)	2,300,000,000	2,295,041,940	4,958,060	100%
Transfers to other government entities						
Other grants and transfers						
Total Payments	4,520,000,000	(400,000,000)	4,120,000,000	2,902,198,431	1,217,801,569	70%

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


Principal Secretary

Joseph W. Irungu

Date 3/12/2021


Project Coordinator

Eng. Simon G. Mwangi

Date 09-12-2021


Head Of Accounting Unit

Agnes W. Waweru

ICPAK Member No:5514

Date 3/12/2021

10. SIGNIFICANT ACCOUNTING POLICIES

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

10.1 Basis of Preparation

10.2 Statement of compliance and basis of preparation

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

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

10.3 Reporting entity

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

10.3.1 Reporting currency

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

10.4 Significant Accounting Policies

a) Recognition of receipts

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

i) Transfers from the Exchequer

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

ii) External Assistance

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

iii) Other receipts

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

b) Donations and grants

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

Significant Accounting Policies (Continued)

c) Proceeds from borrowing

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

d) Undrawn external assistance

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

e) Recognition of payments

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

i) Compensation of employees

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

ii) Use of goods and services

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

Significant Accounting Policies (Continued)

iii) Interest on borrowing
Borrowing costs that include interest are recognized as payment in the period in which they incurred and paid for.

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

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

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

f) In-kind donations

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

Significant Accounting Policies (Continued)

g) Cash and cash equivalents

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

Restriction on cash

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

h) Accounts receivable

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

Significant Accounting Policies (Continued)

i) Contingent Liabilities

A contingent liability is:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) A present obligation that arises from past events but is not recognised because:
 - i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - ii) The amount of the obligation cannot be measured with sufficient reliability.

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships,

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. Annex 5 of this financial statement is a register of the contingent liabilities in the year.

Section 89 (2) (i) of the PFM Act requires the National Government to report on the payments made, or losses incurred, by the county government to meet contingent liabilities as a result of loans during the financial year, including payments made in respect of loan write-offs or waiver of interest on loans

j) 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.

Significant Accounting Policies (Continued)

k) Pending bills

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

l) Budget

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

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

m) Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments.

During the year Kshs 0.931 billion being loan disbursements were received in form of direct payments from third parties.

Significant Accounting Policies (Continued)

n) Exchange rate differences

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

o) Comparative figures

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

p) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2021.

q) Errors

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

11. NOTES TO THE FINANCIAL STATEMENTS

1. RECEIPTS FROM GOVERNMENT OF KENYA

These represent counterpart funding and other receipts from government as follows:

	2020/21	2019/20	
	KShs	KShs	Cumulative to-date (from inception)
<i>Counterpart funding through Ministry Water & Sanitation and Irrigation</i>			
Counterpart funds Quarter 1		-	569,652,000
Counterpart funds Quarter 2	-	-	395,000,000
Counterpart funds Quarter 3	-	-	-
Counterpart funds Quarter 4	-	175,000,000	656,896,647
Total (See Annex 2)	-	175,000,000	1,621,548,647
<i>Other transfers from government entities</i>			
Total	=	175,000,000	1,621,548,647

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

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

Name of Donor	Date received	Amount received in donor currency	Grants received in cash	Grants received as direct payment*	Grants received in kind	Total amount in KShs
			KShs	KShs	KShs	KShs
Grants Received from Multilateral Donors (International Organizations)						
Korean Trust Fund	05.09.2019					17,572,821
Korean Trust Fund	05.09.2019					7,009,821
Korean Trust Fund						25,547,441
Korean Trust Fund						14,513,351
Korean Trust Fund	30.03.2020					28,604,191
Korean Trust Fund	19.06.2020					77,218,921
Korean Trust Fund			10,000,000			10,000,000
Korean Trust Fund			9,773,723			9,773,623
Korean Trust Fund			19,773,723			19,773,723
Total						170,466,561

* The direct payment grants represent payments for goods and services done directly by the donor on behalf of the project. Projects should ensure that the adequate documents and support document is requested from the donors to support this grant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the 12 months to 30 June 2021 we received funding from development partners in form of loans negotiated by the National Treasury donors as detailed in the table below:

Name of Donor	Date received	Amount in loan currency	Loans received in cash	Loans received as direct payment*	Total amount in KShs	
			KShs	KShs	2020/21	2019/20
Loans Received from Multilateral Donors (International Organisations)						
International Development Association (IDA)	07.07.2019	-	-	-	-	205,117,000
International Development Association (IDA)						149,528,600
International Development Association (IDA)						149,843,000
International Development Association (IDA)						264,599,914
International Development Association (IDA)						28,649,270
International Development Association (IDA)						55,546,267
International Development Association (IDA)						30,893,844
international Development Association (IDA)						22,727,543
International Development Association (IDA)						56,769,212
International Development Association (IDA)						23,484,094
International Development Association (IDA)						32,587,221
International Development Association (IDA)						32,587,221
International Development Association (IDA)						67,597,449
International Development Association (IDA)						77,868,127
International Development Association (IDA)						84,095,710
International Development Association (IDA)						26,107,195
International Development Association (IDA)						158,151,649

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Name of Donor	Date received	Amount in loan currency	Loans received in cash KShs	Loans received as direct payment* KShs	Total amount in KShs	
					2020/21	2019/20
International Development Association (IDA)	07.07.2019	-	-	-	44,187,038	
International Development Association (IDA)					68,053,270	
International Development Association (IDA)					121,698,600	
International Development Association (IDA)					21,540,980	
International Development Association (IDA)					64,631,774	
International Development Association (IDA)					49,433,211	
International Development Association (IDA)					90,044,887	
International Development Association (IDA)					109,542,890	
International Development Association (IDA)					34,810,609	
International Development Association (IDA)					636,028,486	
International Development Association (IDA)	15.03.2020	5246,220.76			25,584,799	
KfW	15.03.2020				10,242,870	
KfW	15.03.2020				3,482,625	
KfW	21.03.2020				2,527,475	
KfW	26.04.2020	€22,213.37			67,779,279	
KfW	04.12.2019	\$652,288.32			18,937,302	
KfW	04.12.2019				5,713,057	
KfW	11.09.2019				8,678,885	
KfW	11.09.2019				32,176,683.30	
KfW	11.09.2019	\$309,659.16			4,135,442.93	
KfW	20.02.2020	€17,178.03			1,954,545.45	
KfW	24.02.2020	€17,178.03			24,205,725.46	
KfW	19.06.2020	\$232,948.95			8,067,471.26	
KfW	19.06.2020				6,970,985.61	
KfW	28.04.2020	€63,808.7			8,932,756.81	
KfW	28.04.2020				1,950,122.91	
KfW	22.06.2020	€16,553.61			6,525,068.71	
KfW	22.06.2020				5,073,263.71	
KfW	24.06.2020	€46,399.10			8,873,474.71	
KfW	24.06.2020					

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Name of Donor	Date received	Amount in loan currency	Loans received in cash	Loans received as direct payment*	Total amount in KShs	
			KShs	KShs	2020/21	2019/20
International Development Association (IDA)		-	497,352,000	-	497,352,000	
International Development Association (IDA)				89,080,010	89,080,010	
International Development Association (IDA)				154,849,534	154,849,534	
International Development Association (IDA)				48,467,395	48,467,395	
International Development Association (IDA)				32,077,786	32,077,786	
International Development Association (IDA)				82,393,103	82,393,103	
International Development Association (IDA)				106,074,152	106,074,152	
International Development Association (IDA)				27,790,303	27,790,303	
International Development Association (IDA)				32,471,081	32,471,081	
International Development Association (IDA)			423,884,985		423,884,985	
International Development Association (IDA)				28,801,442	28,801,442	
International Development Association (IDA)			69,699,558		69,699,558	
International Development Association (IDA)				113,456,749	113,456,749	
International Development Association (IDA)				55,380,710	55,380,710	
KfW				41,778,482	41,778,482	
KfW				7,843,724	7,843,724	
KfW				2,645,329	2,645,329	
KfW				4,421,644	4,421,644	
KfW				4,528,115	4,528,115	
KfW				7,482,969	7,482,969	
KfW				30,128,016	30,128,016	
KfW				7,675,913	7,675,913	
KfW				5,906,778	5,906,778	
KfW				33,974,159	33,974,159	
KfW				20,741,039	20,741,039	
KfW				5,582,979	5,582,979	
KfW				3,739,036	3,739,036	
KfW				1,627,027	1,627,027	
KfW				1,498,081	1,498,081	
Total			990,936,543	950,415,557	1,941,352,100	2,957,936,892

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. MISCELLANEOUS RECEIPTS

		2020/21		2019/2020	
Receipts controlled by the entity in Cash	Receipts controlled by third parties	Total Receipts	Total Receipts	Total Receipts	Cumulative to-date (from inception)
KShs		KShs		KShs	
Other receipts not classified elsewhere	13,008,421	-	13,008,421	2,301,143	79,611,386
Total	13,008,421	=	13,008,421	2,301,143	79,611,386

[Provide explanation as necessary]

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. COMPENSATION OF EMPLOYEES

	2020/2021			2019/2020	Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments	
	KShs	KShs	KShs	KShs	KShs
Basic salaries of permanent employees	-	-	-	-	6,499,335
Basic wages of temporary employees	2,183,775	-	2,183,775	-	11,232,487
Total	<u>2,183,775</u>	<u>-</u>	<u>2,183,775</u>	<u>1,907,210</u>	<u>17,731,822</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. PURCHASE OF GOODS AND SERVICES

	2020/2021		2019/2020	
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments to-date
	KShs	KShs	KShs	KShs
Utilities, supplies and services	11,946,345	-	11,946,345	54,757,766
Communication, supplies and services	1,287,195	-	1,287,195	18,977,220
Domestic travel and subsistence	57,233,300	-	57,233,300	610,995,893
Foreign travel and subsistence	-	-	-	60,001,586
Printing, advertising and information supplies	1,970,583	-	1,970,583	114,813,386
Rentals of produced assets	1,116,656	-	1,116,656	51,627,974
Training payments	-	-	-	36,488,431
Hospitality supplies and services	8,408,247	-	8,408,247	87574,613
Insurance costs	180,850	-	180,850	5,059,988
Specialized materials and services	-	-	-	12,904,240
Other operating payments	18,114,047	-	18,114,047	80,675,551
Routine maintenance - vehicles and other transport equipment	1,320,066	-	1,320,066	58,977,605
Routine maintenance - other assets	-	-	-	-
Consultancy Services	322,603,690	180,791,736	503,395,426	4,212,295,271
Total	424,180,980	180,791,736	604,972,716	5,405,149,524

[Provide explanation as necessary]

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. SOCIAL SECURITY BENEFITS

	2020/21			2019/20	Cumulative to- date KShs
	Payments made by the Entity in Cash KShs	Payments made by third parties KShs	Total Payments KShs	Total Payments KShs	
Government pension and retirement benefits	-	-	-	-	-
Social security benefits in cash and in kind	-	-	-	-	-
Employer social benefits in cash and in kind	-	-	-	-	-
Total	=	=	=	=	=

[Provide explanation as necessary]

8. ACQUISITION OF NON-FINANCIAL ASSETS
NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020/21		2019/20	
Payments made by the Cash	KShs	KShs	KShs	KShs
Payments made by the third parties	KShs	KShs	KShs	KShs
Total Payments	KShs	KShs	KShs	KShs
Total Payments	KShs	KShs	KShs	KShs
Cumulative to-date	KShs			
Purchase of buildings	-	-	-	-
Construction of buildings	-	-	-	-
Refurbishment of buildings	-	-	-	-
Construction of roads	-	-	-	-
Construction of civil works	474,106,431	769,623,821	1,243,730,252	1,172,203,793
Overhaul & refurbishment of construction and civil works	-	-	-	-
Purchase of vehicles & other transport equipment	-	-	-	-
Overhaul of vehicles & other transport equipment	-	-	-	-
Purchase of household furniture & institutional equipment	-	-	-	-
Purchase of office furniture & general equipment	16,428,156	-	16,428,156	4,052,732
Purchase of specialised plant, equipment and machinery	7,561,746	-	7,561,746	240,422,244
Rehabilitation & renovation of plant, equipment & machinery	-	-	-	-
Purchase of certified seeds, breeding stock and live animals	-	-	-	-
Research, studies, project preparation, design & supervision	-	-	-	-
Rehabilitation of civil works	-	-	-	-
Acquisition of strategic stocks	1,027,321,786	-	-	79,191,065
Acquisition of land	-	-	-	-
Acquisition of other intangible assets	-	-	-	-
Total	1,525,418,119	769,623,811	2,295,041,940	1,495,869,834
				6,253,62

[Provide explanation as necessary]

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. TRANSFERS TO OTHER GOVERNMENT ENTITIES

During the 12 months to 30 June 2021, we transferred funds to reporting government entities as shown below:

	2020/21			2019/20	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments	
	KShs	KShs	KShs	KShs	KShs
Transfers to National Government entities					
Ministry ABC	-	-	-	-	-
Project XYZ	-	-	-	-	-
	-	-	-	-	-
Transfers to County Governments					
County ABC	-	-	-	-	-
County XYZ	-	-	-	-	-
	-	-	-	-	-
TOTAL	=	=	=	=	=

We have confirmed that the beneficiary institutions have received the funds and have recorded these as inter-entity receipts. We have attached these duly signed confirmations as an Appendix to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
 10. OTHER GRANTS AND TRANSFERS AND PAYMENTS

Cumulative to-date	2019/20		2020/21		Total
	Total Payments	Total Payments	Payments made by third parties	Total Payments	
KShs	KShs	KShs	KShs	KShs	
					Grants for scholarships
					Transfers to lower levels of government e.g schools
					Miscellaneous payments
					Total

[Provide explanation as necessary]

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. CASH AND CASH EQUIVALENTS

	2020/21	2019/20
	KShs	KShs
Bank accounts (Note 8.13A)	480,509,254	299,737,172
Cash in hand (Note 8. 13B)	-	-
Cash equivalents (short-term deposits) (Note 8.13C)	-	-
Total	<u>480,509,254</u>	<u>299,737,172</u>

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

11. A Bank Accounts

Project Bank Accounts

	2020/21	2019/20
	KShs	KShs
Foreign Currency Accounts		
Central Bank of Kenya [A/c No.....]	-	-
NCBA [A/c No 1000591738]	-	-
Co-operative Bank of Kenya [A/c No.....]	-	-
Others (<i>specify</i>)	-	-
Total Foreign Currency balances	=	=
Local Currency Accounts		
Central Bank of Kenya [A/c No.....]	-	-
NCBA [A/c No 1000591738]	480,509,254	299,737,172
Co-operative Bank of Kenya [A/c No.....]	-	-
Others (<i>specify</i>)	-	-
Total local currency balances	<u>480,509,254</u>	<u>299,737,172</u>
Total bank account balances	<u>480,509,254</u>	<u>299,737,172</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Special Deposit Accounts

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

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

Special Deposit Accounts Movement Schedule

	2020/21	2019/20
	KShs	KShs
(i) A/C Name [A/c No 10024144]		
Opening balance	370,339,231	388,226,318
Total amount deposited in the account	706,492,860	1,182,112,913
Total amount withdrawn (as per Statement of Receipts & Payments)	990,940,543	1,200,000,000
Closing balance (as per SDA bank account reconciliation attached)	85,891,548	370,339,231
(ii) A/C Name [A/c No 10263946]		
Opening balance (as per the SDA reconciliation)	3,455	-
Total amount deposited in the account	32,901,597	68,668,451
Total amount withdrawn (as per Statement of Receipts & Payments)	19,769,723	68,664,996
Closing balance (as per SDA bank account reconciliation attached)	13,135,329	3,455

The Special Deposit Account(s) reconciliation statement(s) has (have) been attached as Appendix iv support these closing balances.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 B Cash In Hand

	2020/21	2019/20
	KShs	KShs
Location 1	-	-
Location 2	-	-
Location 3	-	-
Other locations (<i>specify</i>)	-	-
Total cash balances	-	-

[Provide a cash count certificate for each location above]

11 C Cash equivalents (short-term deposits)

	2020/21	2019/20
	KShs	KShs
Kenya Commercial Bank [A/C No.....]	-	-
Co-Operative Bank of Kenya [A/C No.....]	-	-
Rent Deposit	300,000	300,000
Total	<u>300,000</u>	<u>300,000</u>

[Provide short appropriate explanations as necessary]

12. ACCOUNTS RECEIVABLES

<i>Description</i>	2020-2021	2019-2020
	Kshs	Kshs
Government Imprests	341,200	1,331,806
National Irrigation Authority	18,562,196	29,014,066
Water Resources Authority	11,893,790	3,990,332
National Lands Commission	-	837,321,786
Rent Deposit	300,000	300,000
Total	31,097,185	871,957,990

TO THE FINANCIAL STATEMENTS (Continued)
 BREAKDOWN OF IMPRESTS AND ADVANCES

Balance 2020	Balance 2021	Amount Surrendered	Due Date of Surrender	Amount Taken	Res of Officer or Institution
123,200.00	-	123,200.00	-	123,200.00	Mid Konga
37,800.00	-	37,800.00	-	37,800.00	Van Njeru
154,000.00	154,000.00	154,000.00	-	154,000.00	Rahab Kingori
44,800.00	-	44,800.00	-	44,800.00	SAMUEL MBUGUA
52,800.00	-	52,800.00	-	52,800.00	Betty Baraza
87,720.00	-	87,720.00	-	87,720.00	Susan Wangi
21,400.00	-	21,400.00	-	21,400.00	Alli Noor Kathar
36,000.00	-	36,000.00	-	36,000.00	Andrew Njogu
70,200.00	-	70,200.00	-	70,200.00	Gabriel Wambugu
45,000.00	-	45,000.00	-	45,000.00	Joash Oritia
87,000.00	-	87,000.00	-	87,000.00	Reuben Njessa
179,886.00	-	179,886.00	-	179,886.00	Joab Obam
252,000.00	-	252,000.00	-	252,000.00	Clement Wangai
140,000.00	-	140,000.00	-	140,000.00	Elijah Misiari
12,600.00	-	12,600.00	-	12,600.00	Godfrey Ochuka
50,400.00	-	50,400.00	-	50,400.00	David Gitau
18,900.00	-	18,900.00	-	18,900.00	Maureen Agura
18,900.00	-	18,900.00	-	18,900.00	Cyrus Shilavula
33,600.00	-	33,600.00	-	33,600.00	Jonathan Mwanja
52,800.00	-	52,800.00	-	52,800.00	Betty Baraza
1,673,006	-	1,673,006	=	1,673,006	Total

13. ACCOUNTS PAYABLES

Description	2020-2021	2019-2020
Kshs	Kshs	Kshs
Retention	269,357,965	-
Deposits	-	-
Total	269,357,965	-

14. FUND BALANCE BROUGHT FORWARD

2020/2021	2020/21	KShs
2020/2021	KShs	KShs

*Kenya Water Security and Climate Resilience
Reports and Financial Statements
For the financial year ended June 30, 2021*

Bank accounts	299,737,172	3,900,897
Cash in hand	-	-
Cash equivalents (short-term deposits)	-	-
Outstanding imprests and advances	871,957,990	925,090,407
Total	1,171,695,162	928,991,304

ADJUSTMENTS TO THE FINANCIAL STATEMENTS (Continued)
 PRIOR YEAR ADJUSTMENT

Adjusted Balance b/f FY 2019/2020	Adjustments	Balance b/f FY 2019/2020 as per Financial statements	Description of the error
	Kshs	Kshs	
			Bank account Balances
			Cash in hand
			Accounts Payables
			Receivables
			Others (specify)
1,705,300	381,889	1,323,411	Total

(Explain whether the prior year relates to errors noted in prior year, changes in estimates or accounting policy.)

16. CHANGES IN RECEIVABLE

Description	2020-2021	2019-2020
	Kshs	Kshs
Opening Receivables as at 1 st July 2021	871,957,990	925,090,407
Closing account receivables as at 30 th June 2021	31,097,185	871,957,990
Change in Receivables	840,860,805	53,324,417

17. CHANGES IN ACCOUNTS PAYABLE

Description	2020-2021	2019-2020
	Kshs	Kshs
Deposit and Retentions as at 1 st July 2021	1,323,411	24,575,188
Closing accounts payables as at 30 th June 2021	269,357,963	1,323,411
Change in payables	268,034,554	23,251,777

*Kenya Water Security and Climate Resilience
Reports and Financial Statements
For the financial year ended June 30, 2021*

12. OTHER IMPORTANT DISCLOSURES

1. PENDING ACCOUNTS PAYABLE (See Annex 3A)

Description	Balance b/f FY 2019/2020 Kshs	Additions for the period Kshs	Paid during the year Kshs	Balance c/f FY 2020/2021 Kshs
Construction of buildings	-	-	-	-
Construction of civil works	315,204,608	(143,583,254)	-	269,357,964
Supply of goods	-	-	-	-
Supply of services	109,943,471	-	(109,943,471)	-
Total	425,148,079	(143,583,254)	(109,943,471)	269,357,964

2. PENDING STAFF PAYABLES (See Annex 3B)

Description	Balance b/f FY 2019/2020 Kshs	Additions for the period Kshs	Paid during the year Kshs	Balance c/f FY 2020/2021 Kshs
Senior management	-	-	-	-
Middle management	-	-	-	-
Unionisable employees	-	-	-	-
Others	-	-	-	-
Total	-	-	-	-

OTHER IMPORTANT DISCLOSURES (Continued)
 3. OTHER PENDING PAYABLES (See Annex 3C)

Balance b/FY 2020/2021	Additions for the period	Paid during the Year	Balance c/FY 2020/2021	Description
-	-	-	-	Amounts due to National Government entities
-	-	-	-	Amounts due to County Government entities
-	-	-	-	Amounts due to third parties
-	-	-	-	Total

4. EXTERNAL ASSISTANCE

FY 2020/2021	FY 2019/2020	Description
-	-	External assistance received as grants
-	-	External assistance received as loans
-	-	External assistance received in kind - as payment by third parties
-	-	Total

*Kenya Water Security and Climate Resilience
Reports and Financial Statements
For the financial year ended June 30, 2021*

OTHER IMPORTANT DISCLOSURES (Continued)

a). External assistance relating loans and grants

Description	FY 2020/2021 Kshs	FY 2019/2020 Kshs
External assistance received as loans	-	-
External assistance received as grants	-	-
Total	-	-

b) Undrawn external assistance

Description	Purpose for which the undrawn external assistance may be used	FY 2020/2021	FY 2019/2020
		Kshs	Kshs
Undrawn external assistance - loans		-	-
Undrawn external assistance - grants		-	-
Total		-	-

c) classes of providers of external assistance

Description	FY 2020/2021 Kshs	FY 2019/2020 Kshs
Multilateral donors	-	-
Bilateral donors	-	-
International assistance organization	-	-
NGOs	-	-
National Assistance Organization	-	-
Total	-	-

Provide details of the reasons for external assistance e.g. Economic development or welfare objective, Emergency relief, Trading activities etc

OTHER IMPORTANT DISCLOSURES (Continued)

d. non-monetary external assistance

Description	FY 2020/2021	FY 2019/2020
Goods	-	-
Services	-	-
Total	-	-

This may occur when goods such as vehicles, computers, medical equipment, food aid etc are contributed to a county by donors, NGO etc N/B : Disclose the basis on which the value of goods and services were determined (This may be by : depreciated historical cost of physical assets, price attached on the goods, an assessment of value by the management of transferor, recipient on Third Party, Fair value measurement.

e Purpose and use of external assistance

Payments Made by Third Parties	FY 2020/2021	FY 2019/2020
Compensation of Employees	-	-
Use of goods and services	-	-
Subsidies	-	-
Transfers to Other Government Units	-	-
Other grants and transfers	-	-
Social Security Benefits	-	-
Acquisition of Assets	-	-
Finance Costs, including Loan Interest	-	-
Repayment of principal on Domestic and Foreign borrowing	-	-
Other Payments	-	-
TOTAL	-	-

N/B The above sub-classification will be adopted based on the purpose of the external assistance and how the external assistance was used.

*Kenya Water Security and Climate Resilience
 Reports and Financial Statements
 For the financial year ended June 30, 2021*

OTHER IMPORTANT DISCLOSURES (Continued)

f. External Assistance paid by Third Parties on behalf of the Entity by Source

This relates to external assistance paid directly by third parties to settle obligations on behalf of the entity

	FY 2020/2021	FY 2021/2022
Description	Kshs	
National government	-	
Multilateral donors	-	
Bilateral donors	-	
International assistance organization	-	
NGOs	-	
National Assistance Organization	-	
Total	-	

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

Water Security and Climate Resilience
 Reports and Financial Statements
 for the financial year ended June 30, 2021

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	Auditor	Issue / Observations from	Management	comments	Status:	Timetable: (Put a date when you expect the issue to be resolved)
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	1	Un-accounted for Withdrawal from Special Account during the year under audit USD 6,042,000, an equivalent of Kshs. 645,164,760 was withdrawal from the Project account for transmission to the Project. However, the project account was credited with Kshs. 636,028,486 resulting to a variance of Kshs. 9,136,274. According to Management, the Kshs. 645,164,760 was transferred to the Ministry of Water, Sanitation and Irrigation but the Ministry could only transfer Kshs. 636,028,486 since the budget available for the Project could not accommodate the difference. The Ministry wrote to National Treasury vide letter dated 27 June, 2020, for the amount to be reversed to the special account but the reversal was not affected. Consequently, Kshs. 9,136,274 withdrawn from the special account could not be accounted for.	In spite of the endemic slow land compensation process, resulting from undocumented land records, unadjudicated parcels, numerous land parcels, numerous succession matters and disputes, and lengthy	Resolved
	2	Budget Control and Performance The statement of comparative budget and actual amounts reflects approved receipts budget and actual on comparable basis amount of Kshs. 3,823,500,000 and Kshs. 3,305,704,604, respectively.	In spite of the endemic slow land compensation process, resulting from undocumented land records, unadjudicated parcels, numerous succession matters and disputes, and lengthy	Resolved

*Kenya Water Security and Climate Resilience
Reports and Financial Statements
For the financial year ended June 30, 2021*

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved /, Not Resolved)	Timeframe (Put a when expect the issue to be resolved)
	<p>resulting to shortfall in receipts of Kshs.517,795,396 or 14%. Further, the Project's approved budget was Kshs. 3,823,500,000 while the actual expenditure was Kshs. 3,039,748,969, resulting to under-absorption of Kshs. 783,751,031 or 20% of the budget. Consequently, planned activities of the Project may possibly not have been implemented, thus affecting achievement of the intended goals of the Project.</p>	<p>processes at National Land Commission (NLC) hampered largely by its low capacity, the overall performance has improved over the years. However, the shortfall in absorption of the 20% budget has been recovered in the current year.</p>		
3	<p>Unutilized funds transfer of Funds to National Lands Commission</p> <p>As reported in the previous year report, the Project disbursed Kshs.500,000,000 to National Lands Commission during the financial year 2018/2019, bringing the total amount disbursed to the Commission to Kshs.650,000,000, for compensation of Project Affected Persons for the construction of Mwaché Dam. The basis for the disbursement was not clear since the Project had not provided requisition from the Commission. In addition, the National Lands Commission had not provided any expenditure returns for the advances made since June, 2016, while there was no evidence of compensation to any of the intended beneficiaries. Similarly, review of current year records revealed that the Commission did not provide evidence of how funds transferred to them in the year under review were utilized, while there was no evidence of</p>	<p>The Ksh. 650,000,000 are counterpart funds by GoK to be utilized for resettlement of the project affected persons. Although National Land Commission did not a request for the funds, the project transferred the funds to them since they are the mandated institution to deal with land compensation issues. However, the commission Statements confirming that the funds have not been utilized have been availed for further review by the audit team.</p>	Resolved	

Reference	No. on the external audit Report	Issue / Observations from Auditor comments	Status:	Timeframe:
4	Interest on Delayed Payments to Contractors Review of the Project's records for Lower Nzola Irrigation Project revealed contractors' claims of Kshs. 41,259,407 on account of interest on delayed payments, for both Lot I and II, as at 30 June, 2020. Further, according to the records reviewed during this audit in November, 2020, the delayed payments had increased to Kshs. 58,826,949, for Lot I and Kshs. 127,410,112 for Lot II. This may result in additional interest charge. Consequently, the delayed payments have resulted in interest charges, which are avoidable expenses, and under the circumstances, it is not possible to confirm that these public resources were used in an effective way.	The payments for LOT 1 which were overdue as at November 2020 amount to KES. 107,984,968.75 (KfW component for IPCs 7 and 8) and KES 112,081,218.97 for LOT 2 (IDA for IPCs 6 and 7). The Ministry has since done restructuring of the payment processes to ensure the payment is done within 56 days.	Resolved	to be resolved)
5	Irregular Engagement of Project Consultant	As reported in the previous year, the Project through the Ministry of Water and irrigation entered into a contract with a consultant on 31 January, 2017, for individual consultancy services. The officer, who was a Finance Officer at National Treasury was supposed to apply for unpaid leave following her appointment. Although the officer applied for leave on 6 February, 2017, there was no evidence that the leave was granted. This implies that the officer was on two employment terms and enjoyed government	Resolved	to be resolved)

*Kenya Water Security and Climate Resilience
Reports and Financial Statements
For the financial year ended June 30, 2021*

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Time: (Put a when expect the issue to be resolved)
	<p>pension benefits within the period she served in the Project, contrary to section J.13(2)(V) of the Human Resource Policy and Procedure manual for Public Service, 2016. There was no evidence that the pension was remitted to the relevant authorities. Further, it was not clear why the officer was engaged and contracted before her official release by the National Treasury.</p> <p>In December 2018, ten (10) months after terminating the contract, the officer requested the National Treasury to treat her contract period as a secondment which, was forwarded to the Public Service Commission on February 2019 and approved in March 2019 as a belated secondment, without following due procedures. The Project paid the officer Kshs. 547,980 being consultancy fee for the period December 2017 to March 2019. Although the payments were made net of the officer's gross salary, there was no evidence of remittance of pension to the relevant authorities. In addition, it was not clear how the unpaid leave initially requested and not approved, was changed to a belated secondment. The guideline on the belated secondment could not be verified.</p> <p>Consequently, management is in breach of Human Resource Policy and Procedure Manual for Public Service, 2016.</p>			

Reference	No. on the external audit Report	Issue / Observations from Auditor comments	Management	Status: (Resolved / Put a timetable when expect the issue to be resolved)
7	Non-Review of Contract Terms Upon Scope Reduction	The Ministry of Water, Sanitation and Irrigation, through Kenya Water Security and Climate Resilience Project entered into a contract dated 25 May, 2018 for consultancy services for supervision of construction works for the improvement of water services in Mombasa County, at 63,118,680. A review of the contract price of Kshs. 63,118,680. A review of the consultant was supposed to carry out supervision and contract management for both West Mainland and North Mainland construction works. A financial restructuring on the Project in March 2020 resulted in removal	The contract for Consultancy Services for Construction Supervision of the Program for Improvement of Water Services in Mombasa County (West Mainland and North Mainland) was a time-based type of contract that was designed to supervise both the West Mainland and North Mainland in parallel. The original contractor's works contract period was 18 Months. The contractor requested for no-cost Extension of Time which was reviewed and approved by an additional 225 days (7.5 Months) which also led to the requirement to have the consultant's staff extend their stay by the same period (time-based contract) and therefore some extra expenditure on consultancy services for the West mainland component (which would not necessarily be 50% due	Resolved
		KES. 30 million for (2% of the contract Sum), but halted the escalation of claims by the contractor averaging KES 455,000 monthly for the 9 (nine) interim submissions the contractor had submitted. It is noteworthy that acquisition of land for complete construction of these dykes is yet to be achieved.		Not Resolved

*Kenya Water Security and Climate Resilience
Reports and Financial Statements
For the financial year ended June 30, 2021*

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>of the construction works for North Mainland from the Project's approved work plan. However, the contract for the supervision work was not reviewed to factor in the reduced scope. As at 30 June, 2020, the consultant had raised six invoices totaling to Kshs. 42,377,982 representing 67% of the total contract price, yet the supervision was only for the construction works for West mainland. Consequently, the Project may not receive value for money in relation to the supervision contract.</p>	<p>to joint mobilization of the services for both North and West) of the combined contract value.</p>		
	<p>Project not Subjected to Internal Audit Review</p> <p>Paragraph 9.2 of the Projects' financial management manual provides that the Internal Auditor seconded to the Ministry of Water and Sanitation by the Treasury will conduct annual fiduciary reviews on the Project funds, based on an annual risk assessment of the Project. The annual fiduciary review report by the Internal Audit will inform the</p>	<p>The internal audit team had planned to commence their activities in the second quarter of the financial year but were hampered by the Covid-19 pandemic.</p>	<p>Resolved</p>	

*Kenya Water Security and Climate Resilience
Reports and Financial Statements
For the financial year ended June 30, 2021*

Reference	No. on the external audit Report	Issue / Observations from Auditor comments	Status: (Resolved / (Resolved) / Not Resolved) when expected to be resolved
		<p>PMU and the Principal Secretary MOWI on operational and organizational risks in the Project. Similarly, the internal audit functions in each of the executing agencies will ensure risk-based fiduciary review of Project activities at the PUs. However, in the year under review, there was no evidence that the fiduciary review was carried out. In this circumstance, it was not possible to rule out the existence of weaknesses in the internal control and risk management systems for the Project.</p>	
	<p>Inconsistent Project Implementation Activity</p>	<p>As reported in the previous year the Coast Water Works Agency of Development through funding by AfD through Kenya Water Security and Climate Resilience Project entered into a contract with Suhuli Agencies Ltd on 2 February, 2017, for improvement works for water services in Likoni, Mombasa County. This project, whose contract price was</p>	<p>The additional boreholes are to be implemented by the Coast Water Works Agency of Development through funding by AfD whose signing was delayed in resulting to delays in entering into a contract with Suhuli Agencies Ltd on 2 February, 2017, for improvement works for water services in boreholes are expected to be completed in the current financial year</p>


*Kenya Water Security and Climate Resilience
Reports and Financial Statements
For the financial year ended June 30, 2021*

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Kshs.542,441,544 formed phase I of the entire project. The Project was meant to address the problem of non-revenue water in Likoni area and to supply water from Tiwi borehole. Included in the contract was a pipeline designed to carry at least 2000m³ of water. However, it was observed that the Tiwi borehole currently produces 1000m³ of water per day, which is far less than the minimum required capacity of the new pipeline. According to Management, the extra capacity of water was to be provided by sinking more boreholes, and this had been agreed upon between the Ministry and the relevant water stakeholders, at the time of design of the pipeline. However, Management has not provided any documentary evidence to this effect. As a result, the Project may not achieve value for money in the 50% capacity underutilization.</p>			
	<p>Sustainability of Rehabilitation of Leshau - Karegoini Water Supply Project</p>	<p>The scope under the current contract was to be supplemented by additional funding by County</p>	<p>Resolved</p>	


Reference No. on the external audit Report	Issue / Observations from Auditor comments	Status: (Resolved / Not Resolved) when expected to be resolved	Time
	<p>The Ministry of Water, Sanitation and Irrigation entered into a contract for rehabilitation of Leshau - Karegoini water supply Project in Nyanjira County, at a contract sum of Kshs. 96,772,363. A review of the Project documents revealed that the objective of the Project was to have a distribution network to ensure that all tanks are interconnected and main trading centers are connected. However, review of the Project documents, together with audit field inspection carried out in November 2020 revealed that the consumers were yet to be connected to the distribution network. In addition, it was not clear how the maintenance costs for the pump house, tanks and pipes were to be financed, since the Project was yet to be officially handed over to Nyanjira Water and Sewerage Company, and there was no evidence of commitment by the Company to undertake the maintenance. Further, it was</p>	<p>Government of Nyanjira, especially repair of tanks and last mile connectivity that include tertiary lines and meters. However, the county government has not been able to meet its commitment and now the Ministry has provided additional budget for these works that will enable the water company deliver water to the consumers and collect revenue.</p>	

*Water Security and Climate Resilience
and Financial Statements
financial year ended June 30, 2021*

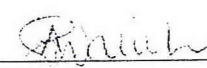
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
	observed that some collection tanks were leaking and were not rehabilitated under the contract. In the circumstances, it was not possible to confirm the sustainability of the Project.			


Principal Secretary
Joseph W. Irungu

Date 3/12/2021


Project Coordinator
Eng. Simon G. Mwangi

Date 03-12-2021


Head of Accounting Unit:
Agnes W. Waweru
ICPAK Member Number: 5514

Date 3/12/2021

14. ANNEXES

ANNEXI - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance (below 90% and over 100%)
	a	b	c=a-b	d=b/a %	
Receipts					
Transfer from Government entities	200,000,000	-	200,000,000	100%	(i)
Proceeds from domestic and foreign grants	120,000,000	19,773,723	100,226,277	16%	(ii)
Proceeds from borrowings	3,800,000,000	1,941,352,100	1,858,647,900	51%	(iii)
Miscellaneous receipts	-	13,008,421	13,008,421	51%	
Total Receipts	4,120,000,000	1,974,134,243	2,145,865,757	48%	
Payments					
Compensation of employees	3,000,000	2,183,775	816,225	73%	(iv)
Purchase of goods and services	1,817,000,000	604,972,716	1,212,027,284	33%	(v)
Social security benefits	-	-	-	-	
Acquisition of non-financial assets	2,300,000,000	2,295,321,252	4,658,060	100%	(vi)
Transfers to other government entities	-	-	-	-	
Other grants and transfers	-	-	-	-	
Total payments	4,120,000,000	2,902,198,431	1,217,801,569	70%	

- i. The GoK counter funds were received in July 2021 hence a timing difference between the date of release and receipt by the project.
- ii. The low absorption is attributed to the delay in completion of the consultancy of upgrading flood early warning systems. The activity shall be completed in FY21/22.
- iii. This is attributed to the slow pace of completing land compensation which was accelerated in the third quarter of the financial. The absorption shall increase twofold or more in the subsequent financial year since the contractor will be allowed access to a bigger section of the section under construction. This had an impact on v & vi above as well.