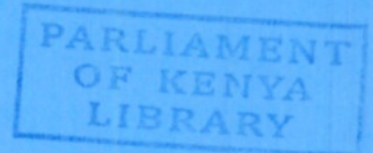
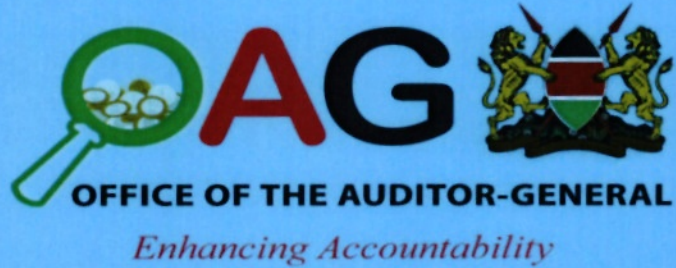


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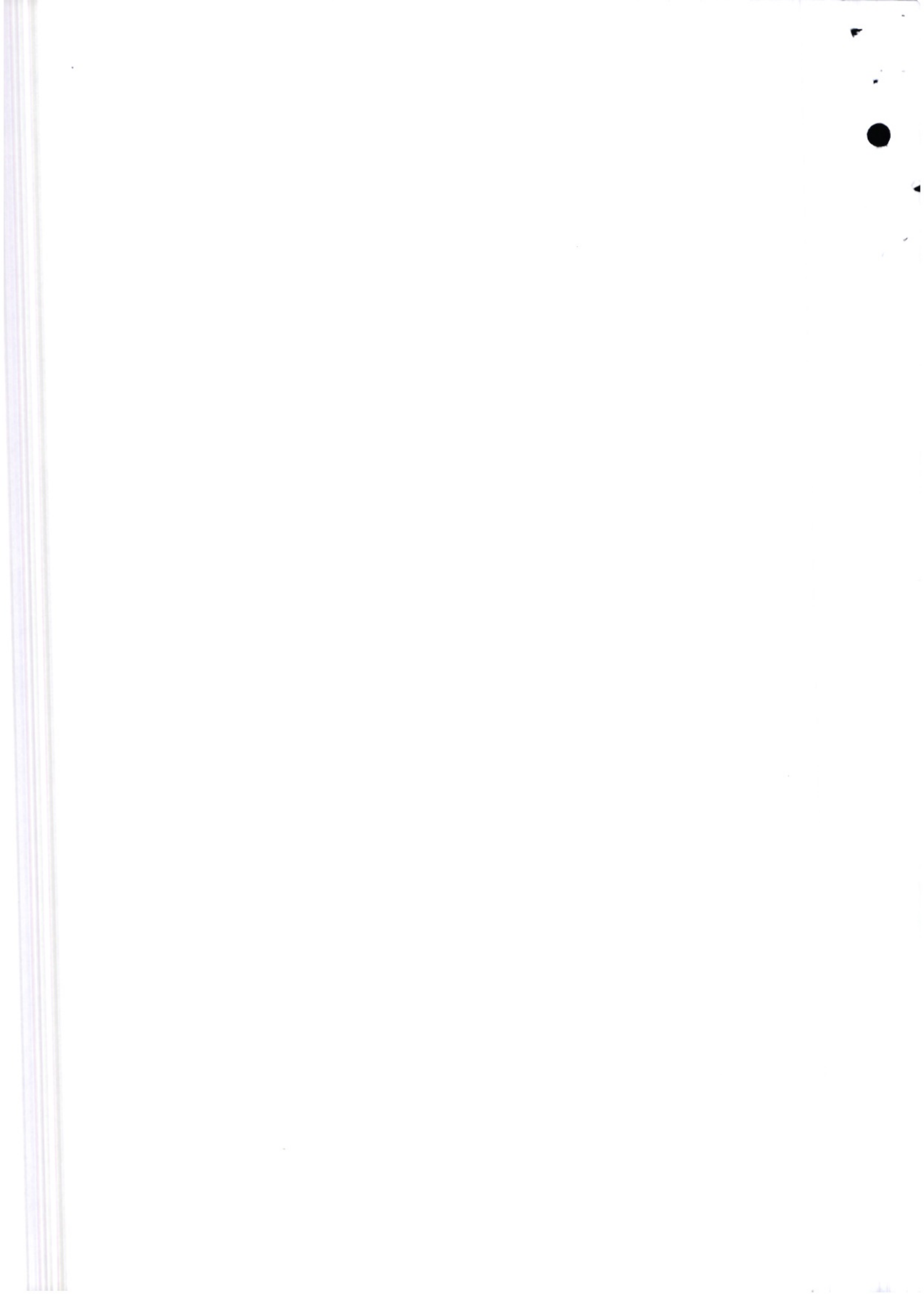
OF

THE AUDITOR-GENERAL

ON

**KARURI WATER AND SANITATION
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2019**



KARURI WATER AND SANITATION COMPANY LIMITED

OFFICE OF THE AUDITOR GENERAL
CENTRAL HUB
14 AUG 2018
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P. O. Box 267 - 10100, NYERI



ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Background Information

Karuri Water and Sanitation Company Limited is a public company (herein referred to as KAWSCO) which was registered under the Companies Act on 24th April 2007 and in accordance with the Water Act 2002. The Company started its operations on 1st June 2008 and had its first board meeting on 4th November 2008. The company has seven directors and its core function is water delivery within Kiambaa Sub-County's area of jurisdiction which covers five administrative wards namely Kiambaa, Muchatha, Ndenderu, Cianda and Kihara. The County Government of Kiambu is the shareholder of the company. During the period under review, the company had nineteen (19) permanent staff and nineteen (19) staff under contract.

Principal Activity

The principal activity of the company is to distribute water from our sources to individual and commercial consumers within our jurisdiction.

Directors

There were no substantive board of directors during the year due to reorganization being undertaken by the County Government of Kiambu.

Registered Office

Davekon Palace
Banana-Limuru Road
P.O Box 818-00219,
Karuri, KENYA

Corporate Contacts

Telephone: (254) 0727484139
Email: info@karuriwater.co.ke
Website: www.karuriwater.co.ke

Corporate Bankers

Post Bank- Karuri branch
Head Office
P.O. Box 30311-0100
Nairobi, Kenya

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Family Bank- Banana branch
Head Office
P.O. Box 74145-00200
Nairobi, Kenya

Co-operative bank-Ruaka Branch
Head Office
P.O. Box 48231 - 00100,
NAIROBI

Equity Bank-Ruaka Branch
Head Office
P.O. Box 75104-00200
Nairobi, Kenya
Safaricom M-Pesa money transfer service
Paybill No. 544500

Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O Box 30084
GPO 00100
NAIROBI, Kenya

KARURI WATER AND SANITATION COMPANY
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Board of Directors




The core functions of the board of directors are to formulate policies to ensure sustainability of the company, effective and efficient management of the company's resources geared towards equitable supply of water within the company's area of jurisdiction.

1		
2		
3		
4		
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6		

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Management Staff

The management staff during the year was as follows:

1	<p>Mr. John P. Karioki- Managing Director</p> 	<p>He is responsible for: Coordinating the day to day management of the Company</p> <p>Monitoring and assessing management's performance</p> <p>Ensuring that the company complies with the legal and governance framework of the company</p> <p>Ensuring institutional transformation in accordance with corporate strategy</p>
2	<p>Mr. James Njoroge - Technical Manager</p> 	<p>He is responsible for all the technical aspects of water production and distribution. He is also tasked with overseeing field operations and ensuring that the Company progressively increases coverage to the underserved areas.</p> <p>He is also responsible for ensuring that the company keeps the non-revenue water (NRW) within acceptable standards.</p>
3	<p>M/s Esther Muthoni – Commercial Manager</p> 	<p>She is responsible for all the commercial activities and tasks of the company.</p> <p>This includes meter reading, billing and disconnections so as to ensure that the company maximises its collection efficiency.</p> <p>She also ensures that the metering ratio of the company remains at 100%.</p>

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Chairman's Statement

Karuri Water and Sanitation Co. Ltd has had a relatively challenging financial year, our main challenge continues to be the lack of high yielding and cost-effective gravity sources of water.

However, as far as water sources are concerned, some of the key highlights are that the process of having our first ever major treatment works has begun. The Kiambaa Water Supply Project (Ruaka Dam) which is expected to be funded by the Belgium Government through Athi Water Works Development Agency. Preliminary design of the Dam, water treatment plant, pipeline, storage tanks is complete. The only remaining bit in order to work out the total project cost for submission to the donors is quotation for rerouting of power lines traversing the proposed Dam site. Another gravity source in the pipeline is the Ruiru 2 dam under the Nairobi Water Master plan designed to serve Kiambu, Karuri and Nairobi. The production capacity of the proposed dam is 75,000 m³/day. The designs have been done awaiting implementation.

Satisfying our customers and creating stakeholder value remain our cherished goals. As we look into the future, our resolve is to remain focused to achieve these goals through securing adequate water supply, distribution capacity, reducing losses, increase in coverage and expansion of our customer base. We are also expanding our social responsibility by providing our services to the low income areas through maintenance of water kiosks where water is affordable to residents who don't have individual household connections in those areas.

The single biggest challenge in the year under review, like in past years, has been the rising cost of water operations. Our highest expenditure remains electricity and the purchase of Bulk Water from Nairobi Water Co. Ltd accounting for 21% and 24% of our total expenditure respectively. These and other operating costs have led to a deficit in the year which we hope to reverse with an upward tariff adjustment as well as cheaper sources of water.



John M. Mutie

Chief Officer,

Water, Environment and Natural Resources

Kiambu County Government

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Report of the Managing Director

The financial year ending 30th June 2019 has had both challenges and achievements, it has seen us continue to implement our core mandate of water distribution in Kiambaa Sub-County.

Achievements

The company is still on course to have its first ever major treatment works at Ruaka. This will include a dam, treatment works and an office block. The preliminary design of the dam, treatment works, pipeline, storage tanks is complete and the project costs are being worked out for submission to the donors. This project is expected to have a yield of 10,000 M³/per day. This would relieve us the burden of bulk water purchase and help us meet the demand in our area.

The meter reading efficiency for the year stood at 91.1%, the billing efficiency was 66.1% and the collection efficiency was 103.6%. The new connections for the year were 554 leading to total of 8,298 connections of which 2,612 were inactive.

To embrace technology and as part of our cost reduction measures, we have discarded paper bills and our customers are now receiving electronic bills through emails and short messaging service (SMS) hence enabling timely delivery of bills, better communication with customers and improved service delivery. By the end of the financial year, 94.5% of our customers received their water bills via SMS or email.

Challenges

The company has reported a loss of Kshs. 6,224,909 compared to a loss of Kshs. 6,919,546 for last year. This has been occasioned by increased cost of doing business which exponentially grew in the year under review.

The company continues to pay the largest portion of its revenue to operation costs specifically electricity and purchase of bulk water, in the year ended 30th June 2019 the company incurred Kshs. 17,803,371 and Kshs. 21,805,710 on these two items respectively. This represents 45% of the total expenditure in the year.

Managing Director,



John P. Karioki

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Corporate Governance Statement

The Company regards good corporate governance as crucial to the success of the business and is committed to practice it so that it remains a sustainable and viable business. This Statement sets out the main corporate governance practices and structures in the Company.

The following Corporate governance guidelines and principles are applied in the Company to govern the Board and the staff. WASREB guidelines on Corporate Governance for Water companies specify best corporate governance principles and others like the Code of Ethics for directors and the Public Officer Ethics Act, 2003 that applies to public officers.

Directors exercise independent judgment and professional competencies for effective governance of the Company as set out in their terms of reference which clearly spells out important governance arrangements covering appointment of directors.

The Directors' Code of Conduct sets out rules that govern the conduct of individual directors in order to enable the Board to operate effectively and in the best interests of the Company. The Code of Conduct sets out rules for directors to among others: act honestly, in good faith and for the best interest of the Company, exercise duty with care and diligence, avoidance and management of conflict of interest, maintain confidentiality of information about the Company, showing commitment to and attend to Company's business and respect to fellow directors.

Conflict of Interest

Directors are required to make a written disclosure of any transaction in which they have interest and which would constitute a conflict of interest and to abstain from voting when such matters are being considered. Business transactions with all parties, directors or their related parties are carried out at arms' length.

Role and Responsibilities of the Board

The Board provides leadership and strategic direction to the Company. Their main responsibilities are:

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

- Establishing the short and long-term goals of the Company and strategic plans to achieve those goals.
- Ensuring preparation of the annual, half-year and quarterly financial statements.
- Approval and review of the annual budgets.
- Setting and periodically reviewing key performance indicators and management performance.
- Ensuring that the Company has adequate systems of internal controls.
- Ensuring that the Company has adequate risk management plans to ensure business continuity.

Role of Chairman of the Board of Directors

The Chairman is primarily responsible for providing leadership to the Board, Chairing Board meetings and general meetings of members. The chairman also ensures that the Board is supplied with timely and sufficient information to enable it to discharge its duties effectively.

Managing Director

The Managing Director is the Chief Executive Officer of the company responsible for the day to day management of the Company. He is also the secretary of the board.

Directors Training and Development

The Company recognizes the importance of having a well informed and fully empowered Board of Directors. In this regard, relevant training and capacity development opportunities are organized to equip directors with skills and knowledge necessary to effectively perform their responsibilities when funds are available.

Board Work plan and Meetings

A work plan and schedule of meetings is prepared annually in advance. The Board meets at least once in a quarter or more depending on the requirements of the business. Directors receive adequate notice for meetings and detailed papers on issues to be discussed

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Management Discussion and Analysis

The following is an analysis of the key highlights in the financial quarter under review in the following categories:

1. Key implemented, ongoing and proposed projects
2. Compliance with statutory requirements

1) KEY IMPLEMENTED, ONGOING AND PROPOSED PROJECTS

A. Implemented Projects

Kawaida Boreholes under the Drought Mitigation Program

The Borehole was handed over to Karuri Water Company on 3rd October 2017 after it was declared substantially complete. Currently, the project is in the defects and liability period which is projected to end in March 2018. The Contractor was mandated to address all incomplete tasks within three months after handing over.

The Borehole which has a tested yield of 12m³/hr has alleviated water shortage problems in Kawaida. Customers who were getting water once per week are now supplied water twice per week.

Operationalization of Canon and Gaithuma Boreholes

The 2 Boreholes have a combined discharge of 16m³/hr. Their operationalization has addressed water shortage problems in Upper Waguthu, Gathanga and parts of Kiambaa. Customers who were receiving water once after every two weeks are now supplied water twice per week. The company is earmarking to activate all dormant accounts inactivated due to lack of water and enlist new connections.

Ndenderu-Karura pipeline extension to boost water supply in Karura

The project was successfully completed on 21st December 2017. A total of Kshs. 887,806 was utilized to lay 1,670m, DN 90mm HDPE pipes from Ndenderu to Karura. Water shortage problems in Karura have been substantively addressed as water is now supplied to all areas thrice per week. Previously due to reduced flows from Wangunyu Borehole, some sections in Karura with 100 active connections were unserved leading to inactivation of the accounts. The Monthly billing for the zone is projected to increase gradually as dormant accounts are activated and more water is billed due to the regular supply.

KARURI WATER AND SANITATION COMPANY
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Ite Dam water supply project

The Company engaged three Contactors to undertake evaluation of the system and advice accordingly on the servicing of the unit. In order to revamp the system to its optimum status of 25m³/hr, the following is proposed;

- a) Incorporate chemical flushing component into the Ultrafiltration unit in order to ensure the membranes are flushed and cleaned periodically
- b) Reposition flocculant and chlorine dosing points. Currently, dosing is undertaken directly into the inlet pipe feeding the UF unit hence the risk of flocs settling and clogging the membranes. Its recommended that online dosing into the system be undertaken at the intake point on the outlet pipe from the raw water pump i.e. at the pump house
- c) Replacement of sand filter in one chamber. Activated carbon is preferred as compared to Clion X filtration media in order to reduce unnecessary load on the membranes.
- d) Regular servicing of the unit, at least quarterly.

B. Proposed Projects to Increase Water Supply

Supply from Limuru Water and Sewerage Co. Ltd

The Company has written officially to Limuru Water Company expressing the need to start discussions in order to agree on the terms and conditions of supply. This is in relation to the interest by the Company to share identified water resources from Limuru Water & Sewerage Company namely; Tigoni, Karirana and Redhill.

Karuri-Rwaka Water supply Proposal

The project with an estimated project cost of Kshs. 508,319,416 is earmarked to serve Karuri and Rwaka Sub-locations with a production capacity of 4,600m³/day. The funding proposal request was submitted to Kenya Pooled Water Fund (KPWF). KPWF consultants carried out Technical evaluation of the project on November 2017 and were positive on its feasibility. Further financial evaluation of the project by the KPWF Investment committee is currently ongoing and communication is expected before end of March 2018.

Kiambaa sub-County Wards funding proposals

The Company prepared and submitted concept reports to all MCAs in the 5 wards of Kiambaa sub-county. The concepts reports enumerated on the current water service provision gaps in the Wards and identified possible immediate, intermediate and future interventions. To this effect, the Company is in the process of carrying out Hydrogeological surveys on the 7 identified probable sites in various wards to drill boreholes.

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Ward	Proposed site	L/R number
Karuri	Karuri Primary	Kiambaa/Thimbigua/1207
	Njiku cattle dip	
Ndenderu	Kwa Youth	Kiambaa/Karura/T269
	Kirienye cattle dip	Kiambaa/Karura/T.291
Muchatha	Muchatha Primary	Kiambaa/Thimbigua/T.380
Kihara	Gachie police post	Kiambaa/Kihara/T.50
Cianda	Nazareth chief office	

As a result of the communication with the MCAs on the possible interventions to address water service provision gaps, Karuri ward MCA has expressed interest of paying power connection fee amounting Kshs. 2,352,523 and procurement of pumping set for Gathiri Springs project. Gathiri spring has a projected yield of 300m³/day and its operationalization will help alleviate water shortage problems in Thimbigua and Gathiri.

Challenges

1. The continued rationing from Nairobi Water offtakes.
2. Irregular power outages altering water rationing schedules

3) Compliance with Statutory Requirements

The company was in compliance with most of the statutory requirements except a few as detailed below

	Statutory Requirement	Status
1	Licence Fees and Administration Fees	As at the end of the year we owed WASREB and AWSB Ksh. 5,227,888 and Ksh. 27,092,744 respectively.
2	Pay As You Earn (PAYE)	The company was up to date with the said payments and filing of returns.
3	National Hospital Insurance Fund (NHIF)	The company was up to date with these payments.
4	National Social Security Fund (NSSF)	

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

5	CPF (LapTrust)-Pension Provider	
6	Water Resources Authority	The outstanding amount with WRA was Ksh. 768,995

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Corporate Social Responsibility Statement

KAWSCO's Corporate Social Responsibility focus on Education, Health and Environment. These initiatives portray the company's commitment to businesses that contribute to sustainable economic development by working with local communities and the society at large, to improve their lives.

KAWSCO participates in Corporate Responsibility activities in order to support situations that enable the community in our area of jurisdiction realize their full potential and empower people in terms of information, education and communication. All our initiatives aim at enhancing social welfare. Our Corporate Social Responsibility Practice will also continue to focus on understanding of the community's need and improving strategic interactions.

During the period under review the company undertook the following activities:

- The company in collaboration with the County Government of Kiambu's Water Environment and Natural Resources department planted tree seedlings in several primary schools in our jurisdiction during the rainy season.
- The company also has water connections that are under the pro-poor program. These are connections being used by vulnerable members of society in our area of jurisdiction. These customers are exempted from paying water bills as long as they restrict consumption to below 6 units per month.

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of KAWSCO's affairs.

Principal activities

The principal activities of KAWSCO are to distribute water from our sources to individual and commercial consumers within our jurisdiction.

Results

The results of KAWSCO for the year ended June 30, 2019 are set out on pages 17-44

Dividends

Subject to the approval of the shareholders, the Directors do not recommend the payment any dividend since the company is still making losses.

Directors

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

Auditors

The Auditor General is responsible for the statutory audit of KAWSCO in accordance with the Section 5 of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board,



Josephine Muritu

Company Secretary

Date: 05/08/2019

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Statement of Directors' Responsibilities

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

The Directors are responsible for the preparation and presentation of KAWSCO's financial statements, which give a true and fair view of the state of affairs of KAWSCO for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes:

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

The Directors accept responsibility for KAWSCO's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act.

The Directors are of the opinion that KAWSCO's financial statements give a true and fair view of the state of the Company's transactions during the financial year ended June 30, 2019, and of KAWSCO's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for KAWSCO, which have been relied upon in the preparation of KAWSCO's financial statements as well as the adequacy of the systems of internal financial control. Nothing has come to the attention of the Directors to indicate that KAWSCO will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements



Chief Officer, Water Environment & Natural Resources



Managing Director

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KARURI WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Karuri Water and Sanitation Company Limited set out on pages 18 to 42, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity, and the statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Karuri Water and Sanitation Company Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015 of the Laws of Kenya and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment with a net book value of Kshs.20,479,880. However, as previously reported, the balance excluded fixed assets of undetermined value comprising of land, water pipes and vehicles.

Consequently, the accuracy and completeness of the reported balance for property, plant and equipment could not be confirmed.

2. Trade and Other Payables

2.1. Non-Remittance of Regulatory Fees, Lease Fees and Billing Charges

The statement of financial position reflects trade and other payables balance of Kshs.65,368,660 which, as previously reported, included lease fees payable to Athi Water

Service Board, regulatory fees payable to Water Service Regulatory Board, billing service charges payable to Thika Water and Sewerage Company and Nairobi Water Company amounting to Kshs.27,092,744, Kshs.5,227,888, Kshs.960,365 and Kshs.25,587,860, respectively that have been outstanding for a long period. No explanation was provided for the failure to remit the outstanding amounts to the respective organizations.

3. Failure to Disclose Material Uncertainty in Relation to Going Concern

The statement of profit or loss and other comprehensive income indicates that the Company recorded a loss of Kshs.6,224,909 (2018: Kshs.6,919,546). The operating loss depleted the capital and reserves balance from a negative Kshs.27,212,058 as at 30 June, 2018 to negative Kshs.33,436,967 as at 30 June, 2019. Further, the Company's current liabilities balance of Kshs.82,123,930 exceeded the current assets balance of Kshs.28,207,083, resulting into a negative working capital of Kshs.53,916,847. This is an indication of the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and to meet its obligations as and when they fall due.

The financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive financial support from Kiambu County Government and its creditors. However, the material uncertainty in relation to going concern and mitigating measures put in place by the Company's Directors to reverse the undesirable financial position have not been disclosed in the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Karuri Water and Sanitation Company Limited 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 qualified opinion.

Key Audit Matters

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

Other Matter

1. Under Absorption of Capital Expenditure Budget

During the financial year ended 30 June, 2019, Karuri Water and Sanitation Company Limited had an approved capital budget of Kshs.46,000,000. However, the Company incurred an actual expenditure of Kshs.6,907,214, resulting in an under absorption of Kshs.39,092,786 which is equivalent to 85% of the budget. This means that the approved

budget was not fully utilized as planned, which negatively impacted on delivery of water infrastructure and sanitation services.

2. Unresolved Prior Year Audit Matters

As disclosed under the progress on follow-up of auditors recommendations section of the financial statements, audit matters reported in the previous years remained unresolved as at 30 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

Unaccounted for Water (UFW)

During the year under review, the Company produced 1,561,189 cubic meters (m³) of water. However, out of this volume, 1,048,484 cubic metres (m³) were billed to the customers and the balance of 512,705 cubic metres (or approximately 33% of the total water produced) represented unaccounted for water (UFW), which is 8% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board (WASREB) guidelines. The UFW of 33% may have resulted in loss of sales estimated at Kshs.26,300,459. The significant level of UFW is an indication of inefficiency and ineffectiveness in the use of public resources and, has negatively impacted on the Company's profitability and its long-term sustainability.

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 INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my

report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Failure to Appoint Board of Directors

As previously reported, the Board of Directors of Karuri Water and Sanitation Company Limited was dissolved in March, 2018. This was due to a proposed re-organization and merging of the water companies by the Kiambu County Government. The Board had not been constituted as at August, 2020 contrary to Section 79(1) of the Water Act, 2016 which provides for a Board of Directors of a water services provider. Further, the Company did not hold an Annual General Meeting as required under Section 310 (1) of the Companies Act.

In the absence of a Board of Directors, Board functions such as, establishing and reviewing strategies and goals of the Company, review and evaluation of present and future opportunities, risks and threats and; general oversight of finance and Audit Committee functions among others could not be implemented.

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 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 the Companies Act, 2015 I report based on the 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 my audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with books of account.

Responsibilities of Management and the Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, and for maintaining effective internal control as the Management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, the Management is responsible for assessing the ability of Karuri Water and Sanitation Company Limited to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management is aware of intention to liquidate the Company or to cease operations.

The 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, the Management are 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.

The Directors are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how the entity 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Managements' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Karuri Water and Sanitation Company Limited to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of Karuri Water and Sanitation Company Limited to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide the 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

24 August, 2021

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 Kshs	Comparative Period 2018 Kshs
REVENUES			
Sales	1	79,698,353	76,536,250
Grants	2	-	-
Other Income	3	1,450,920	2,228,940
TOTAL REVENUES		<u>81,149,273</u>	<u>78,765,190</u>
OPERATING EXPENSES			
Operations Expenses	4	70,969,629	71,556,770
Administrative Expense	5	6,792,525	6,771,763
General Expenses	6	9,612,028	7,356,203
TOTAL OPERATING EXPENSES		<u>87,374,182</u>	<u>85,684,736</u>
OPERATING PROFIT/(LOSS)		(6,224,909)	(6,919,546)
PROFIT/(LOSS) BEFORE TAXATION		(6,224,909)	(6,919,546)
INCOME TAX EXPENSE/(CREDIT)	8	-	-
PROFIT/(LOSS) AFTER TAXATION		<u>(6,224,909)</u>	<u>(6,919,546)</u>

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

STATEMENT OF FINANCIAL POSITION FOR AS AT 30 JUNE 2019

	Note	2019 Kshs	Comparative 2018 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	7	20,479,880	16,491,675
Total Non-Current Assets		<u>20,479,880</u>	<u>16,491,675</u>
Current Assets			
Inventories	9	1,739,471	2,049,208
Trade and other receivables	10	18,456,076	15,218,334
Bank and cash balances	11	8,011,536	<u>11,367,420</u>
Total Current Assets		<u>28,207,083</u>	<u>28,634,962</u>
TOTAL ASSETS		<u>48,686,963</u>	<u>45,126,637</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	12	40	40
Retained earnings	13	(34,414,471)	(28,189,562)
Capital Reserve	14	<u>977,464</u>	<u>977,464</u>
Capital and Reserves		<u>(33,436,967)</u>	<u>(27,212,058)</u>
Current Liabilities			
Trade and other payables	15	65,368,660	57,811,425
Customer Refundable Deposits	16	<u>16,755,270</u>	<u>14,527,270</u>
Total Current Liabilities		<u>82,123,930</u>	<u>72,338,695</u>
TOTAL EQUITY AND LIABILITIES		<u>48,686,963</u>	<u>45,126,637</u>



 Managing Director



 Head of Finance



 Chief Officer, Water Environment & Natural Resources

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	Ordinary Share Capital	Retained Earnings	Capital Reserve	Total
	Kshs	Kshs	Kshs	Kshs
Balance Brought Forward as at July 1, 2017	40	(21,270,016)	977,464	(20,292,512)
Total comprehensive income	-	(6,919,546)	-	(6,919,546)
Balance Carried down at June 30, 2018	40	(28,189,562)	977,464	(27,212,058)
Balance Brought Forward as at July 1, 2018	40	(28,189,562)	977,464	(27,212,058)
Total comprehensive income	-	(6,224,909)	-	(6,224,909)
Balance Carried down as at June 30, 2019	40	(34,414,471)	977,464	(33,436,967)

*Capital reserve: Refer to Summary of Significant Accounting Policies (page 35) note xvi

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 Kshs	2018 Kshs
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	17	2,656,343	5,116,064
Net cash generated from/(used in) operating activities		<u>2,656,343</u>	<u>5,116,064</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	7	(6,019,980)	(6,873,206)
Proceeds from Lost Meter Reading Phones		7,753	23,452
Net cash generated from/(used in) investing activities		<u>(6,012,227)</u>	<u>(6,849,754)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<u>(3,355,884)</u>	<u>(1,733,690)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF QRT	11	11,367,420	13,101,110
CASH AND CASH EQUIVALENTS AT END OF THE QUARTER	11	<u>8,011,536</u>	<u>11,367,420</u>

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30TH JUNE 2019

	<i>Original Budget</i>	<i>Adjustments</i>	<i>Final Budget</i>	<i>Actual on Comparable Basis</i>	<i>Performance Difference</i>
Revenue	127,840,000	(30,746,845)	97,093,155	81,149,273	15,943,882
					-
EXPENDITURE:					-
Operations Cost	104,030,000	(23,690,000)	80,340,000	70,969,629	9,370,371
Administrative Expenses	9,060,000	(610,000)	8,450,000	6,792,525	1,657,475
General Expenses	8,090,000	-	8,090,000	9,612,028	(1,522,028)
					-
TOTAL EXPENSES	121,180,000	(24,300,000)	96,880,000	87,374,182	9,505,818
					-
Surplus / (Deficit)	6,660,000		213,155	(6,224,909)	

PFM Act section 81(2) ii and iv requires a National Government entity to present appropriation accounts showing the status of each vote compared with the appropriation for the vote and a statement explaining any variations between actual expenditure and the sums voted. IFRS does not require entities complying with IFRS standards to prepare budgetary information because most of the entities that apply IFRS are private entities that do not make their budgets publicly available. However, for public sector entities, the PSASB has considered the requirements of the PFM Act, 2012 which these statements comply with, the importance that the budgetary information would provide to the users of the statements and the fact that the public entities make their budgets publicly available and decided to include this statement under the IFRS compliant financial statements.

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

1. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS(IFRS)

i) Relevant new standards and amendments to published standards effective for the year ended 30 JUNE 2019

Standard	Effective Date	Impact
<i>IFRS 16: Leases (Issued 13 January 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments (Issued 7 June 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> • Whether tax treatments should be considered collectively • Assumptions for taxation authorities' examinations • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Standard	Effective Date	Impact
		<ul style="list-style-type: none"> • The effect of changes in facts and circumstances
<p><i>Prepayment Features with Negative Compensation (Amendments to IFRS 9)</i> <i>(Issued 12 October 2017)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>The amendments allows entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.</p>
<p><i>Annual Improvements to IFRS Standards 2015–2017 Cycle</i> <i>(Issued 12 December 2017)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Makes amendments to the following standards:</p> <ul style="list-style-type: none"> • IFRS 11 - The amendment, clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. • IFRS 3- The amendments, provide additional guidance on applying the acquisition method to particular types of business combination • IAS 12 - The amendments clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked. • IAS 23 - The amendments clarify that the costs of borrowings made specifically for the purpose of

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Standard	Effective Date	Impact
		obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

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

<i>Standard</i>	<i>Effective Date</i>	<i>Impact</i>
<i>IFRS 17 Insurance Contracts (Issued 18 May 2017)</i>	Annual periods beginning on or after 1 January 2021	IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i>
<i>Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018)</i>	Annual periods beginning on or after 1 January 2020	Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

		framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.
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The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

iii) *Early adoption of standards*

The entity did not early – adopt any new or amended standards in year 2017.

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

i. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying KAWSCO's accounting policies.

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

ii. Revenue Recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to KAWSCO and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of KAWSCO's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of KAWSCO's activities as described below.

- (a) Revenue from the sale of goods and services** is recognised in the year in which KAWSCO delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- (b) Grants from National Government** are recognised in the year in which KAWSCO actually receives such grants.
- (c) Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- (d) Other income** is recognised as it accrues.

iii. In-Kind Contributions

In-kind contributions are donations that are made to KAWSCO in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

personnel services. Where the financial value received for in-kind contributions can be reliably determined, KAWSCO includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

iv. Property, Plant And Equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses. Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

v. Depreciation and Impairment of Property, Plant and Equipment

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line method on a pro-rata basis. The annual rates in use are:

Office equipment-computers	33%
Motor Vehicles & Motor Cycles	25%
Plant Equipment	10%
Furniture and fittings	10%
Water meters	10%
Computer Software	30%
Buildings	2.5%
Pipeline	2.5%

vi. Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handing charges, and is determined on the moving average price method.

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

vii. Trade and other Receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

viii. Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Through the notice issued by treasury on 30 November 2010 the company is required to pay taxes on their profit or surplus. However, since the company made losses, it has not made any provision for taxes.

ix. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held 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.

x. Comparative Figures

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

xi. Budget information

The original budget for FY 2016-2017 was approved by the Board of Directors. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added or subtracted to the original budget by the

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded additional appropriations of (17,003,298) on the 2016-2017 budget following the governing body's approval.

The entity's budget is prepared on accrual basis as the actual income and expenditure disclosed in the financial statements. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

xii. Subsequent Events

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

xiii. Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to Karuri Water & Sanitation Co. Ltd or not, less any payments made to the suppliers.

xiv. Customer Deposits

Customer deposits are recognized as the amount paid by the consumer before service can begin less any refunds made to the customer. Water deposits are refunded when water service is disconnected on customer request and all outstanding bills are paid or when a construction work is completed. The amount required as deposit in respect of existing service agreements may from time to time be reviewed by WASREB as they review the water tariffs. As at the close of the reporting period the following are the categories of deposits made by customers:

- Kshs 1,500 for domestic connections
- Kshs 10,000 for connections that have more than one single dwelling
- Kshs. 10,000 for construction connections
- Kshs. 10,000 for connections made to an Institution
- Kshs. 50,000 for major construction connections

The deposits amounts are held in a separate account in one of the commercial banks as required by the regulator.

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

xv. Provisions

Provisions are recognized when a company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provision for bad and doubtful debts is provided at 5% of the trade debtors.

xvi. Capital Reserve

Capital reserve comprises of the amounts inherited from the municipal council during the transition when the company was incorporated.

xvii. Retirement Benefit Obligation

Employees on both permanent employment as well as contract basis contribute to a defined contribution scheme (Laptrust Retirement Fund) at the rate of 7.5% of Gross Salary while the company contributes 10% of Gross Salary per person per month.

The company also contributes to the statutory National Social Security Fund (NSSF) for employees on a 3 months fixed term contracts. This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described above, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period or in the periods of the revision and future periods if the revision affects both current and future periods.

Critical Judgments in Applying Accounting Policies

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

Revenue recognition

Water revenue includes an assessment of water supplied to customers between the date of the last meter reading and the year end. The water sales is estimated using historical consumption patterns taking into account the total water usage by the customer.

Water deposits

Money received from water customers as deposit is held as a non-current liability because the Company will continue to offer services to the customers for the foreseeable future and the customers are not expected to discontinue their use of water in the short run.

Key Sources of Estimation Uncertainty

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

Property Plant & Equipment

Critical estimates are made by the Directors in determining depreciation rates of property plant & equipment. Property and equipment is depreciated over its useful life taking into account residual values, where appropriate.

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Provision for doubtful debts

The estimated provision for doubtful debts is based on the period for which the debt was outstanding. General provisions are established where full recovery of the principal is considered doubtful which is made against finalized customer accounts net of deposits.

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTES TO THE FINANCIAL STATEMENTS

	2019 Kshs	Comparative 2018 Kshs
1 SALES		
Customer Billing	79,698,353	76,536,250
	79,698,353	76,536,250
3 OTHER INCOME	2019	2018
New Connection Fees	1,122,520	1,131,550
Reconnection Fees	244,500	405,000
Disconnection on Request	48,900	57,800
Fines	35,000	154,677
Decrease in Provision for Bad Debts		475,671
Interest Income on Fixed deposit	-	4,242
Gain/Loss on Disposal	-	-
	1,450,920	2,228,941
4 OPERATIONS COSTS	2019	2018
4a Staff costs		
Salaries & Wages	19,934,491	19,369,880
Staff Training and Allowances	2,786,556	1,345,366
Staff Welfare	292,950	349,000
Pension- Employer Contribution	1,763,436	1,464,708
N.S.S.F- Employer's Contribution	10,400	25,600
Staff Medical Cover	1,855,100	1,051,477
	26,642,933	23,606,031
4b Operational expenses	2019	2018
Electricity	17,803,371	19,273,798
Abstraction Fees (WARMA)	675,495	-
Maintenance of Water System	3,233,141	3,834,159
Water Quality Testing	371,320	466,290
Tools	5,600	80,607
Survey	53,560	20,000
Bulk Water Expenditure	21,805,710	23,771,520
Billing Fees	378,499	504,365
WSTF (Gachie Water Project)	-	-
	44,326,696	47,950,739
Total Operations Cost	70,969,629	71,556,770

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 ADMINISTRATION COST	2019	2018
5a) Administrative Expenses		
Rent and Rates	1,397,568	1,333,536
Advertising Expenses	-	136,996
General Office Maintenance	41,364	107,216
Stationery, Printing and Photocopies	137,165	286,761
Office and Computer Accessories	72,620	64,279
Telephone, Internet & Postage	847,654	750,215
Bank Charges	579,638	568,007
Fuel for Vehicles & Cycles	1,661,746	1,188,774
Audit expenses	116,000	144,576
Motor cycle & Vehicle Maintenance	678,073	422,965
Travelling Allowance and Busfare	54,700	21,000
Security	313,200	310,720
Insurance	149,415	125,359
IT costs	647,182	529,476
Wtax	-	21,551
	6,696,325	6,011,431
	2019	2018
5b) Board Expenses		
Board Allowances	96,200.00	760,332
	96,200	760,332
Total Administrative Cost	6,792,525	6,771,763
6 GENERAL EXPENSES	2019	2018
6a) General Costs		
Uniform	207,400	95,138
Miscellaneous	90,825	232,414
Legal Fees, Fines & Penalty	-	1,160
Depreciation of property, plant & equipments	2,024,022	1,703,240
Office Tea & Entertainment	277,027	272,255
Provision for bad and doubtful debts -increase	150,691	-
AGM Expenses	145,000	-
Corporate Social Responsibility	25,000	36,900
Benevolent Fund	-	-
Membership to Professional Association	11,200	11,200
Membership to WASPA	85,000	85,000
	3,016,165	2,437,307
	2019	2018
6b) Lease and regulatory fee		
Lease Fee to AWSB	4,188,492	4,188,492
Regulatory Fee to WASREB	2,407,371	730,404
	6,595,863	4,918,896
Total General Expenses	9,612,028	7,356,203
TOTAL EXPENSES	87,374,182	85,684,736

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

2018	Plant and Equipment	Motor Vehicles & Cycles	Computers & Office Equipment	Furniture & Fittings	Meters	Computer Software	Buildings	Pipeline	Total
COST OR VALUATION									
At July 1, 2017	7,888,704	405,482	2,568,363	1,230,222	2,627,600	650,000	1,826,770	-	17,197,141
Additions	2,970,343	-	213,100	521,958	2,280,000	-	-	887,806	6,873,206
Transfers	-	-	-	-	-	-	-	-	-
Disposals	-	-	(37,236)	-	-	-	-	-	(37,236)
At June 30, 2018	10,859,047	405,482	2,744,227	1,752,180	4,907,600	650,000	1,826,770	887,806	24,033,111
DEPRECIATION									
At July 1, 2017	3,137,564	232,867	1,056,168	435,346	651,360	331,500	11,417	-	5,856,222
Charge for the year	615,867	39,273	471,551	110,597	324,599	85,329	44,961	11,063	1,703,240
Impairment loss	-	-	-	-	-	-	-	-	-
Eliminated on disposal	-	-	(18,026)	-	-	-	-	-	(18,026)
At June 30, 2018	3,753,431	272,140	1,509,693	545,943	975,959	416,829	56,378	11,063	7,541,436
NET BOOK VALUE									
At June 30, 2018	7,105,616	133,342	1,234,534	1,206,237	3,931,641	233,171	1,770,392	876,743	16,491,675

2019	Plant and Equipment	Motor Vehicles & Cycles	Computers & Office Equipment	Furniture & Fittings	Meters	Computer Software	Buildings	Pipeline	Total
COST OR VALUATION									
At July 1, 2018	10,859,047	405,482	2,744,227	1,752,180	4,907,600	650,000	1,826,770	887,806	24,033,111
Additions	3,713,230	195,050	-	21,700	2,090,000	-	-	-	6,019,980
Transfers	-	-	-	-	-	-	-	-	-
Disposals	-	-	(8,450)	-	-	-	-	-	8,450
At June 30, 2019	14,572,277	600,532	2,735,777	1,773,880	6,997,600	650,000	1,826,770	887,806	30,044,641
DEPRECIATION									
At July 1, 2018	3,753,431	272,140	1,509,693	545,943	975,959	416,829	56,378	11,063	7,541,436
Charge for the year	889,624	64,672	357,438	117,070	467,189	62,468	43,847	21,714	2,024,022
Impairment loss	-	-	-	-	-	-	-	-	-
Eliminated on disposal	-	-	(697)	-	-	-	-	-	697
At June 30, 2019	4,643,055	336,812	1,866,434	663,013	1,443,148	479,297	100,225	32,777	9,564,761
NET BOOK VALUE									
At June 30, 2019	9,929,222	263,720	869,343	1,110,867	5,554,452	170,703	1,726,545	855,029	20,479,880

The Company also has (3) motor vehicles and five (5) motor cycles which are the property of Athi Water Services Board and the District Water Office.

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2019	2018
8 Current taxation		
Profit/Loss before taxation	(6,224,909)	(6,919,546)
Expenses not deductible for tax purposes	2,315,713	1,989,053
Income not taxable		
Capital allowances	(2,318,665)	(2,208,067)
	(6,227,861)	(7,138,560)
Previous Year Losses b/f	(18,597,927)	(16,135,255)
Adjusted Profit/Loss	(24,825,788)	(23,273,816)
Current taxation based on the adjusted profit for the year at 30%		
	2019	2018
9 INVENTORIES		
Pipes & Fittings	1,447,117	1,823,751
Stationery	108,074	124,807
Meters	-	-
Motorbike Spares & Electricals	184,280	100,650
	1,739,471	2,049,208
10 TRADE AND OTHER RECEIVABLES	2019	2018
Shareholders	40	40
Prepayment :-Rent Deposit	160,000	160,000
-Electricity Deposit	30,000	30,000
-Bulk SMS Service Deposit	10,000	10,000
-Internet Services Deposit(Wimax)	-	-
-Internet Services Deposit(Fiber)	20,000	-
Fast Choice	-	20,000
Staff Receivable(Recovery from Lost Phone)	3,153	25,000
NHIF(Pre-paid medical cover premiums)	401,811	5,350
Fixed Deposit	-	-
Water sales	18,769,549	15,755,731
less provision for bad debts	(938,477)	(787,787)
	18,456,076	15,218,334
11 BANK AND CASH BALANCES	2019	2018
Cash at Bank		
Post Bank 6116	371,807	9,150
Post Bank 108	53,670	56,954
Family Bank 232 Revenue	28,703	29,550
Family Bank 5874 Operation	(55,889)	(549)
Family bank 3050 (Deposit)	7,459,321	11,071,829
Family Bank 10288 Collection	43,912	5,876
Family bank 10287(Gachie WP)	-	-
Co-op Collection A/c	71,356	78,962
M-Pesa Collection	19,781	107,540
Equity Bank	4,515	7,916
Cash in Hand		
Petty Cash	14,361	192
	8,011,536	11,367,420

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2019	2018
12 ORDINARY SHARE CAPITAL		
Authorised		
5000 ordinary shares of Ksh. 20 par value each	100,000	100,000
Issued and fully paid		
2 ordinary shares of Kshs. 20 par value each	<u>40</u>	<u>40</u>
13 RETAINED EARNINGS		
Opening Balance	(28,189,562)	(21,270,016)
Surplus/Deficit for the period	(6,224,909)	(6,919,546)
	<u>(34,414,471)</u>	<u>(28,189,562)</u>
14 CAPITAL RESERVE		
Opening Balance	977,464	977,464
As at year end	<u>977,464</u>	<u>977,464</u>
15 TRADE AND OTHER PAYABLES		
Trade Payables	65,368,660	57,811,425
Debtors with Credit Balances	-	-
	<u>65,368,660</u>	<u>57,811,425</u>
16 CUSTOMER REFUNDABLE DEPOSITS		
Opening Balance	14,527,270	12,067,020
Additions	2,389,000	2,664,750
Less (Refunds)	(161,000)	(204,500)
	<u>16,755,270</u>	<u>14,527,270</u>
17 NOTES TO THE STATEMENT OF CASH FLOWS		
Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	(6,224,909)	(6,919,546)
Depreciation	2,024,022	1,703,240
Gain/loss on Disposal of Meter reading Phone	-	(4,242)
Operating profit/(loss) before working capital change	<u>(4,200,887)</u>	<u>(5,220,548)</u>
(Increase)/decrease in inventories	309,737	125,597
(Increase)/decrease in trade and other receivables	(3,237,742)	2,892,198
Increase/(decrease) in trade and other payables	7,557,235	4,858,567
Increase in refundable customer deposits	2,228,000	2,460,250
Cash generated from/(used in) operations	<u>2,656,343</u>	<u>5,116,064</u>

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

18. FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks as a result of its financial instruments:

- i. Credit risk
- ii. Liquidity risk
- iii. Capital Management

i. Credit risk

The Company has exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. Credit risk mainly arises from water sales receivables and bank balances.

Credit risk arising from bank balances are low because the counter parties are financial institutions with high credit ratings.

The carrying amount of financial assets recorded in the financial statements representing the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows

	Fully Performing	Past Due	Impaired	Total
As At 30th June 2019				
Trade & Other Receivables	18,417,089	977,464	(938,477)	18,456,076
Cash & Bank Balances	8,011,536			8,011,536
As At 30th June 2018				
Trade & Other Receivables	13,128,957	2,877,164	(787,787)	15,218,334
Cash & Bank Balances	11,398,020			11,398,020

ii. Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows from revenue and capital and operational outflows.

The objective of the Company's liquidity management is to ensure that all foreseeable operational, capital expansion and loan commitment expenditure can be met under both normal and stressed conditions.

The table below summarizes the maturity profile of the Company's financial liabilities based on the remaining period using 30 JUNE 2019 as a base period to the contractual maturity date:

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	Less Than 1 Month	Between 1-3 Months	Between 3-12 Months	Over 1 year	Total
As At 30th June 2019					
Trade & Other Payables	4,500,500	5,844,414	5,536,673	49,487,073	65,368,660
As At 30th June 2018					
Trade & Other Payables	4,797,967	3,851,206	4,371,234	44,094,327	57,114,734

iii. Capital Management

The water business is currently in a major expansion phase driven by a rise in demand and Government policy. The funding of additional transmitting and other distribution capacity is to be obtained from cash generated by the business and Government support. The adequacy of water tariffs allowed by WASREB and the level of Government support are key factors in the sustainability of the Company.

19. RELATED PARTY DISCLOSURES

a) Nature Of Related Party Relationships

Companies and other parties related to the company include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

Karuri Water & Sanitation Co. Ltd is related to:

- (i) The County Government of Kiambu (CGK)
- (ii) Water Service Trust Fund (WSTF)
- (iii) Water Services Regulatory Board (WASREB)
- (iv) Water Resources Management Authority (WARMA)
- (v) Athi Water Services Board (AWSB)
- (vi) Key Management
- (vii) Board of Directors
- (viii) Nairobi Water Company Ltd

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018
	KES	KES
b) Related Party Transactions		
Grants received from related parties		-
		-
c) Key Management Remunerations		
Directors	96,200	760,332
Key management compensation	4,108,368	4,108,368
	4,204,568	4,868,700
d) Due to Related Parties		
Due to WASREB	5,227,888	2,820,517
Due to Athi Water Services Board	7,092,744	22,904,252
Due to Nairobi Water	25,587,860	24,841,710
Due to WARMA	768,995	95,300
	38,677,487	50,661,779

20. CONTINGENT LIABILITIES & ASSETS

There were no contingent liabilities & assets in the financial year ended JUNE 2019.

21. INCOPORATION

KAWSCO is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

KARURI WATER AND SANITATION COMPANY
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

PROGRESS ON FOLLOW UP OF AUDITORS RECOMMENDATIONS

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

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Non-remittance of Regulatory and Lease fees	The management commits to pay the amounts due as the performance of the company improves.	Cyrus Maina-Senior Accountant	Not Resolved	Continuous
2	Unaccounted for water	We were unable to meet the target of 25% due to dilapidated infrastructure and frequent disruptions from road constructions. The management however continues to put measures to reduce the loss.	James Njoroge-Technical Manager	On going	Continuous
3	Sustainability of Service	The company is striving towards breaking even by taking measures like increasing collection efficiency. We are also expecting a tariff review.	Cyrus Maina-Senior Accountant	On going	Continuous