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REPORT

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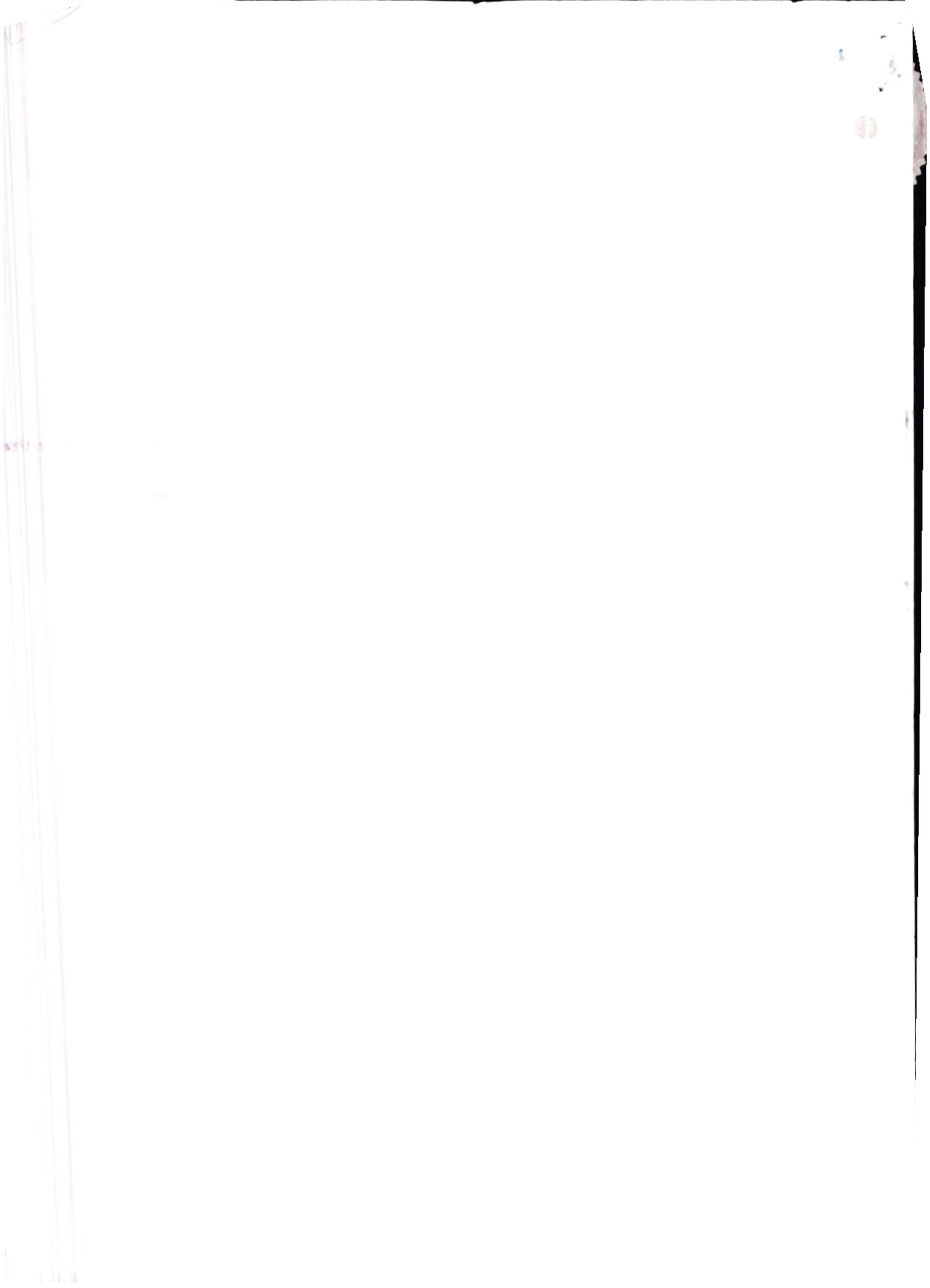
OF

THE AUDITOR-GENERAL

ON

LIMURU WATER AND SEWERAGE
COMPANY LIMITED

FOR THE YEAR ENDED
30 JUNE, 2019





LIMURU WATER AND SEWERAGE COMPANY LTD

ANNUAL REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2019**

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

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

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LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
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KEY ENTITY INFORMATION

Background information

Limuru Water and Sewerage Company Limited was incorporated on 13th March 2006 under the Companies Act (Cap. 486) and is one of the agents appointed by the Athi Water Services Board (AWSB). The Company is responsible for the efficient and economical provision of water and sewerage services.

The Company is registered as a Private Company Limited by Shares. The Company is wholly owned by County Government of Kiambu and is Governed by a memorandum and articles of Association.

Vision

The Company's vision is to be the centre of excellence in the provision of water and sewerage services within our area of jurisdiction.

Mission

The mission is to provide adequate and quality water and efficient sewerage services to the satisfaction of our customers within our area of jurisdiction

Principal Activities

The principal activity of Limuru Water and Sewerage Company is to ensure efficient and effective provision of water and sewerage services in our area of jurisdiction. The mandate and objective of Limuru Water and Sewerage Company is enshrined in the memorandum and articles of association. The principal objective of the company is to carry out the business of water and sewerage services provision within the area under its Jurisdiction as provided for in the Service Provision Agreement with Athi Water Services Board.

The key objects of the company as enumerated in the Memorandum and Articles of Association includes :

1. Carrying on business of water and sewerage services in Limuru and Lari Districts
2. Managing the assets leased to the company by the Athi Water Services Board (AWSB) and now owned by County Government of Kiambu.
3. The Company is responsible for the Operations of Limuru Sewerage Plant, Bathi Water Treatment Plant, Kijabe Water Supply and Boreholes in Limuru and Lari Districts

Corporate Contacts

Telephone: (254) 725054212

E-mail: liwaseco@yahoo.com

info@limuruwater.go.ke

Website: www.limuruwater.go.ke

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

KEY ENTITY INFORMATION Continued

Corporate Bankers

Kenya Commercial Bank
Limuru Branch
P.O Box 933 - 00217
Limuru

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

Safaricom M-Pesa money transfer service
Pay Bill No. 895900

Independent Auditors

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

Principal Legal Advisers

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

Registered Officer

P.O. Box 1286-00217
Maji Centre Building
Hospital Road
Limuru, KENYA

Corporate Headquarters

Maji Centre Building
Hospital Road
P.O. Box 1286-00217
Limuru, Kenya

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019





THE BOARD OF DIRECTORS

The Directors who served the entity during the year/period were as follows:

1.	Prof . Eng Bernard Njoroge	- Chairman	- Appointed on ...26 March 2019
2.	Eng Philip Gichuki	- Chief Executive	- Appointed on26 March 2019
3.	Emma Nganga		- Appointed on26 March 2019
4.	Eng Andrew Muigai		- Appointed on ...26 March 2019
5.	Dominic Ichugu Gachanja		- Appointed on26 March 2019
6.	Bishop Solomon Waweru		- Appointed on26 March 2019
7.	Samuel Gatama		- Appointed on26 March 2019
8.	Ndungu Wa Munywe		- Appointed on26 March 2019
9.	Prof. Stephen Njuguna		- Appointed on26 March 2019
10.	James Muriuki		- Appointed on26 March 2019

**LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019**

MANAGEMENT TEAM

<p>1. Margaret W Maina</p> 	<p><u>Managing Director</u> Professional Qualifications: -Water Chemist-MSc. Public health (Kenyatta University) Continuing. -Bachelor of philosophy Applied Biology (Technical University). -Member of IOD(K) -Full member KIM Experience: 28yrs experience in water sector i.e. Min. of water, NWSC, AWSB and Limuru water & sewerage company.</p>
<p>2. Charles Wahogo Muiro</p> 	<p><u>Finance and Administration Manager</u> Professional Qualifications: Accountant Academic Qualifications: CPA Part Two B.E.D, Accounts and Economics (U.O.N) Experience: 13yrs Experience in water sector and different institutions</p>
<p>3. Teresia N Mwaura</p> 	<p><u>Technical Manager</u> Professional Qualifications: Diploma Water Engineering-Kenya Polytechnic. -Higher Diploma Construction-Kenya Polytechnic. Academic Qualifications: A-Level-St Brigid's Kitale Experience: 29yrs experience in water sector i.e. Ministry of water & Limuru Water.</p>
<p>4. Joseph M Kyule</p> 	<p><u>Commercial Manager</u> Professional Qualifications: Diploma-Water Technology(KEWI) Academic Qualifications: A-Level-Kenyatta High School Mwatate Experience: 25yrs Experience in water sector in different institutions i.e. Min. Water, AWSB,NWSC, Limuru water & Sewerage Ltd.</p>

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

CHARIMAN'S REPORT

1. INTRODUCTION

It gives me pleasure to present to you the financial report for the year ending 30th June 2019. During the financial year the company celebrated 13 years since inception. The company has over the years provided safe, reliable and affordable water to our customers, we serve all areas in Limuru sub-county and part of Lari sub-county which is an area of 286km² with a total population of 280,000. The company is divided in four administrative schemes namely; Limuru, Bathi, Uplands and Thigio. We have partnered with some community water projects, Bibirioni and Kamirithu through a third party service provision agreement to supply water in our area of jurisdiction and increase in coverage.

2. PERFORMANCE

During the year ended 30th June 2019 the company focused on key objectives as stated in the strategic plan which include; increased coverage, financial sustainability, operational sustainability and customer satisfaction. The company registered some positive growth in customer base, revenue collection, billing, operational stability, good governance among others although with some short coming here and there.

The company's revenue increased by Kshs 178,207 from Kshs 94,352,898, to Kshs 94,531,105 in the previous year. This growth is attributed to increased water billing as a result of increase in new customer connections. However, the operational cost increased by Kshs 526,786 from Kshs 107,443,968 to Kshs 107,970,775 the increase in cost is as a result of increased cost of operations and staff cost as a result of annual salary increment. The company made a deficit of Kshs 13,439,649 as compared to a deficit of Kshs 13,091,070 in the previous year which is an increase in loss by Kshs 348,579.

The company's operations were challenged by;

- high production cost due to electricity bills and chemicals
- High operational cost where tariff review was expected to mitigate this as the company is still operating under 2010 approves regular tariff by WASREB
- Slow pace of completion of development projects like Loromo borehole, ndeiya pipeline which were supposed to generate more revenue

However, some of the above challenges are being addressed through our limited company capacity and by partnering with other stakeholders such as County Government of Kiambu and Athi Water Works Development Agency.

3. APPRECIATION

As the Chairman of the Board, I am committed to providing leadership that espouses principles of good governance. On behalf of the Board and Management, I wish to express our appreciation to shareholders, development partners and our customers for their support during the period. Our development partners are The World Bank who drilled and equipped our Loromo boreholes, the Ministry of Water Environment and Natural Resources who helped in laying our Ndeiya pipeline through Athi Water Development Agencies and African Development Bank who are undertaking our sewerage project through the Kenya Towns Sustainable Water Supply and Sanitation Program project. I also thank the Management and all employees who have continued to work diligently and exhibited resilience in challenging times. Lastly, I thank my fellow Board members and urge them to work zealously in the best interest of the Company.

Chairman
Prof. Stephen Njuguna

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

MANAGING DIRECTOR'S REPORT

1.INTRODUCTION

I am pleased to present to you the financial report for the year ending 30th June 2019. Our role as a water services provider is to provide water and sewerage services within Limuru and part of Lari sub-counties of Kiambu County. Provision of water and sewerage services is critical considering that water is now a constitutional right and in this regard the Company made remarkable progress in the quest to enhance our network coverage and improve reliability of water supply to our customers.

2.PERFORMANCE

The company made some strides during the financial year towards achievement of our strategic objectives. The following are some of the achievements made during the financial year.

- **Drought Mitigation Project**

The World Bank through Athi Water Works Development Agency drilled and equipped three boreholes under the drought mitigation 2; namely Redhill, Kiriri and new Manguo boreholes. The boreholes are to serve the following area; Kiriri Borehole, it has a production capacity of 9m³ It is meant to supply water to Kiriri village in Ndeiya. Redhill borehole, It is meant to supply water to customers in Mathanja Village, and Redhill and Karuri water. This project was operationalized during the financial year and it is supplying water to Karuri region while Manguo New borehole the borehole is meant to supply water to residents of Kamandura and Koyani in Limuru town

- **Tigoni Water Supply**

Tigoni Water Supply the water supply was completed in the financial year, it has a daily production capacity of 2000m³. It was meant to supply customers in Tigoni, Karanjee, Kabuku and Karuri Water. However, the project was not operationalized during the financial year

- **Loromo boreholes**

Loromo borehole, Power for Loromo boreholes was installed in the financial year and the pipes for Ndeiya were layed in the same period.

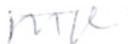
- **Sewerage Project**

Pipe laying for our sewer network began in the financial year through Kenya Towns Sustainable Supply and Sanitation Program towns program.

It is worth noting that the above project will have a major impact in our cash flows sustainability of the company after they are all operationalized

3.APPRECIATION

I am most thankful to County Government of Kiambu, Athi Water Works Development Agency, Limuru and Lari Sub-Counties, all our customers, our Suppliers and bankers for their support and loyalty and we assure them of our determination to continually improve the quality of our services. Finally, I would like to express my deep appreciation for the dedication and commitment of Board of Directors, Management and Staff of Limuru Water. Without their commitment, hard work and teamwork we would not have come this far.


Margaret Maina
Managing Director

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

CORPORATE GOVERNANCE STATEMENT

Limuru Water and Sewerage Company is a semi-autonomous entity in accordance with the provisions of the Water Act 2002. The company is governed by a Board of Directors (BOD). There are four board committee which oversee the running of the company. The committee comprises of: Technical Committee: Finance and Administration Committee, Audit, Risk and Governance Committee and Full Board. The committee and full board meet four times a year as per the board committee calendar.

Below the BOD, is the Managing Director (MD), followed head of department which forms the management team and then the section heads. This is followed by other members of staff. The BOD including the MD have signed a Code of Conduct and the tenets therein, are adhered to as appropriate.

The BOD is directly accountable to the shareholders and every year the company holds an annual general meeting (AGM), the directors provide a report to shareholders on the performance of the company and its future plans. The objects of the company are defined in the Memorandum of Association and regulations are laid out in the Articles of Association. The board of directors' key purpose is to ensure the company is meeting its obligations by collectively directing the company's affairs, whilst meeting the appropriate interests of its shareholders and stakeholders. In addition to business and financial issues, the BOD deals with challenges the company is facing, and issues relating to corporate governance, corporate social responsibility and corporate ethics.

**LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019**

MANAGEMENT DISCUSION AND ANALYSIS

The company's operational and financial performance

During the financial year the company made a deficit of ksh 15,312,246 compared to a deficit of 13,091,070 during the previous financial year. The increase in loss was occasioned by increased operational cost and staff cost as a result of annual salary increment.

Company's compliance with statutory requirements

The company complied with statutory requirement like payment of NHIF, NSSF, PAYE, WIBA and contribution to pension schemes. Nevertheless, we have arrears in other statutory obligations like pension, lease fee, regulatory levy and abstraction levy to WARMA and audit fee

Major risks facing the company

The major risk facing the company is the going concern of the company as a result of the ongoing process of consolidation of water companies in Kiambu County

Material arrears in statutory/financial obligations

We have the following as the material balances in the year under review are as follow;

1. Lease Fee to AWSB Kshs 29,215,454
2. Regulatory Levy Kshs 3,137,742
3. Abstraction Levy Kshs 1,242,291
4. Pension 3,963,788

The company's financial probity and serious governance issues

The company does not have any financial probity or any governance issues, since the company has risk management in place and adequate internal controls. At the moment the company is under going through the process of restructuring/consolidation

Development Projects

We have tabulated our development projects in terms of status, effects and proposed intervention.

No	Proposed Work	Capital	STATUS	IMPACT	PROPOSED INTERVENTION	SOURCE OF FUNDS
1	Tigoni treatment work		Ongoing	Increase in coverage area of water services	Construction of a treatment works	Athi Water Works Development Agency
2	Kambaa Borehole		Ongoing	Increase in coverage area of water services	Drilling and equipping of a borehole and laying of a pipeline	Athi Water Works Development Agency
3	Roromo Borehole		Ongoing	Increase in coverage area of water services	Drilling and equipping of a borehole water tank and laying of a pipeline	World Bank
4	Sewerage Work		Outstanding	Increase in coverage area sanitation	Laying of sewer line	Africa Development Bank

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Limuru water and sewerage company's Corporate Social Responsibility focus on Education, Health, Environment and Emergency Response like fire outbreak. 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.

Limuru Water and Sewerage Company 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. The company has engaged in tree planting activity during the financial year in order to conserve the environment. Our Corporate Social Responsibility Practice will continue to focus on understanding the community's need and improving strategic interactions.

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH 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 Limuru Water and Sewerage Company affairs.

Principal activities

The principal activities of the entity are to ensure the economical provision of water and sewerage services in Limuru and part of Lari Sub County.

Results

The results of the entity for the year ended June 30, 2019 are set out on page 13 to 39.

Dividends

The Directors do not recommend the payment of dividend for the year.

Directors

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

Auditors

The Office of the Auditor General is responsible for the statutory audit of Limuru Water and sewerage Company Limited in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015, which empowers the Office of the Auditor General to nominate other auditors to carry out the audit on his behalf.

Ms, Josphine Muritu



Company Secretary

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and Companies Act, require the Directors to prepare financial statements in respect of Limuru Water and Sewerage Company Limited, which give a true and fair view of the state of affairs of the Company at the end of the financial year/period and the operating results of the Company for that year/period. The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of Limuru Water and Sewerage Company Limited.

The Directors are responsible for the preparation and presentation of Limuru Water and Sewerage Company Limited financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for Limuru Water and Sewerage Company 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, 2012 and the State Corporations Act. The Directors are of the opinion that Limuru Water and Sewerage Company Limited financial statements give a true and fair view of the state of the Company transactions during the financial year ended June 30, 2019, and of the Company financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company which have been relied upon in the preparation of the Company'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 Limuru Water and Sewerage Company will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

Limuru Water and Sewerage Company financial statements were approved by the Board on 30th September 2019 and signed on its behalf by:

Mr. John Mwivithi Mutie



Chief Officer WEENR

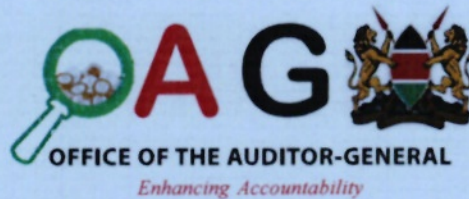
Mrs Margaret W Maina



Managing Director

REPUBLIC OF KENYA

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Monrovia Street
P.O. Box 30084-00100
NAIROBI

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Limuru Water and Sewerage Company Limited set out on pages 13 to 38, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, 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 Limuru Water and Sewerage 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 and comply with the Companies Act, 2015, and the Water Act, 2016.

Basis for Qualified Opinion

1.0 Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance totalling Kshs.18,162,042 as at 30 June, 2019. The balance includes the value of a plot of land of undisclosed size valued at Kshs.760,000 whose ownership documents were not presented for audit review.

Further, examination of asset records indicated that one motor vehicle and four motor cycles operated by the Company but registered in the name of Athi Water Services Board (AWSB) were not included in these financial statements. As a result, ownership of the assets by the Company could not be confirmed.

In view of these anomalies, the valuation and completeness of the property, plant and equipment balance totalling Kshs.18,162,042 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

2.0 Customer Deposits

The statement of financial position reflects customer deposits totalling Kshs.9,853,000 as at 30 June, 2019. However, the bank statement for customer deposits account as at 30 June, 2019 reflected a balance of Kshs.696,966 resulting in an unexplained variance of Kshs.9,156,034 between the two sets of records.

Further, Kshs.6,000,000 borrowed from deposits account by Management and used in operational activities in 2012/2013 had not been returned to the account as at 30 June, 2019. No satisfactory explanation was provided on how the amount was spent and why it was not paid back to the account.

3.0 Trade and Other Receivables

The statement of financial position reflects trade and other receivables net balance totalling Kshs.16,602,205 as at 30 June, 2019. However, the ageing analysis provided for audit reflected receivables totalling Kshs.14,729,608, resulting in an unreconciled variance of Kshs.1,872,587.

As a result, the accuracy and completeness of the trade and other receivables net balance totalling Kshs.16,602,205 reflected in the financial statements could not be confirmed.

4.0 Operating Loss in Revenue Reserves

The statement of profit and loss and other comprehensive income reflects an operating loss totalling Kshs.13,439,649 for the year under review whereas the revenue reserves account reflected in the statement of changes in equity reflects a loss of Kshs.15,312,246 for the year. The variance totalling Kshs.1,872,597 was not explained and as a result, the accuracy of the reported loss could not be confirmed.

5.0 Material Uncertainty in Relation to Going Concern

The financial statements have been prepared on a going concern basis. However, the statement of profit and loss and other comprehensive income indicates that the Company reported an operating loss of Kshs.13,439,649 for the year ended 30 June, 2019. The loss depleted further the revenue reserves of the Company from a debit of Kshs.54,415,909 as at 30 June, 2018 to Kshs.67,855,558 as at 30 June, 2019. Further, the Company's current liabilities totalled Kshs.66,368,887 and its current assets Kshs.19,299,370 resulting in a negative working capital of Kshs.47,069,516 as at 30 June, 2019.

The unfavorable performance and financial position indicates that the Company may not be able to meet its monetary obligations as they fall due. This may denote the existence of a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern. Management has not disclosed the actions it has taken, or intends to take, to improve the performance of the Company. In view of the unfavorable situation faced by the company, sustainability of its services may depend on continued financial support from the County Government of Kiambu, and creditors and bankers.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Limuru Water and Sewerage 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

1.0 Budget Control and Performance

1.1. Under-Collection of Revenue

The statement of comparison of budget and actual amounts indicates that the Company's income budget for the year under review totalled Kshs.134,400,000 receivable from water sales and miscellaneous collections. However, actual income totaled Kshs.94,531,105 resulting to an under-collection of Kshs.39,868,895.

1.2. Under-Absorption of Capital Expenditure Budget

The budget document indicated that the Company had budgeted to spend Kshs.7,662,800 on capital projects in the year under review. However, actual expenditure totaled Kshs.2,198,400, resulting in under-expenditure of Kshs.5,464,400 or 71% of the budget.

Failure to meet the revenue and expenditure targets may have constrained provision of water to the residents of Limuru in the year under review.

2.0 Prior Year Issues

The report for the 2017/2018 financial year raised several issues relating to the balances reflected in the financial statements and on lawfulness and effectiveness on use of public resources and internal control, risk management and governance. The matters had not been resolved as at 30 June, 2019.

Other Information

The Directors are responsible for the other information. The other information comprises the report of Directors as required by the Companies Act, 2015, and the statement of the Directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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

Basis for Conclusion

Non-Revenue Water

Water records indicated that the Company produced 1,564,362 cubic meters (m³) of water in the year under review, out of which only 1,057,140 cubic meters (m³) were billed to customers. The balance totalling 507,222 cubic meters (m³) or 32.42% of the total output were denoted as Non-Revenue Water (NRW). The NRW was 7.4 percentage points above the allowable water loss threshold of 25% set in guidelines issued by the Water services Regulatory Board. The NRW may have resulted in loss of sales estimated at Kshs.32,511,215 equivalent to 35% of total billings recorded in the year. The NRW implied that a significant amount of the Company's water is lost before it is billed to customers, or some of its customers obtain the water free of charge.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the 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

Suspension of Board of Directors

Examination of documents provided for audit revealed that the Board of Directors' was suspended in January, 2018 by the County Government of Kiambu to , reportedly , allow re-organization and merger of public water companies in the County. The action may have hindered policy making and good governance as the functions of the Board prescribed in Section 79(1) of the Water Act, 2016 were left unattended.

In addition, the Company did not hold an Annual General Meeting as required by the Companies Act, 2015.

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 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 and
- (iii) the Company's statement of financial position and statement profit and loss and other comprehensive income are in agreement with books of account.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and requirements of the Companies Act, 2015, and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company 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 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 Board of Directors is responsible for overseeing the 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 Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company 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 the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

10 January, 2022

Report of the Auditor-General on Limuru Water and Sewerage Company for the year ended 30 June, 2019

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2019 Kshs	2018 Kshs
INCOME			
Operating Income	6	94,378,355	94,352,898
Grant Income	7	152,750	-
		<u>94,531,105</u>	<u>94,352,898</u>
EXPENSES			
Staff Costs	8	42,668,333	41,708,239
Operations Costs	9	42,531,777	38,444,343
Administration Costs	10	7,494,511	9,807,784
General Expenses	11	15,276,133	16,031,862
Board Expenses	12	-	1,451,740
		<u>107,970,755</u>	<u>107,443,968</u>
Profit/loss		<u>(13,439,649)</u>	<u>(13,091,070)</u>

**LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019**


STATEMENT OF FINANCIAL POSITION

	Notes	2019 Kshs	2018 Kshs
<u>NON-CURRENT ASSETS</u>			
Property, Plant and Equipment's	13	18,162,042	17,708,861
		18,162,042	17,708,861
<u>CURRENT ASSETS</u>			
Trade and Other Receivables	14	16,602,205	12,803,962
Inventory	15	1,361,335	481,751
Cash and Cash Equivalent	16	1,335,830	4,243,478
TOTAL CURRENT ASSETS		19,299,370	17,529,191
<u>Total Assets</u>		37,461,411	35,238,051
<u>EQUITY AND LIABILITIES</u>			
Capital and Reserves			
Share Capital	17	40	40
Capital Reserve	18	38,948,043	38,948,043
Revenue Reserve	19	(67,855,558)	(54,415,909)
Total Capital and Reserves		(28,907,475)	(15,467,826)
<u>CURRENT LIABILITES</u>			
Trade and Other Payables	20	56,515,886	41,649,877
Customer Deposits	21	9,853,000	9,056,000
<u>TOTAL CURRENT LIABILITES</u>		66,368,886	50,705,877
Total Equity and Liabilities		37,461,411	35,238,051

Mr John Mwirithi Mutie


Chief Officer WEENR

Mrs. Margaret W Maina


Managing Director

**LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019**

STATEMENT OF CHANGES IN EQUITY

	Share Capital Kshs	Revenue Reserves Kshs	Capital Reserves Kshs	Total Amount Kshs
Balance as at 1st July 2016	40.00	(35,534,209.43)	38,948,043.00	3,413,873.57
Deficit for the year 2016-2017	-	(13,091,070.41)	-	(13,091,070.41)
Balance as at 30th June 2017	40.00	(48,625,279.84)	38,948,043.00	(9,677,196.84)
Balance as at 1st July 2017	40.00	(48,625,279.84)	38,948,043.00	(9,677,196.84)
Deficit for the year 2017-2018	-	(13,091,070.41)	-	(13,091,070.41)
Balance as at 30th June 2018	40.00	(61,716,350.25)	38,948,043.00	(22,768,267.25)
	-	-	-	-
	Share Capital Kshs	Revenue Reserves Kshs	Capital Reserves Kshs	Total Amount Kshs
Balance as at 1st July 2017	40.00	(41,324,838.47)	38,948,043.00	(2,376,755.47)
Deficit for the year 2017-2018	-	(13,091,070.41)	-	(13,091,070.41)
Balance as at 30th June 2018	40.00	(54,415,908.88)	38,948,043.00	(15,467,825.88)
Balance as at 1st July 2018	40.00	(54,415,908.88)	38,948,043.00	(15,467,825.88)
Deficit for the year 2018-2019	-	(15,312,246.10)	-	(15,312,246.10)
Balance as at 30th June 2019	40.00	(69,728,154.98)	38,948,043.00	(30,780,071.98)

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

STATEMENT OF CASH FLOW

	Notes	2019 Kshs	2018 Kshs
Cash Flow from Operating Activities			
Net Cash Generated from/(Used in) Operations	22	(709,248)	1,427,080
Cash Flow from Investing Activities			
Purchase of Fixed Assets	13	(2,198,400)	(1,850,000)
Net Cash Generated from/(Used in) investing activities			
Net Increase/Decrease in Cash & Cash Equivalent		(2,907,648)	(422,920)
Cash & Cash Equivalent in the beginning of the Period	16	4,243,478	4,666,398
Cash & Cash Equivalent at the end of the Period	16	1,335,830	4,243,478

**LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	BUDGET 2018/2019	ACTUAL 2018/2019		
INCOME	Kshs	Kshs	VARIANCE	%VARIANCE
Operating Income	134,400,000	94,378,355	40,021,645	29.78
Grant Income		152,750	(152,750)	
	134,400,000	94,531,105	39,868,895	29.66
EXPENSES				
Staff Costs	47,322,000	42,668,333	4,653,667	9.83
Operations Costs	51,450,000	42,531,778	8,918,222	17.33
Administration Costs	20,523,600	9,367,108	11,156,492	54.36
General Expenses	14,841,600	15,276,133	(434,533)	(2.93)
Board Expenses	2,700,000	-	2,700,000	100.00
	136,837,200	109,843,352	26,993,848	19.73
DEFICIT FOR THE YEAR	(2,437,200)	(15,312,246)	(15,312,246)	628.27

Variance Explanation

A. Operating income.

The company was not able to meet the budget for operating income i.e. it had a variance of 29.66%. This is because the company had hoped that there will be increased revenue as a result of operationalization of Tigoni and Loromo projects.

B. Staff Cost

The company had anticipated that the staff cost would go high after operationalization of the projects that were ongoing

C. Operations cost

The cost of operations was expected to go up as a result of increased cost of electricity and chemicals

D. Board Expenses

There were no board expenses in the financial year since the company did not have a board

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Limuru Water & Sewerage Company Ltd entity was established in 2006 and derives its authority and accountability from by Company's Act (Cap 486). The entity is wholly owned by the County Government of Kiambu and is domiciled in Kenya. The entity's principal activity is to ensure efficient and economical provision of water and sewerage services within Limuru Sub County and part of Lari Sub County.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on accrual 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 the entity's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of Limuru Water & Sewerage Company Ltd.

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.

3. 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**

IFRS 16: Leases

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee. This was not applicable for Limuru Water & Sewerage company Ltd.

IFRIC 23: Uncertainty Over income tax treatments

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:

- 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
- The effect of changes in facts and circumstances

Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1 January 2019, allow 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.

Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017.

The amendments, applicable to annual periods beginning on or after 1st January 2019, provide additional guidance on applying the acquisition method to particular types of business combination.

Amendments to IFRS 11 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests

Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, 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.

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of 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.

Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2018)

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

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

IFRS 17 Insurance Contracts (Issued 18 May 2017)

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 *Insurance Contracts* as of 1 January 2021.

Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018- Applicable for annual periods beginning 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 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*.

iii) Early adoption of standards

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

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Revenue recognition

Revenue is recognized to the extent that it is probable that future economic benefits will flow to Limuru Water & Sewerage Company Ltd 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 Limuru Water & Sewerage Company Ltd activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of Limuru Water & Sewerage Company Ltd activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which Limuru Water & Sewerage Company Ltd delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which Limuru Water & Sewerage Company Ltd actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) **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.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

b. In-kind contributions

In-kind contributions are donations that are made to Limuru Water & Sewerage Company Ltd 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, Limuru Water & Sewerage Company Ltd 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.

c. Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

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.

d. Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Buildings and civil works	40 years or the unexpired lease period
Plant, Motors and machinery	4 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	8 years
Water Meters	5 years

A full year's depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

e. Intangible assets

Intangible assets comprise purchased computer software licenses, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

f. Amortization and impairment of intangible assets

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years. All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

g. Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

h. Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognized in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

i. Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

j. Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

k. Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

l. Inventories

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

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

m. **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.

n. **Taxation**

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

n) **Taxation**

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

o. 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 reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

p. Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

q. Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortized 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 the entity or not, less any payments made to the suppliers.

r. Retirement benefit obligations

The entity operates three defined pensions' schemes namely Local Authorities Pension Trust (Currently County Pension Fund-CPF), National Water Pension Scheme and Ministry of Water Pension Scheme for all Permanent employees.

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The schemes are administered by Laptrust, Standard Chartered Bank and British American Insurance respectively. The employees contribute 12% of Basic Salary and house allowance and employer contributes 15% of the basic and house allowance for Laptrust Scheme while employees contributes 7.5% of the basic and house allowance and employer contributes 15% of the basic and house allowance for both Ministry of Water Pension Scheme and National Water Pension Scheme.

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act.

s. Provision for staff leave pay

Employees' entitlements to annual leave are recognized as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

t. Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 profit or loss.

u. Comparative figures

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

v. 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.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY.

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

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.

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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.

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. The company has made a general provision of 5%.

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6. OPERATING INCOME	2019	2018
	Kshs	Kshs
Billings for the Year	92,054,955.41	92,713,398.03
Miscellaneous Income	2,323,400.00	1,639,500.00
	94,378,355.41	94,352,898.03
7. GRANT INCOME		
Chemicals Received from Ruiru Juja (AWSB)	152,750.00	
	152,750.00	-
8. STAFF COSTS		
Basic Salaries	28,698,500.00	26,721,000.00
House Allowance	4,935,000.00	4,972,000.00
Company Statutory Contribution	4,822,575.00	4,364,350.00
Leave Allowance	332,000.00	228,000.00
Other Allowance	3,320,600.00	3,301,000.00
Medical Expenses	171,168.00	1,816,368.70
Casual Wages	356,490.00	138,790.00
Staff Welfare	32,000.00	166,730.00
	42,668,333.00	41,708,238.70
9. OPERATIONS COST		
Electricity - Operations	33,395,045.92	30,266,958.24
Maintenance of Water Supply	3,741,101.28	3,670,336.85
Maintenance of Sewerage Works	1,186,129.00	1,329,570.00
Maintenance of Buildings and Stations	62,635.00	183,760.00
Maintenance of Plant and Equipment	2,438,218.50	1,318,683.40
Chemicals	1,708,648.00	1,675,035.00
	42,531,777.70	38,444,343.49
10. ADMINISTRATION EXPENSES		
Rent - Office	120,000.00	120,000.00
Electricity - Office	114,592.00	109,340.15
Transport Expenses - Fuel	1,920,000.00	1,520,000.00
Maintenance of Motor Vehicle	610,870.00	720,860.00
Telephone	591,175.00	578,304.00
Stationery	211,090.00	175,020.00
Computer Stationery	93,270.00	168,700.00
Printing and Publishing	8,260.00	10,779.00
Official Entertainment	288,860.00	210,478.00
Agency Fees	430,570.00	400,979.00
Billing Fee	572,600.00	1,467,115.00
Abstraction (WRMA) Fees	1,222,713.50	1,077,692.75

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Advertising and Publicity	-	63,337.40
Miscellaneous	306,832.00	260,080.60
Postage and Postal Charges	12,590.00	16,550.00
Library	31,420.00	28,020.00
Audit Fee	232,000.00	232,000.00
Fees and other Charges	438,800.00	791,488.00
Bank Charges	76,838.50	62,721.50
Staff Uniform	-	181,888.00
General Provisions for Bad and Doubtful Debts 5%	(301,520.94)	158,554.74
Specific Provision for Bad and Doubtful Debts	513,550.53	1,453,876.14
	7,494,510.59	9,807,784.28
11. GENERAL EXPENSES		
Travelling and Accommodation	949,338.00	908,890.00
Maintenance of Office Equipment	7,840.00	18,300.00
Training and Education	259,100.00	287,020.00
Hire of Plant and Vehicles	349,900.00	541,540.00
Insurance of Vehicles	42,334.00	37,254.60
Security Services	2,626,200.00	2,470,800.00
Conference and workshop	2,394,822.00	2,098,557.00
Corporate Social Responsibility	45,000.00	10,000.00
WASCO Games	1,504,860.00	210,000.00
WASREB Levy	2,847,537.08	1,160,824.00
Licence Fee	2,503,983.41	6,656,742.00
Depreciation	1,745,218.75	1,631,934.38
	15,276,133.24	16,031,861.98
12. BOARD EXPENSES		
Directors Sitting Allowances	-	1,228,500.00
Directors Expenses	-	223,240.00
	-	1,451,740.00

**LIMURU WATER & SEWERAGE COMPANY LTD FINANCIAL STATEMENTS
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13. a. Property, Plant and Equipment Schedule for the Year Ended 30th June 2018

Cost	Motor Cycle & Vehicle	Land	Meters	Computer	Tanks and Building	Pump & Motors	Pipeline (Water)	Equipments & Furniture	TOTALS
AT 1ST July 2017	2,521,000	1,308,500	5,058,020	1,067,970	11,876,399	8,718,405	4,587,051	980,270	36,117,615
Additions			1,440,000			203,000		207,000	1,850,000
Transfers	-	-	-	-	-	-	-	-	-
At 30th June 2018	2,521,000	1,308,500	6,498,020	1,067,970	11,876,399	8,921,405	4,587,051	1,187,270	37,967,615
Depreciation									
AT 1ST July 2017	2,521,000	-	4,610,020	961,303	1,162,993	7,888,925	657,551	825,028	18,626,820
Charge for the Year	-	-	512,000	40,000	296,910	583,230	114,676	85,118	1,631,934
At 30th June 2018	2,521,000	-	5,122,020	1,001,303	1,459,903	8,472,155	772,227	910,146	20,258,754
Net Book Value									
At 30th June 2018	-	1,308,500	1,376,000	66,667	10,416,496	449,250	3,814,823	277,124	17,708,861
At 30th June 2017	-	1,308,500	448,000	106,667	10,713,406	829,480	3,929,500	155,243	17,490,796

16.b. Property, Plant and Equipment Schedule for the Year Ended 30th June 2019

Cost	Motor Cycle & Vehicle	Land	Meters	Computer	Tanks and Building	Pump & Motors	Pipeline (Water)	Equipments & Furniture	TOTALS
AT 1ST July 2018	2,521,000	1,308,500	6,498,020	1,067,970	11,876,399	8,921,405	4,587,051	1,187,270	37,967,615
Additions			1,520,000	578,400				100,000	2,198,400
Transfers	-	-	-	-	-	-	-	-	-
At 30th June 2019	2,521,000	1,308,500	8,018,020	1,646,370	11,876,399	8,921,405	4,587,051	1,287,270	40,166,015
Depreciation									
AT 1ST July 2018	2,521,000	-	5,122,020	1,001,303	1,459,903	8,472,155	772,227	910,146	20,258,754
Charge for the Year	-	-	816,000	103,070	296,910	347,750	114,676	66,813	1,745,219
At 30th June 2019	2,521,000	-	5,938,020	1,104,373	1,756,813	8,819,905	886,904	976,959	22,003,973
Net Book Value									
At 30th June 2019	-	1,308,500	2,080,000	541,997	10,119,586	101,500	3,700,147	310,312	18,162,042
At 30th June 2018	-	1,308,500	1,376,000	66,667	10,416,496	449,250	3,814,823	277,124	17,708,861

14. TRADE AND OTHER RECEIVABLES

Total Trade Receivables	45,662,893.89	41,640,926.23
Less Specific Provision for Bad and Doubtful Debts	(28,814,626.87)	(28,301,076.34)
Less 5% General Provision for Bad and Doubtful Debts	(842,413.35)	(1,143,934.29)
Non Trade Debtors	138,000.00	138,000.00
Deposit for Rent, Electricity and Rural Roads	357,880.00	357,880.00
Prepayments-wiba,medical & m/v insurance	100,471.00	112,166.00
Total Trade and Other Receivables	16,602,204.66	12,803,961.60

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15. INVENTORY

PVC Pipes	231,636.86	139,875.00
HDPE Pipes	365,661.00	-
HDPE Connectors	221,683.20	-
HDPE End Cap	76,416.16	-
Chlorine HTH 65%	235,620.00	123,750.00
Alum	158,688.00	200,900.00
Soda Ash	71,630.00	17,226.00
	1,361,335.22	481,751.00

16. CASH AND CASH EQUIVALENT

KCB - Expenditure Account	Cash at Bank	34,054.95	24,495.30
KCB - Main Revenue Account	Cash at Bank	416,331.60	107,942.85
KCB - Customer's Deposit Accounts	Cash at Bank	696,966.10	3,902,348.10
Cash held by Post Bank (Revenue Collecting Agent)		116,780.00	141,300.00
Cash held by Safaricom (Revenue Collecting Agent)		71,534.00	67,328.00
Cash held in Petty Cash Book		163.00	64.00
		1,335,829.65	4,243,478.25

17. SHARE CAPITAL

Authorized: 5,000 Ordinary Shares of Kshs 20 each	100,000.00	100,000.00
Issued: 2 Ordinary Shares of Kshs 20 each	40.00	40.0

18. CAPITAL RESERVE

Capital Reserve represents opening balance of trade debtors (when the Company started its operations in September 2006) which was inherited from Athi water services board and also other trade debtors, cash and liabilities taken over from projects.

19. REVENUE RESERVE

Revenue Reserve comprises of Kshs (67,855,558.01) which is a cumulative surplus(deficit) for the previous financial years as shown in page 20. This Fund is meant for infrastructure development.

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20.	<u>TRADE AND OTHER PAYABLES</u>		
	Athi Water Services Board	29,215,453.91	26,711,470.50
	Thika Water & Sewerage Co. Ltd	2,663,670.00	2,663,670.00
	Office of Auditor General	1,160,000.00	928,000.00
	Water Resource Management Authority	1,242,290.75	974,591.75
	Kenya Power & Lighting Co. Ltd	5,849,860.49	3,240,798.87
	Kijabe Station Management	251,441.50	185,717.15
	Water Services Regulatory Board	3,137,742.08	290,205.00
	Bio-Media Laboratories Ltd	277,200.00	202,500.00
	WASPA	170,000.00	85,000.00
	TransAfrica Water Systems	-	121,295.40
	CFP	-	244,901.00
	Kel Chemicals	-	114,840.00
	Wanjao & Wanjau Advocates	225,500.00	225,500.00
	Danco Capital Ltd	1,570,302.00	360,000.00
	Nairobi Ironmongers	-	646,800.00
	Kinetics Engineering Ltd	-	247,600.00
	Babs Security Ltd	886,720.00	437,700.00
	Hepta Engineering	-	87,000.00
	Ripples Technologies	-	12,500.00
	Micson	630,750.00	409,000.00
	Safaricom Limited	34,497.00	119,988.00
	Pan African Chemicals	176,320.00	-
	WASCO	60,000.00	-
	Altech Computer Consultants	203,000.00	-
	Pelican Laser Insurance	127,417.00	-
	Damwoteck Engineering	177,000.00	-
	Rope Engineering	31,320.00	-
	Rockpet Company	340,000.00	-
	Federation of Kenya Employer	93,000.00	
	Alphajay Enterprises	338,400.00	
	Dalcom Kenya Limited	25,000.00	
	Salaries and Allowances	7,629,002.10	3,340,800.10
		<u>56,515,886.83</u>	<u>41,649,877.77</u>
21.	<u>CUSTOMERS DEPOSIT</u>		
	Opening Customers Deposit Balances	9,056,000.00	8,480,000.00
	Deposits Received from Customers	797,000.00	576,000.00
		<u>9,853,000.00</u>	<u>9,056,000.00</u>

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22. Notes to the Statement of Cash Flow

(a) Reconciliation of operating profit/loss to cash generated from/(used in) operation

Operating Activities

Operating Profit/(Loss)	(13,439,649)	(13,091,070)
Depreciation	1,745,219	1,631,934
Operating Profit/Loss before Working Capital Changes	(11,694,430)	(11,459,136)
(Increase) Decrease in Trade and Other Receivables	(3,798,243)	1,109,194
(Increase) Decrease in Inventories	(879,584)	36,215
Increase (Decrease) in Trade and Other Payables	14,866,009	11,164,807
Increase (Decrease) in Customer Deposits	797,000	576,000
	<u>10,985,182</u>	<u>12,886,216</u>
Cash Generated from/(Used in) Operations	<u>(709,248)</u>	<u>1,427,080</u>

23. 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

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.

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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:

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.

24. 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.

Limuru Water and Sewerage Company Limited is related to:

- (i) The County Government of Kiambu (CGK)
- (ii) Water Services Regulatory Board (WASREB)
- (iii) Water Resources Management Authority (WRMA)
- (iv) Athi Water Services Board (AWSB)
- (v) Key Management
- (vi) Board of Directors
- (vii) Ruiru Water & Sewerage Company Ltd
- (viii) Gatundu Water & Sanitation Company Ltd
- (ix) Karuri Water & Sewerage Company Ltd
- (x) Kikuyu Water & Sewerage Company Ltd
- (xi) Githunguri Water & Sewerage Company Ltd.
- (xii) Kiambu Water & Sewerage Company Ltd
- (xiii) Thika Water & Sewerage Company Ltd.

a. County Government of Kiambu

The County Government of Kiambu is the principal shareholder of the Company, holding 100% of the Company's equity interest. During the financial year County Government of Kiambu had Kshs 19,382 as the pending water bills as at 30th June 2019, Water Billed to them during the financial year was Kshs 577,815

b. Athi Water Services Board

During the financial year the company owed Kshs 29,215,453 as licence fee as shown in note 20.

c. Water Services Regulatory Board

During the financial year the company owed Kshs 3,137,742 as levy as shown in note 20.

d. Water Resource Management Authority

During the financial year the company owed Kshs 1,242,291 as abstraction fee as shown in note 20

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e. Thika Water and Sewerage Company Ltd

During the financial year the company owed Kshs 2,663,670 as billing fee as shown in note 20.

f. Key Management Staff

The gross salary for key management staff was Kshs 11,543,050 during the financial year.

g. Transaction with Staff

Water billed and sold to staff during the financial year was Kshs 44,364 while the amount of water bill owed to the company by the staff was Kshs 14,454.

25. CONTINGENT LIABILITY

As at 30th June 2019 Limuru Water & Sewerage Company Ltd had a pending lawsuit by a former employee. The Judgment in respect of these cases had not been determined as at 30th June 2019. The amounts have not been provided for in these financial statements as it was not possible to accurately quantify the potential liability arising from all of them.

The Directors are of the opinion that any outstanding litigation in this respect will not have a material effect on the financial position or results of the organization.

26. INCORPORATION

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

27. EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

28. CURRENCY

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

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APPENDIX 1

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

1. Property Plant and Equipment

The Procurement process of Karambaini Land Title No. I R 365508(LR.No. 145/6/27) is in the completion stage in the land registry office for title processing. Awailed was the sale agreement between the seller and the company also attached in this response.

2. Trade and other receivables

The aged analysis for the current period is attached

3. Customer Deposit

The Variance of the amount in Customer Deposits includes money borrowed for office construction and electricity payments. We have reconciled by adding interest earned over time of Kshs 566,748 less interest charges over time of Kshs 22,781.90. This results to a difference of Kshs 5,700,000 which consists of Kshs 6,000,000 which was used to construct the office which we are occupying and which we were given approval by the board of directors.

Attached is the board resolution giving the management authority to borrow Kshs 6,000,000 and use it for construction of the office which we are now occupying. The expenditure was capital in nature and that is why we got an approval from the board. The company has also embarked on a workplan to repay the customer deposits.

4 . Lease Fee payable to Athi Water Services Board (AWSB)

We have enclosed the SPA agreement between Athi Water Services Board and Limuru Water & Sewerage Ltd detailing the terms of the lease.

5 Failure to disclose material uncertainty in relation to going concern

The Company sustainability is affected by lack of completed projects over the years and the Company has come up with the following strategy to address the issue affecting the sustainability.

- a. Completion of three major projects which are almost complete and which will increase water production and increase revenue. The projects are Tigoni Water Supply, Manguo Borehole and Loromo Twin Boreholes which are of high yield. The water in Tigoni will increase revenue in Limuru especially Karanjee and Misiri. Loromo Boreholes will be of benefit in Thigio and Ndeiya which will receive more water since we are currently rationing water in those areas while Manguo will increase water sales in Limuru town.
- b. The Company submitted its tariff review to the regulator since we have been operating on a tariff which was last reviewed in the year 2010. This has affected our billing despite the fact that there has been a lot of inflation and high cost of electricity bills which results to high cost of production. By reviewing the tariff the Company will be in a position to improve billing which will also improve the performance of the Company.

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- c. The Company has come up with a non-revenue strategy, as per note 3 below, which is aimed at reducing the unaccounted for water. The outcome will result to an increase in revenue and a reduction in operational costs. By doing so the Company will improve its performance and improve its revenue reserves having achieved 28% from the previous 32% in Non-Revenue Water.

5. Budget performance

5.1 Under collection of Revenue

The Company was not able to realise its budget of Kshs 110,400,000 as anticipated due to the fact that there was no tariff review and non completion of ongoing capital projects that were anticipated to be complete in the financial year. The projects are:

- Tigoni Water Supply
- Loromo Boreholes
- Ndeiya Pipeline

Tariff Review

The Company tariff review which was due in 2017 but was not done due to the ongoing merger of Water Companies in the County. Lack of Tariff review has really affected the company since it was last reviewed in the year 2010. However there was tariff review in 2013 that increased licence fee and regulatory levy. Lack of tariff review impacted on the company since it was not in a position to meet its budget and also meet the expenses like electricity, operations costs and salaries. This is despite the fact that there has been inflation, high cost of electricity, fuel and rising cost of water fittings and other materials

6 Non –Revenue Water

The company had a non-revenue water of 29% during the financial year and we have come up with the following initiatives to further reduce it; Creation of a dedicated NRW unit, reduction of leaks and bursts by use of high quality HDPE pipes, and annual work plan that is to be reviewed on quarterly basis as below;

APPENDIX 11

PROJECTS IMPLEMENTED BY THE ENTITY

- **Drought Mitigation Project**

The World Bank through Athi Water Works Development Agency drilled and equipped three boreholes under the drought mitigation 2; namely Redhill, Kiriri and new Manguo boreholes. The boreholes are to serve the following area; Kiriri Borehole, it has a production capacity of 9m³ It is meant to supply water to Kiriri village in Ndeiya. Redhill borehole, It is meant to supply water to customers in Mathanja Village, and Redhill and Karuri water. This project was operationalized during the financial year and it is supplying water to Karuri region while Manguo New borehole the borehole is meant to supply water to residents of Kamandura and Koyani in Limuru town

- **Tigoni Water Supply**

Tigoni Water Supply the water supply was completed in the financial year, it has a daily production capacity of 2000m³. It was meant to supply customers in Tigoni, Karanjee, Kabuku and Karuri Water. However, the project was not operationalized during the financial year

- **Loromo boreholes**

Loromo borehole, Power for Loromo boreholes was installed in the financial year and the pipes for Ndeiya were layed in the same period.

- **Sewerage Project**

Pipe laying for our sewer network began in the financial year through Kenya Towns Sustainable Supply and Sanitation Program towns program.

