

REPUBLIC OF KENYA

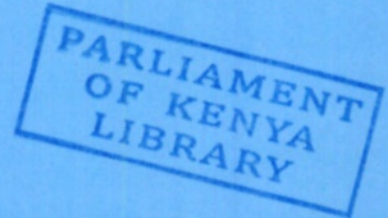
**OAG**



**OFFICE OF THE AUDITOR-GENERAL**

*Enhancing Accountability*

**REPORT**



**OF**

**THE AUDITOR-GENERAL**

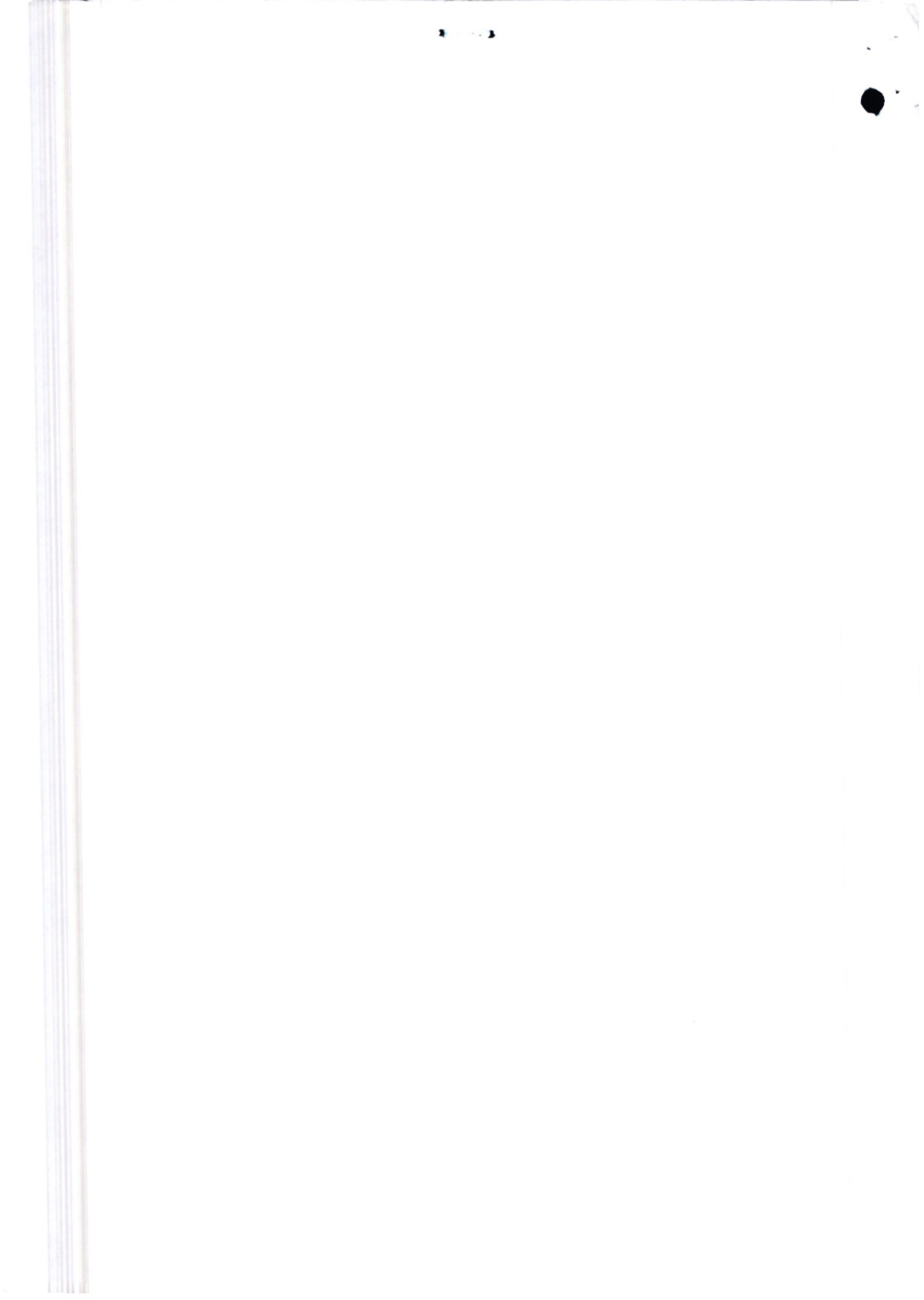
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COMMITTEE	
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**ON**

**KYENI WATER AND SEWERAGE  
COMPANY LIMITED**

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







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***KYENI WATER AND SEWERAGE COMPANY LIMITED***

**ANNUAL REPORTS AND FINANCIAL STATEMENTS**

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

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

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## **KEY ENTITY INFORMATION**

### **Background information**

Kyeni Water and Sewerage Company Ltd (KYEWASCO) is a water service provider (WSP) which was incorporated in June 2008 and mandated by Tana Water Services Board through Service Provision Agreement (SPA). KYEWASCO covers an area of over 192.8 km<sup>2</sup> which has a population of about 80,466. The head office is at Kathanjuri, Kyeni Division Embu county.

### **Principal Activities**

The principal activity of the *KYEWASCO* is provision of water and sewerage services within the designated service provision agreement (SPA) region of Runyenjes Sub-county of Embu County.

### **Key Management**

KYEWASCO day-to-day management is under the following key organs:

- Board of Directors.
- General Manager
- Management

### **Fiduciary Management**

The caretaker management personnel who held office during the financial year ended 30<sup>th</sup> June 2019 and who had direct fiduciary responsibility were:

<b>No.</b>	<b>Designation</b>	<b>Name</b>
1.	General Manager	<b>-Edwin Njue</b>
2.	Technical Officer	<b>-Julieta Karimi</b>
3.	Accountant	<b>-Jacinta Ndegwa</b>
4.	Human Resource Officer	<b>-Daniel Murimi</b>
5.	Revenue Officer	<b>-Bancy Nyakio</b>

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**Directors**

The interim committee members who served the entity in place of the board are as follows:

1. Mr Renson Mbogo Mburukiri - Chairman
2. Mr Gerald Muturi - Member
3. Mr Dionisio Njeru - Member
4. Mrs Beatrice Mwari - Member
5. Mr Japheth Mbogo - Member
6. Mr Godfrey Ngondi - vice chairman
7. Mr lewis Muriithi - Member
8. Mr Gabriel Njue - Member
9. Eng. Richard Mbogo - Chief Executive

**Registered Office headquarter**

Kathanjuri Divisional Headquarter  
Runyenjes – Karurumo road  
P.O. Box 315-60103  
Runyenjes, KENYA

**Corporate Contacts**

Telephone: (254) 715 870 863  
E-mail: kyewasco@yahoo.com  
Website.....

**Corporate Bankers**

1. Co-operative bank of kenya  
Embu branch  
P.O. Box 1337-60100  
Embu, Kenya

**Independent Auditors**

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

Kyeni Water and Sewerage Company LTD.








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**Principal Legal Advisers**

1. The attorney general state law office  
Harambee avenue  
P.o. box 40112  
City square 00200  
Nairobi, Kenya

THE BOARD OF DIRECTORS






WARD	NAME	
1.KYENI SOUTH	ERASMUS KITHINJI MUTHENYA 	Date appointed 27 <sup>th</sup> August 2019 DOB. 1977 Key Qualification: Bsc (BED - ECDE) Work experience: Teacher (Deputy II. Teacher)
2.KYENI NORTH	ANTHONY RUTERE NYAGA 	Date appointed 27 <sup>th</sup> August 2019 DOB. 1981 Key Qualification: Diploma Work experience: Businessman
3.KYENI SOUTH	FELTA MARIGU MUMERU 	Date appointed 27 <sup>th</sup> August 2019 DOB. 1969 Key Qualification: "O" Level Work experience: Farmer
4.KYENI NORTH	ROBERT MWANIKI NJERU 	Date appointed 27 <sup>th</sup> August 2019 DOB. 1959 Key Qualification: "O" Level Work experience: Farmer
5. KYENI SOUTH	STELLA KAGENDO KARIUKI 	Date appointed 27 <sup>th</sup> August 2019 DOB. 1974 Key Qualification: BSc (social work) Work experience: Social worker
6. KAGAARI SOUTH	WILLY NAMU 	Date appointed 27 <sup>th</sup> August 2019 DOB. 1975 Key Qualification: "O" Level Work experience: Farmer
7.KYENI NORTH	BEATRICE MWARI NJIRU 	Date appointed 27 <sup>th</sup> August 2019 DOB. 1958 Key Qualification: "O" Level Work experience: Farmer



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8. GENERAL MANAGER	CHARLES WAMAI	Date appointed 7 <sup>th</sup> July 2019
9. EMBU COUNTY GOVERNMENT REP	ID NO.	DOB. Key Qualification: Work experience:
10. COMPANY SECRETARY	Wangoko and company	

**CARETAKER MANAGEMENT TEAM**

1.	Edwin Njue 	<u>General Manager</u> key Profession/Academic Qualifications: Bsc (Water Engineering) Served the company up to 15 <sup>th</sup> of march 2019
2.	Julieta Karimi 	<u>Technical Officer</u> key Profession/Academic Qualifications: Dip (Water Technology)
3.	Jacinta Ndegwa 	<u>Accountant</u> key Profession/Academic Qualifications: Dip in Accounts
4.	Daniel Murimi 	<u>Human resource Officer</u> key Profession/Academic Qualifications: (Dip Human Resource Management). Served the company as acting general manager from 15 <sup>th</sup> march 2019 up to 9 <sup>th</sup> July 2019
5.	Bancy Nyakio 	<u>Revenue Officer</u> key Profession/Academic Qualifications: CPA K
6.	COMPANY SECRETARY	Wangoko and company

Kyeni Water and Sewerage Company LTD.

**Annual Reports and Financial Statements  
For the year ended June 30, 2019**

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CHAIRMAN'S STATEMENT

It gives me great pleasure to present the 2019 annual report and financial statements for KYENI WATER AND SEWERAGE COMPANY LIMITED. During the year under review, we continued to make great strides in our service provision agreement area in our focal role of enhancing water provision services.

**Financial Performance**

The financial year 2018 - 2019 under review was a challenging one for the company. The gross water income attained was Kshs. 11 million compared to Kshs13 million in 2018, with about 2 million decrease.

This can be attributed to the local politics which prevailed during the period dwelling on issues of billing and accrued debts.

**Appreciation**

We continue to enjoy the support and goodwill inter alia of our client, the County Government, suppliers, other service providers, regulatory authority and board. I wish to record our appreciation to them all and note that we highly value these relationships.

I also wish to thank and congratulate the management of the company for the loyalty, dedication and tireless efforts that have made the year possible.

Finally, to my fellow committee members, thank you for your commitment, support and considered advice that is so essential in this extremely noble service.

ERASMUS KITHINSI M.  
Erasmus

Chairman  
(B.O.D.)

Date ..... 28/07/2020 .....

**Annual Reports and Financial Statements**  
**For the year ended June 30, 2019**

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**REPORT OF THE CHIEF EXECUTIVE OFFICER**

It is my pleasure to report on another successful year. In 2019 Kyeni Water and Sewerage company ltd has again registered a water sales income of Kshs. 11 million down from Kshs. 13 million in 2018. The decrease in income was due to various challenges the company went through during the period such as the recent drought and local politics.

**Customer Service**

Our business motto is “to exceed our customers’ expectations”. This has seen our delivery of service to be no longer giving our clients promises, but deliver the promises. We keep our promise at the hour of reckoning, when a customer makes a complain. We endeavour to keep abreast with the ever-changing times. We work closely with our clients. To support them and our staff, we hold regular trainings to share our thoughts and make them understand our services.

**Branch Network**

Our branch network continues to grow in line with our business model and we aim to align ourselves with the county government and ensure full representation. Branches are opened after a thorough feasibility study is conducted. Our growing network currently consists of two branches.

These branches are managed by dynamic persons who are always available to provide solutions to the needs of our clients.

**Customer Base**

Customer base of 9,937 connections spread over an area of 192.8 km<sup>2</sup> with a population base of 80,466. A population of 48,446 is for now adequately served by the reticulation system in place stretching a distance of 350 km in form of assorted sizes ranging from 25mm diameter to 250 mm diameter.

**Information Technology**

We can only accord superior services when our processes are efficient and effect. The need for a robust and pragmatic information technology platform was identified after a thorough review of the processes. The company has commenced implementation of a new integrated billing software that is web based, hence transforming the way we do business. Once implemented, the system will offer us with a competitive advantage and above all ensure that we are able to offer a superior customer service.

**Staffing**

Our staffs are the greatest resource and we have an exciting mix of skills in various disciplines blended with wealth of experiences. The average age of our employees is approximately thirty-five years. They are enthusiastic to make certain that we are always in the front. These employees are always ready to roll up their sleeves whenever required to perform specific tasks to ensure that customers’ needs are met and our goals achieved.

**Annual Reports and Financial Statements  
For the year ended June 30, 2019**

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in the front. These employees are always ready to roll up their sleeves whenever required to perform specific tasks to ensure that customers' needs are met and our goals achieved.

**Conclusion**

Kyeni water has continued to be the front runner and this can only be due to the commitment and diligence by the board and management staff who have worked tirelessly to satisfy our clients, and all stakeholders. I register my appreciation to the support which has made 2018 - 2019 FY a momentous year for all of us. We hope that in 2019 - 2020 FY we will offer even better services.

CHARLES W. WAMATI



Ag. General Manager.  
.....

Date

28/07/2020

## **CORPORATE GOVERNANCE STATEMENT**

Good corporate governance is key to the integrity of water sector institutions and markets and is central to the health of our economics and their stability. Corporate governance plays a leading role in making it certain how corporations and their boards and management are directed, controlled and held to account. Corporate governance therefore encompasses the systems, practices and procedures by which the individual corporation regulates itself in order to remain competitive, ethical, sustainable and fair. **THE BOARD OF KYEWASCO** limited follows, principles of openness, integrity and accountability in its stewardship of the company's affairs. It recognizes the developing nature of corporate governance and assesses the company's compliance with generally accepted corporate governance practice on a regular basis, directly and through its board committees and management. The role of the board is to ensure compliance by focusing on and providing the company's overall strategic direction and policy –making as well as performance review through accountability and ensuring appropriate monitoring and supervision. The board is also responsible for the overall system of internal control and for the reviewing its effectiveness. The controls are designed to both safeguard the company's assets and ensure the reliability of financial information.

A management team, comprising the general manager and senior staff meets regularly to consider issues of operational and strategic importance to the company. Here below are the key features of the existing corporate governance practices within KYENI WATER AND SEWERAGE COMPANY LIMITED which are reviewed and improved on a regular basis: -

### **1. Board of Directors**

The board of directors consists of seven non-executive directors representing various stakeholders' groups and two others seconded by the county government. The chairman of the board is a non-executive director and the board meets formally at least four times a year.

The board is responsible for setting the direction of the company through the establishment of strategic objectives, key policies and approval of budgets. It monitors the implementation of strategies and policies through a structured approach to reporting by management and consequent accountability.

The directors are actively involved in and bring strong independent judgment on board deliberations and discussions. These directors have a wide range of knowledge and experience of local markets that is applied to the formulation of strategic objectives and decision making.

The board meets regularly and retains full and effective control over the company in all strategic, financial, operational and compliance areas. To assist the board in the discharge of its responsibilities, board committees have been established. All the board committees meet at least four times a year. The committees are as follows: -

#### **a) Audit Committee**

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The audit committee comprises of three non-executive directors and a senior manager. The committee is responsible for inter alia, developing and advising an audit and financial controls and compliance issues of the company. It also defines the scope of the internal audit function and acts as a liaison between the external auditors and management.

**b) Finance, HR, And Technical Committee**

The finance, HR and technical committee comprises of three non-executive directors and the general manager. The committee provides guidance to the board on finance and technical requirements for the company.

**2. Internal Controls**

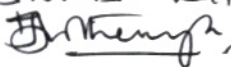
The company has implemented and maintained internal controls designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard and maintain accountability of the company's assets. Such controls are based on established policies and procedures and are implemented by trained personnel with appropriate segregation of duties. The effectiveness of the system of internal controls is monitored regularly through operational meetings and the annual external audit.

**3. Related Party Transactions and Directors Remuneration.**


The remuneration for directors consists of sitting allowances for their services in connection with the Board and committee meetings. The aggregate amount of director's remuneration for services rendered during the year ending 30<sup>th</sup> June 2019 are contained under note 4 of these annual report and financial statements.

**4. Going Concern**

The directors confirm that the company has adequate resources to continue in business for the feasible future and therefore the continued use of going concern as a basis of preparing the financial statements.

ERASMUS KIPINJI M.  


**Chairman**

CHARLES W. WAMATI  


**AG. General Manager**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The company management is composed of a lean team of four members as shown in page 5. The Ag. General Manager takes the responsibility of overseeing smooth operation of activities through effective and timely communication, coordination, control and offering leadership. The other officers in the management team heads and are responsible for various sections/department in the company.

During the period under review, KYEWASCO has operated under difficult conditions mainly due to the following factors

- a) Disruption of mains due to ongoing/completed road constructions and rehabilitations
- b) Billing Issues

### **a) Disruption of Mains Due to Ongoing Road Constructions**

Since last year, road maintenance and construction activities were and have been on the rise being supported by both national and county governments. During implementation of these activities our lines (Main and sub-branches) were sometimes destroyed making the company to incur extra costs in replacing them. On the other hand, when repairs are not undertaken immediately, there was loss of revenue due to supply disruption.

### **b) Billing Issues**

Billing issues started in November 2016 when a section of consumers from Kyeni North location started complaining about high billing through metering among other issues. The complaints were based on other community-based water projects in our area of operation; their water is not metered and their monthly charge is on average Ksh 250/=. The matter culminated with a public baraza at Mufu market on 27<sup>th</sup> December 2017 and subsequent public meetings addressed Kyeni MCA. The governor His Excellency Martin Wambora issued a directive that the consumers should pay a flat rate of Ksh 200/= and their account arrears to be lifted. This created confusion significantly affecting the company's revenue.



## **CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING**

The company upholds its core values which enshrine ethical business practices, compliance with regulatory and other legal requirements and respect for humanity, communities and the environment. The company's corporate social responsibility (CSR) hinges on two key pillars, employees and welfare programmes.

During the year, our employees have become an important part of this noble objective. The employees are the backbone of our success.

Therefore, we have unrelentingly ensured that they have a favourable work environment. Training and development of staff has continued to be an important part of our business. All staff are encouraged to attend internal and external training sessions in order to upgrade themselves technically and professionally. The internship placement programmes has continued with several students working as interns in various departments. Those students are drawn from various colleges.

**Annual Reports and Financial Statements  
For the year ended June 30, 2019**

**REPORT OF THE DIRECTORS**

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

**Principal activities**

The principal activities of the entity are provision of water and sanitation services within the Service Provision Agreement (SPA) area.

**Results**

The results of the entity for the year ended June 30, 2019 are set out on page 1. Below is a summary of the profit and loss made during the year.

**Dividends**

Subject to the approval of the shareholders, the Directors do not recommend payment of any dividend.

**Directors**

The members of the Board of Directors (caretaker committee) who served during the year are shown on page (vii) and (viii).

**Auditors**

The Auditor General is responsible for the statutory audit of *KYEWASCO* in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the year ended June 30, 2019.

By Order of the Board

*Feata Marigu*

*FM*

Director

Date: 28/6/2020

**Annual Reports and Financial Statements  
For the year ended June 30, 2019**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Public Finance Management Act, 2012 and the State Corporations Act, require the Directors to prepare financial statements in respect of that company, which give a true and fair view of the state of affairs of the company at the end of the financial year and the operating results of the company for that year. 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 the company.

The Directors are responsible for the preparation and presentation of the company's 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 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 the company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the company's 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 the 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**

The company financial statements were approved by the Board on 13/9/2019 2019 and signed on its behalf by:

Feata Merigu  
Name

Beatrice Mwanjiri  
Name

Antony Puteu  
Name

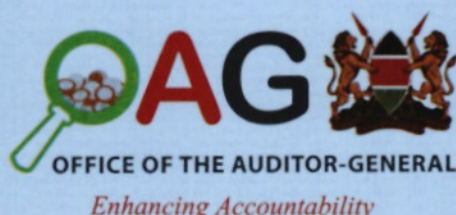
[Signature]  
Director

[Signature]  
Director

[Signature]  
Director

# REPUBLIC OF KENYA

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

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

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### REPORT ON THE FINANCIAL STATEMENTS

#### Adverse Opinion

I have audited the accompanying financial statements of Kyeni Water and Sewerage Company Limited set out on pages 1 to 52, which comprise of the statement of financial position as at 30 June, 2019, statement profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly the financial position of the Kyeni Water and Sewerage Company Limited as at 30 June, 2019, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards, and do not comply with the Water Act, 2016, the Companies Act, 2015 and the Public Finance Management Act, 2012.

#### Basis for Adverse Opinion

##### 1. Inaccuracies of the Financial Statements

The statement of financial position reflects, two different amounts in respect to non-current assets - Kshs.6,171,876 and Kshs.34,460,891. The statement also reflects total assets balance of Kshs.34,460,891 and total equity and liabilities of Kshs.34,367,556 resulting in a variance of Kshs.93,335 which has not been explained or reconciled.

Further, the statement of cash flows reflects cash and cash equivalents at the end of the year of Kshs.5,727,059. However, a recast of the balance gave Kshs.5,635,724 resulting to unreconciled and unexplained variance of Kshs.91,335. The statement also reflects a balance of Kshs.9,500 in respect to internal proceeds whose source could not be established.

In addition, the statement of changes in equity reflects retained earnings balance of Kshs.1,808,401 whereas in Note 45(iv) to the financial statements, the balance is Kshs.2,727,158 resulting to unexplained and unreconciled variance of Kshs.918,757.

In the circumstances, accuracy and completeness of the above financial statements for the year ended 30 June, 2019 could not be confirmed.

## **2. Discrepancies in the Bank and Cash Balances**

As disclosed in Note 30 to the financial statements, the statement of financial position reflects bank and cash balance of Kshs.5,727,059. The balance includes an overdraft of Kshs.81,468 in a current account at a commercial bank. However, the respective cash book reflects a negative balance of Kshs.39,497 resulting in an unreconciled and unexplained variance of negative Kshs.41,971.

Further, the bank reconciliation statements for the month of June, 2019 reflected Kshs.331,724 as the balance as per bank certificate. However, the respective bank statement and bank confirmation certificate reflected a balance of Kshs.378,478 resulting in an un-reconciled or unexplained variance of Kshs.46,754.

In addition, the respective bank reconciliation statement reflects Kshs.72,800 in respect to receipts in the bank statements which was subtracted from the balance in the cash books therefore understating the cash and cash equivalents as at 30 June, 2019 by the same amount.

In the circumstances, the validity and accuracy of the bank and cash balance of Kshs.5,727,059 as at 30 June, 2019 in the statement of financial position could not be confirmed.

## **3. Inaccuracy in Trade Receivables**

As disclosed in Note 27(b) to the financial statements, the statement of financial position reflects gross trade receivables balance of Kshs.25,082,840. However, the trade receivables ledgers reflected a balance of Kshs.22,310,487 resulting to unreconciled variance of Kshs.2,772,353. The statement reflects a trade and other receivables balance of Kshs.22,561,956 whereas in Note 27(a) the balance is Kshs.20,079,438 resulting to unreconciled variance of Kshs.2,482,518.

In addition, the Management made a provision for doubtful receivables of Kshs.2,508,284. However, basis for the provision was not availed for audit review.

In the circumstance, the accuracy and completeness of the Kshs.22,561,956 trade and other receivables reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

## **4. Unsupported Customer Deposit Withdrawals**

As disclosed in Note 37 to the financial statements, the statement of financial position reflects trade and other payables of Kshs.5,242,266. The balance, as previously reported, includes other payables of Kshs.2,877,053 which further includes Kshs.2,264,750 which has been reflected in Note 35 as borrowings. Review of records indicated that the Company withdrew this money in April, 2016 from the customer deposit account. No

supporting documents were available approving the withdrawal and the balance has not been reimbursed.

Consequently, the accuracy, completeness and validity of borrowings of Kshs.2,264,750 as at 30 June, 2019 could not be confirmed.

## **5. Unsupported Top-up Allowances**

As disclosed in Note 12(b) to the financial statements, the statement profit or loss and other comprehensive income reflects staff costs of Kshs.9,146,513. The balance includes top-up allowances of Kshs.330,768 paid to four (4) seconded staff from County Executive of Embu. However, documents in support of the top-up payment to the seconded staff were not available for audit review.

In the circumstances, the accuracy and validity of top-up allowances of Kshs.330,768 for the year ended 30 June, 2019 could not be confirmed.

## **6.0 Administration Costs**

As disclosed in Note 12 to the financial statements, the statement profit or loss and other comprehensive income reflects administration costs of Kshs.12,780,266. The following observations were made:

### **6.1 Unsupported Directors' Emoluments**

The balance includes Director's emoluments of Kshs.585,794. Included in balance is sitting allowances of Kshs.350,000. Review of records available revealed that the board held five (5) meetings during the year under review and members were paid with varying rates for each sitting - between Kshs.2,000 and Kshs.6,000 per sitting per member. However, attendance register for the board meetings and documentary evidence to justify the varying rates used to pay members allowances were not available for audit review. Further, balance includes Kshs.176,320 whose supporting documents including payment vouchers containing full details, clear narrations, particulars of the items to which they related and appropriate authority were not available for audit review.

### **6.2 Other Unsupported Expenditure**

The balance includes staff training expenses of Kshs.149,400. However, the invitation letters, training needs assessment, programme and back to office reports were not available for audit review. Further, the balance includes legal fees of Kshs.133,910 under consultancy fees. However, the procurement documents including list of registered suppliers, tender evaluation minutes and award letters were not available for audit review.

In the circumstances, the accuracy and validity of the above expenditure amounting to Kshs.809,630 expenditure for the year ended 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kyeni 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 ISSAIs 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 adverse 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 of Matter**

#### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.25,571,907 and Kshs.13,653,499 respectively resulting to an under-funding of Kshs. 11,918,408 or 47% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.25,571,907 and Kshs.16,594,258 respectively resulting to an under expenditure of Kshs.8,977,648 or 35% of the budget.

The under collection of income and under expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

#### **2. Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

### **Other Information**

The Board of Directors is responsible for the other information. The other information comprises the Company's information, corporate governance and the report of Board of Directors as required by the Companies Act, 2015. The other information does not include the financial statements and the auditor's report thereon.

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 conclusion thereon.

In connection with my audit of the Company's 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. If, based on the work I have performed, I conclude that there is a 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, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that public resources have not been applied lawfully and in an effective way.

## **Basis for Conclusion**

### **1. Non-compliance with Law on Annual Report and Financial Statements**

The annual report and financial statements did not disclose key staff details including date of birth, key qualification, and membership to professional bodies and work experience. Further there are inaccuracies in pages, balances in Note 12(a) and 12(b) are illegible and the statement of comparison of budget and actual amounts is not properly headed. This is contrary to the template Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

Consequently, the Management is in breach of the law.

### **2. Irregular Engagement of Casuals**

The Management engaged six (6) casuals for twelve (12) months and paid them a total of Kshs.516,547. This is contrary to Section 37(b) of the employment Act, 2007 which states that "Notwithstanding any provisions of this Act, where a casual employee performs work which cannot reasonably be expected to be completed within a period, or a number of working days amounting in the aggregate to the equivalent of three months or more, the contract of service of the casual employee shall be deemed to be one where wages are paid monthly and Section 35(1)(c) shall apply to that contract of service".

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

### **3. Breach of Water Service Provisions Agreement**

Included in the bank and cash balance of Kshs.5,727,059 is Kshs.60,000 in respect to a bank guarantee resulting from an agreement between Tana Water Services Board and the Company entered in July, 2013. However, review of the guarantee letter dated 1 August, 2013 revealed that the guarantee was for one (1) year which expired on 31 July, 2014. This is contrary to the Water Service Provisions Agreement which provides that the bank guarantee shall always be secured at the beginning of each financial year. Further, no bank balance confirmation certificate was provided for audit review.

In the circumstances, the Management is in breach of the agreement.

### **4. Non-compliance with Non-Revenue Water Guidelines**

During the financial year under review, the Company produced a total of 1,039,740 cubic meters (M<sup>3</sup>) of water. However, out of this volume, only 463,883 cubic meters (M<sup>3</sup>) of



water was billed to customers as consumed. The balance of 575,857 M<sup>3</sup> which is approximately 55% of water produced represented Unaccounted for Water (UFW). The UFW of 55% was over and above the allowable loss of 25% by 30% according to Water Services Regulatory Board (WASREB) guidelines. The non-allowable unaccounted for Water of 30% may have resulted in loss of sales estimated at Kshs. 8,160,265 (at the rate of Kshs.25.83M<sup>3</sup>). No explanations have been rendered for the high NRW and measures being put in place to comply with guidelines.

Consequently, the Company is in breach of the guidelines.

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, because of the significance of the matters discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

### Basis for Conclusion

#### Long Outstanding Trade Receivables

Note 27(b) to the financial statements reflects Kshs.22,574,556 in respect to trade receivables as at 30 June, 2019. However, the respective aging analysis report availed for audit review reflects Kshs.11,174,227 in respect to long outstanding trade receivables which are older than three (3) years. Further, the Management has not instituted any recovery measures or demonstrated their intention to write off the debts totaling Kshs.11,174,227 as they are likely to be irrecoverable if action is not taken.

In the circumstances, it has not been possible to confirm existence of effective debt collection mechanisms.

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015, except for the matters under the Basis for Adverse Opinion, Other Matter, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I report based on my audit, that:

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- (ii) In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and
- (iii) The Company's financial statements are in agreement with the accounting records and returns.

### **Responsibilities of Directors and Board of Directors**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) 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 its assessment of the effectiveness of internal control, risk management and overall governance.

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

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Company 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 overall 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 overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the 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 Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner 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 the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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

  
**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**09 November, 2021**

**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR  
THE YEAR ENDED 30 JUNE 2019**

	Note	2018-2019	2017-2018
		Kshs	Kshs
<b>REVENUES</b>			
Revenue	6	11,981,100	13,302,050
Cost of sales	7	(2,894,004)	(10,261,139)
Gross profit		9,087,096	3,040,911
Grants from the National Government	8	1,422,280	1,340,950
Interest income	9	0	0
Other Income	10	251,469	7,253,305
Other gains/(losses)	11	0	0
<b>TOTAL REVENUES</b>		<b>10,760,845</b>	<b>11,635,166</b>
<b>OPERATING EXPENSES</b>			
Administration Costs	12	12,780,266	11,744,763
Selling and Distribution Costs	13	919,988	1,062,916
Finance Costs	14	0	0
<b>TOTAL OPERATING EXPENSES</b>	15	<b>13,700,254</b>	<b>12,807,679</b>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b>(2,939,409)</b>	<b>(1,172,513)</b>
<b>INCOME TAX EXPENSE/(CREDIT)</b>	16	<b>0</b>	<b>0</b>
<b>PROFIT/(LOSS) AFTER TAXATION</b>		<b>(2,939,409)</b>	<b>(1,172,513)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Fair value through comprehensive income		0	0
Surplus or deficit on revaluation of PPE		0	0
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(2,939,409)</b>	<b>(1,172,513)</b>
Earnings per share – basic and diluted	17	0	0
Dividend per share	18	0	0

Kyeni Water and Sewerage Company LTD.  
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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	2018-2019 Kshs	2017-2018 Kshs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	19	6,171,876	7,080,364
Intangible assets	20	0	0
Investment property	21	0	0
Prepaid operating lease rentals	22	0	0
Fixed interest investments (bonds)	23	0	0
Quoted investments	24	0	0
Unquoted investments	25	0	0
Staff receivables due after one year	27(c)	0	0
<b>Total Non-Current Assets</b>		<b>6,171,876</b>	<b>7,080,364</b>
<b>Current Assets</b>			
Inventories	26	0	0
Trade and other receivables	27(a)	22,561,956	24,825,181
Tax recoverable	28	0	0
Short-term deposits	29	0	0
Bank and cash balances	30	5,727,059	5,346,069
<b>Total Non-Current Assets</b>		<b>34,460,891</b>	<b>37,251,614</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Ordinary share capital	31	0	0
Revaluation reserve	32	19,436,994	19,427,494
Fair value adjustment reserve	33	0	0
Retained earnings	34	1,808,401	4,747,810
Proposed dividends		0	0
<b>Capital and Reserves</b>		<b>21,245,395</b>	<b>24,175,304</b>
<b>Non-Current Liabilities</b>			
Borrowings	35	0	0
Deferred tax liability	36	0	0
<b>Total Non-Current Liabilities</b>			
<b>Current Liabilities</b>			
Borrowings	35	0	0
Trade and other payables	37	5,242,266	5,781,915
Retirement benefit obligations	38	0	0
Provision for leave pay	39	0	0
Customer deposits	40	7,879,895	7,294,395
<b>Total Current Liabilities</b>		<b>13,122,161</b>	<b>13,076,395</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>34,367,556</b>	<b>37,251,614</b>

The financial statements were approved by the Board on 13/9/2019

Director General/C.E.O/M.D

Name:

CHARLES W. WAMATI

Head of Finance

Name: JACINIA NDEUWA

Name:

Ag. C. M.

ICPAK M/NO:

2019 and signed on its behalf by:

Chairman of the Board

ERASMUS KITHINJI M.

*(Signature)*

Kyeni Water and Sewerage Company LTD.

**Annual Reports and Financial Statements**  
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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	Ordinary share capital	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Proposed dividends	Development/ Grants/Fund	Total
At July 1, 2017	0	18,787,494	-	5,920,323	-	-	24,707,817
Revaluation gain	-	-	-	-	-	-	-
Additions	-	640,000	-	(1,172,513)	-	-	(532,513)
At June 30, 2018	-	19,427,494	-	4,747,810	-	-	24,175,304
At July 1, 2018	-	19,427,494	-	4,747,810	-	-	24,175,304
Revaluation gain	-	-	-	-	-	-	-
Additions	-	9,500	-	(2,939,409)	-	-	(2,929,909)
At June 30, 2019	-	19,436,994	-	1,808,401	-	-	21,245,395



**Annual Reports and Financial Statements**  
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**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019**

	Note	2018-2019 Kshs	2017-2018 Kshs
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from/(used in) operations	41	289,655	(81,008)
Interest received	41(c)	0	0
Interest paid	41(c)	(0)	(0)
Dividends paid	40	(0)	(0)
Taxation paid	28	(0)	(0)
<b>Net cash generated from/(used in) operating activities</b>		<b>289,655</b>	<b>(81,008)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	19	(9500)	(640,000)
Proceeds from disposal of property, plant and equipment		0	0
Purchase of intangible assets	20	(0)	(0)
Purchase of investment property	21	(0)	(0)
Purchase of quoted investment	25	(0)	(0)
Proceeds from disposal of quoted investments		0	0
<b>Net cash generated from/(used in) investing activities</b>		<b>(9500)</b>	<b>(640,000)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Internal proceeds		9500	640,000
Proceeds from borrowings	35	0	0
Repayment of borrowings	35	(0)	(0)
<b>Net cash generated from/(used in) financing activities</b>		<b>9500</b>	<b>640,000</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>289,655</b>	<b>(81,008)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>5,346,069</b>	<b>5,427,077</b>
Effects of foreign exchanges rate fluctuations			0
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	41(b)	<b>5,727,059</b>	<b>5,346,069</b>

**Annual Reports and Financial Statements  
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**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2019**

	Original budget		Adjustments		Final budget		Actual on comparable basis		Performance difference	
	2018-2019	Kshs	2018-2019	Kshs	2018-2019	Kshs	2018-2019	Kshs	2018-2019	Kshs
<b>Revenue</b>										
Sale of goods	25,571,907		0		25,571,907		11,981,100		(13,590,807)	
Sale of services	0		0		0		0		0	
Transfers from the Government	0		0		0		0		0	
Donations in kind	0		0		0		1,422,280		1,422,280	
Finance Income	0		0		0		0		0	
Other income	0		0		0		250,069		250,069	
<b>Total income</b>	<b>25,571,907</b>		<b>0</b>		<b>25,571,907</b>		<b>13,653,499</b>		<b>(11,918,458)</b>	
<b>Expenses</b>										
Compensation of employees	0		0-		0		0		0	
Use of goods and services	0		0		0		0		0	
Administration Costs	17,252,716		0		17,252,716		13,700,254		3,552,462	
Cost of sales	8,319,190		0		8,319,190		2,894,004		5,425,186	
Taxation paid	0		0		0		0		0	
Other payments	0		0		0		0		0	
Grants and subsidies paid	0		0		0		0		0	
<b>Total expenditure</b>	<b>25,571,907</b>		<b>0</b>		<b>25,571,907</b>		<b>16,594,258</b>		<b>8,977,648</b>	
<b>Surplus for the period</b>	<b>0</b>		<b>0</b>		<b>0</b>		<b>(2,940,809)</b>		<b>(2,940,810)</b>	

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

KYEWASCO is established by and derives its authority and accountability from Companies Act. The company is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is water service provision.

### 2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

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

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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

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. Based on the Directors' assessment, right of use assets of KSh 0, lease liabilities of KSh 0 and a deferred tax asset of KSh 0 have been recognised with a corresponding decrease of the net amount in retained earnings in these financial statements.

*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.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)**

**i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019 (Continued)**

*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.

*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.

*(The organisation should assess the impact of the above standards and amendments and state the impact of their application in these financial statements.)*

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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### 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

#### ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 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 1, 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*.

*The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.*

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

iii) Early adoption of standards

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

iii) 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 recognised to the extent that it is probable that future economic benefits will flow to the *company* 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 the *company's* activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the *company's* activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the *company* 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 the *company* 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 not recognised in the income statement in the year in which the right to receive the payment is established. The company does not give dividend.
- v) **Other income** is recognised as it accrues.

b) In-kind contributions

In-kind contributions are donations that are made to the *company* in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the *company* 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.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**c) Property, plant and equipment**

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

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

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

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

**d) Depreciation and impairment of property, plant and equipment**

Depreciation is calculated on reducing balance basis and annual rate estimated to carrying values of assets over their expected useful life. The annual depreciation rates are;

Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

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



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**e) Intangible assets**

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

**f) Amortisation and impairment of intangible assets**

Amortisation 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.

**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 recognised 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 recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 realisable value. The cost of inventories comprises purchase price, import duties, transportation and handing charges, and is determined on the moving average price method.

**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.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**n) Taxation (Continued)**

***Current income tax (Continued)***

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.

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.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**n) Taxation (Continued)**

*Deferred tax (Continued)*

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 authorised 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 amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of 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 capitalised 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 amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**r) Retirement benefit obligations**

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.1,080.00 per employee per month or 6% of monthly pay.

**s) Provision for staff leave pay**

Employees' entitlements to annual leave are recognised 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) Budget information**

The original budget for FY 2018-2019 was approved by the care taker committee. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were re-cast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**u) Budget information (Continued)**

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

**v) Service concession arrangements**

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

**w) Comparative figures**

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

**x) 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, 2018.

**5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the Entity's 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.

State all judgements, estimates and assumptions made: e.g

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**5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**  
**(Continued)**

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

**Useful lives and residual values**

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets
- Changes in the market in relation to the asset

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note xxx.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 9 INTEREST INCOME

Description	2018- 2019	2017-2018
	Kshs	Kshs
Interest income from treasury bonds	0	0
Interest income from treasury bonds	0	0
Interest from receivables	0	0
Interest from commercial banks and financial institutions	0	0
Interest on staff loans	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

## 10 OTHER INCOME

Description	2018- 2019	2017-2018
	Kshs	Kshs
Sale of tender documents	0	0
Fines and penalties	0	0
Cash donations	0	0
In kind donations	0	7,253,305
Gain on sale of fixed assets	0	0
Insurance compensation	0	0
Decrease in provision for bad and doubtful debts	251,469	0
<b>Total</b>	<b>251,469</b>	<b>7,253,305</b>

## 11 OTHER GAINS AND LOSSES

Description	2018- 2019	2017-2018
	Kshs	Kshs
Foreign exchange gains / (losses)	0	0
Loss/gain on disposal on sale of investments	0	0
Unrealized foreign exchange gains/(losses)	0	0
<b>Total</b>	<b>0</b>	<b>0</b>



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 12 (a) ADMINISTRATION COSTS

Description	2018-2019	2017-2018
	Kshs	Kshs
Staff costs (note 12b)	9,146,513	9,416,867
Directors' emoluments	585,794	31,620
Electricity and water	40,000	34,200
Communication services and supplies	292,996	287,120
travelling and subsistence	1,038,930	541,310
Advertising, printing, stationery and photocopying	162,635	112,570
Rent expenses	72,000	72,000
Staff training expenses	149,400	100,000
Hospitality supplies and services	110,650	82,358
Insurance costs	52,736	100,450
Bank charges and commissions	265,468	27,780
Office and general supplies and services	0	20,125
Auditors' remuneration	126,500	126,500
Legal fees (penalty)	0	10,000
Consultancy fees	283,910	129,564
Repairs and maintenance	11,860	10,622
Provision for bad and doubtful debts	0	114,937
Security	87,000	51,000
Transportation (fuel, oil and maintenance of motors)	328,874	420,740

## 12 (b) STAFF COSTS

Salaries and allowances of permanent employees	7,822,614	8,144,169
Wages of temporary employees	607,239	635,738
Compulsory national health insurance schemes	184,400	189,600
Compulsory national social security schemes	469,260	477,360
Other pension contributions	0	0
Leave pay and gratuity provisions	63,000	0
<b>The average number of employees at the end of the year was:</b>		
Permanent employees – Management	18	19
Permanent employees – Unionisable	4	4
Temporary and contracted employees	9	7
<b>Total</b>	<b>31</b>	<b>30</b>

[Provide short appropriate explanations as necessary]

**Annual Reports and Financial Statements**  
**For the year ended June 30, 2019**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**13 SELLING AND DISTRIBUTION COSTS**

	2018-2019	2017-2018
Description	Kshs	Kshs
Salaries and wages of sales personnel	0	0
Marketing and promotional expenses	0	0
Sales commissions	0	0
Sales discounts and rebates	0	0
Other selling and distribution costs-depreciation	919,988	1,062,916
<b>Total</b>	<b>919,988</b>	<b>1,062,916</b>

*[Provide short appropriate explanations as necessary]*

**14 FINANCE COSTS**

	2018-2019	2017-2018
Description	Kshs	Kshs
Interest expense on loans	0	0
Interest expense on bank overdrafts	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

*[Provide short appropriate explanations as necessary]*

**15 OPERATING PROFIT/(LOSS)**

	2018-2019	2017-2018
	Kshs	Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 12b)	9,146,513	6,948,899
Depreciation of property, plant and equipment(note 13)	919,988	1,062,916
Amortisation of intangible assets	0	0
Provision for bad and doubtful debts	0	114,937
Directors' emoluments - fees	585,794	31,620
- other	2,921,459	14,773,086
Auditors' remuneration - current year fees	126,500	126,500
- prior year under-provision	0	0
Loss on disposal of property, plant and equipment	0	0
Net foreign exchange loss	0	0
Interest receivable	(0)	0
Interest payable	0	0
Rent receivable	(0)	0
<b>Total</b>	<b>(13,700,254)</b>	

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 16 INCOME TAX EXPENSE/(CREDIT)

## (a) Current taxation

	2018-2019	2017-2018
	Kshs	Kshs
Current taxation based on the adjusted profit for the year at 30%	0	0
Current tax: prior year under/(over) provision	0	0
Current year deferred tax charge	0	0
Prior year under-provision for deferred tax	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

## b) Reconciliation of tax expense/ (credit) to the expected tax based on accounting profit

	2018-2019	2017-2018
	Kshs	Kshs
	(2,940,809)	
Tax at the applicable tax rate of 30%	0	0
Current tax	0	0
Prior year under-provision	0	0
Tax effects of expenses not deductible for tax purposes	0	0
Tax effects of income not taxable	0	0
Tax effects of excess capital allowances over depreciation/amortization	0	0
Deferred tax prior year over-provision	0	0
<b>Total</b>		

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 EARNINGS PER SHARE

The were no earnings per share.

18 DIVIDEND PER SHARE

No divided given.

Annual Reports and Financial Statements  
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 PROPERTY, PLANT AND EQUIPMENT

2019	Freehold land	Buildings & civil works	Plant and machinery	Motor vehicles, including motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
<b>COST OR VALUATION</b>								
At July 1, 2018	-	-	-	2,697,300	11,482,118	0	-	14,179,418
Additions	-	-	-	-	9,500	-	-	9,500
Transfers	-	-	-	-	-	-	(-)	-
Disposals	(-)	(-)	(-)	(0)	(0)	(0)	(-)	(0)
<b>At June 30, 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,697,300</b>	<b>11,491,618</b>	<b>0</b>	<b>-</b>	<b>14,188,918</b>
<b>DEPRECIATION</b>								
At July 1, 2018	-	-	-	2,427,267	4,662,288	0	-	7,089,555
Charge for the year	-	-	-	67,509	852,479	0	-	919,988
Impairment loss	-	-	-	0	0	0	-	0
Eliminated on disposal	(-)	(-)	(-)	(0)	(0)	(0)	(-)	(0)
<b>At June 30, 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,494,776</b>	<b>5,514,767</b>	<b>0</b>	<b>-</b>	<b>8,009,543</b>
<b>NET BOOK VALUE At June 30, 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>204,525</b>	<b>5,967,351</b>	<b>0</b>	<b>-</b>	<b>6,171,876</b>

Property, plant and equipment include the following items that are fully depreciated:

	Cost or valuation	Normal annual depreciation charge
Plant and machinery	0	0
Motor vehicles, including motor cycles	0	0
Computers and related equipment	0	0
Office equipment, furniture and fittings	0	0

**Annual Reports and Financial Statements  
For the year ended June 30, 2019**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**19 PROPERTY, PLANT AND EQUIPMENT (Continued)**

<b>2018</b>	<b>Freehold land</b>	<b>Buildings &amp; civil works</b>	<b>Plant and machinery</b>	<b>Motor vehicles, including, motor cycles</b>	<b>Computers &amp; related equipment</b>	<b>Office equipment, furniture &amp; fittings</b>	<b>Capital work in progress</b>	<b>Total</b>
<b>COST OR VALUATION</b>								
At July 1, 2017	-	-	-	2,697,300	11,472,618	-	-	14,169,918
Additions	-	-	-	0	640,000	-	-	640,000
Transfers	-	-	-	-	-	-	-	-
Disposals	-	-	-	0	-	-	-	(0)
<b>At June 30, 2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,697,300</b>	<b>12,112,618</b>	<b>-</b>	<b>-</b>	<b>14,809,918</b>
<b>DEPRECIATION</b>								
At July 1, 2017	-	-	-	2,337,255	3,689,384	-	-	6,026,639
Charge for the year	-	-	-	90,012	972,904	-	-	1,062,916
Impairment loss	-	-	-	0	0	-	-	0
Eliminated on disposal	-	-	-	0	(0)	-	-	(0)
<b>At June 30, 2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,427,267</b>	<b>4,662,288</b>	<b>-</b>	<b>-</b>	<b>7,089,555</b>
<b>NET BOOK VALUE</b>				270,034	6,810,330			

Property, plant and equipment include the following items that are fully depreciated:

	<b>Cost or valuation</b>	<b>annual depreciation charge</b>
Plant and machinery	0	0
Motor vehicles, including motor cycles	0	0
Computers and related equipment	0	0
Office equipment, furniture and fittings	0	0
	=====	=====

*[Include a brief description of what the Capital Work in Progress relates to]*

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 20 INTANGIBLE ASSETS

	2018-2019	2017-2018
	Kshs	Kshs
<b>COST</b>		
At July 1		
Additions	0	0
Disposals	0	0
	(0)	(0)
At June 30	<b>0</b>	<b>0</b>
<b>AMORTISATION</b>		
At July 1		
Charge for the year	0	0
Disposals	0	0
Impairment loss	(0)	(0)
	(0)	(0)
At June 30	<b>0</b>	<b>0</b>
<b>NET BOOK VALUE</b>		
At June 30	<b>0</b>	<b>0</b>

*[Provide short appropriate explanations as necessary in relation to what constitutes the intangible assets]*

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 21 INVESTMENT PROPERTY

	2018-2019	2017-2018
	Kshs	Kshs
Opening valuation	0	0
<b>Movements during the year</b>		
Additions	0	0
Transfer from operating lease rentals (note 22)	0	0
Disposals	(0)	(0)
Fair value gains/(losses)		0
Closing valuation	<b>0</b>	<b>0</b>
<b>DEPRECIATION (IF AT COST)</b>		
At July 1	0	0
Charge for the year	0	0
Disposals	(0)	(0)
Impairment loss	(0)	(0)
At June 30	<b>0</b>	<b>0</b>
<b>NET BOOK VALUE</b>		
At June 30	<b>0</b>	<b>0</b>



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 22 PREPAID OPERATING LEASE RENTALS

	2018-2019	2017-2018
	Kshs	Kshs
<b>COST</b>		
At July 1	0	0
Additions	0	0
Transfer to investment property (note 21)	(0)	(0)
Disposals	(0)	(0)
At June 30	<b>0</b>	<b>0</b>
<b>AMORTISATION</b>		
At July 1	0	0
Charge for the year	0	0
Transfer to investment property (note 19)	0	0
Disposals	(0)	(0)
At June 30	<b>0</b>	<b>0</b>
<b>NET BOOK VALUE</b>		
At June 30	<b>0</b>	<b>0</b>

[Provide short appropriate explanations as necessary]

Example: Land which was previously held as an operating lease was transferred to investment property and reported at fair value in line with the requirements of IAS 40, as the *entity* now holds the land for the purposes of development of an investment property (note 21).

## 23 FIXED INTEREST INVESTMENTS (BONDS)

	2018-2019	2017-2018
	Kshs	Kshs
Central Bank of Kenya 12.5% 15-Year Infrastructure Bond	0	0
AB Corporate Bond (give details)	0	0
CD Corporate Bond (give details)	0	0
	<b>0</b>	<b>0</b>

[The movement in investment during the year is as follows:]

Details		
Balance at 1 July	0	0
Additions during the year	0	0
Interest accrued during the year	0	0
Investment maturities during the year	0	0
Balance at 30 June	0	0

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 QUOTED INVESTMENTS

	2018-2019	2017-2018
	Kshs	Kshs
Opening valuation	0	0
<b>Movements during the year</b>		
Additions	0	0
Disposals	(0)	(0)
Fair value gains/(losses)	0	0
Closing valuation	<b>0</b>	<b>0</b>

[Provide short appropriate explanations as necessary, including make-up of the investments in the table below]

25 UNQUOTED INVESTMENTS

	2018-2019	2017-2018
	Kshs	Kshs
<b>COST</b>		
At July 1	0	0
Additions	0	0
Disposals	(0)	(0)
At June 30	<b>0</b>	<b>0</b>
<b>IMPAIRMENT</b>		
At July 1	0	0
Disposals	(0)	(0)
Impairment loss in the year	(0)	(0)
At June 30	<b>0</b>	<b>0</b>
<b>NET BOOK VALUE</b>		
At June 30	<b>0</b>	<b>0</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**26 INVENTORIES**

	2018-2019	2017-2018
	Kshs	Kshs
Engineering stores	0	0
Fuel, oil and lubricants	0	0
Motor vehicle spare parts	0	0
Goods in transit	0	0
Stationery and general stores	0	0
	<b>0</b>	<b>0</b>

*[Provide short appropriate explanations as necessary]*

**27(a) TRADE AND OTHER RECEIVABLES**

	2018-2019	2017-2018
	Kshs	Kshs
Trade receivables (note 27 (b))	22,310,487	27,583,534
Deposits and prepayments	0	0
VAT recoverable	0	0
Staff receivables (note 27 (c))	0	0
Other receivables	0	0
Gross trade and other receivables	22,310,487	27,583,534
Provision for bad and doubtful receivable	(2,231,049)	(2,758,353)
Net trade and other receivables	<b>20,079,438</b>	<b>24,825,181</b>

*[Provide short appropriate explanations as necessary]*

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**27 (b) TRADE RECEIVABLES**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>Kshs</b>	<b>Kshs</b>
Gross trade receivables	25,082,840	27,583,534
Provision for doubtful receivables	(2,508,284)	(2,758,353)
	<u>22,574,556</u>	<u>24,825,181</u>
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	0	
Between 30 and 60 days	0	
Between 61 and 90 days	0	
Between 91 and 120 days	0	
Over 120 days	0	27,583,534
	<u>0</u>	<u>27,583,534</u>

**27 (c) STAFF RECEIVABLES**

	<b>2018-2019</b>	<b>2017-2018</b>
	<b>Kshs</b>	<b>Kshs</b>
Gross staff loans and advances	0	0
Provision for impairment loss	(0)	(0)
	<u>0</u>	<u>0</u>
Less: Amounts due within one year	(0)	(0)
Amounts due after one year	<u>0</u>	<u>0</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 28 TAX RECOVERABLE

	2018-2019	2017-2018
	Kshs	Kshs
At beginning of the year	-	-
Income tax charge for the year (note 16)	-	-
Under/(over) provision in prior year/s (note 16)	-	-
Income tax paid during the year	(-)	(-)
At end of the year	-	-

[Provide short appropriate explanations as necessary]

## 29 SHORT TERM DEPOSITS

	2018-2019	2017-2018
	Kshs	Kshs
Cooperative Bank of Kenya	0	0
Kenya Commercial Bank	0	0
Barclays Bank of Kenya	0	0
	0	0

[Provide short appropriate explanations as necessary]

## 30 BANK AND CASH BALANCES

	2018-2019	2017-2018
	Kshs	Kshs
Cash at bank	5,611,489	5,281,664
Cash in hand	115,570	64,405
	5,727,059	5,346,069

[All accounts are held at co-operative bank. Customer deposits to date is kshs 7, 879,895. However the funds were used in metering and a balance of kshs 2,264,750.00 has not been refunded in the customer accounts]

**Annual Reports and Financial Statements  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**30 BANK AND CASH BALANCES (Continued)**

The make - up of bank balances and short term deposits is as follows:

**Detailed analysis of the cash and cash equivalents**

<b>Financial institution</b>	<b>Account number</b>	<b>2018-2019 KShs</b>	<b>2017-2018 KShs</b>
<b>a) Current account</b>			
Co-operative bank	01120051892000	(81,467.81)	137,537
<b>Sub- total</b>		<b>(81,467.81)</b>	<b>137,537</b>
<b>b) On - call deposits</b>			
Co-operative bank		60,000	60,000
		0	0
<b>Sub- total</b>		<b>60,000</b>	<b>60,000</b>
<b>c) Fixed deposits account</b>			
Co-operative bank	01100051892000	5,632,957	5,084,127
<b>Sub- total</b>		<b>5,632,957</b>	<b>5,084,127</b>
<b>d) Staff car loan/ mortgage</b>			
Co-operative bank		0	0
		0	0
<b>Sub- total</b>		<b>0</b>	<b>0</b>
<b>e) Others(specify)</b>		0	0
Cash in transit		0	0
cash in hand		115,570	64,405
M pesa		0	0
<b>Sub- total</b>		<b>0</b>	<b>0</b>
<b>Grand total</b>		<b>5,727,059</b>	<b>5,346,069</b>

**31 ORDINARY SHARE CAPITAL**

	<b>2018-2019 Kshs</b>	<b>2017-2018 Kshs</b>
<b>Authorised:</b>		
XXX ordinary shares of Kshs.X par value each	0	0
<b>Issued and fully paid:</b>		
XXX ordinary shares of Kshs.X par value each	0	0

*[Provide short appropriate explanations as necessary]*

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**32 REVALUATION RESERVE**

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

**33 FAIR VALUE ADJUSTMENT RESERVE**

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

**34 RETAINED EARNINGS**

The retained earnings represent amounts available for distribution to the *entity's* shareholders. Undistributed retained earnings are utilised to finance the *entity's* business activities.

**35 BORROWINGS**

Description	2018-2019 Kshs	2017-2018 Kshs
Balance at beginning of the year	2,264,750	2,264,750
External borrowings during the year	0	0
Domestic borrowings during the year	0	0
Repayments of external borrowings during the year	(0)	(0)
Repayments of domestic borrowings during the year	(0)	(0)
Exchange rate gains/(losses) on revaluation of borrowings	0	0
Balance at end of the year	2,264,750	2,264,750
Less: Amounts due with one year (current portion)	0	0
Amounts due after one year (non-current portion)	2,264,750	2,264,750

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 35 BORROWINGS (Continued)

The analyses of both external and domestic borrowings are as follows:

	2018-2019	2017-2018
	Kshs	Kshs
<b>External Borrowings</b>		
Dollar denominated loan from 'A'	0	0
Sterling Pound denominated loan from 'B'	0	0
Euro denominated loan from 'C'	0	0
	0	0
<b>Domestic Borrowings</b>		
Kenya Shilling loan from KCB	0	0
Kenya Shilling loan from Barclays Bank	0	0
Kenya Shilling loan from Consolidated Bank	0	0
	0	0
Total balance at end of year	0	0

[Foreign denominated loans should be restated based on CBK closing mean rates at the end of financial year]

## 36 DEFERRED TAX LIABILITY

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30%. The net deferred tax liability at year end is attributable to the following items:

	2018-2019	2017-2018
	Kshs	Kshs
Accelerated capital allowances	0	0
Unrealised exchange gains/(losses)	0	0
Revaluation surplus	0	0
Tax losses carried forward	(0)	(0)
Provisions for liabilities and charges	(0)	(0)
Net deferred tax liability	0	0



NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 DEFERRED TAX LIABILITY (Continued)

	2018-2019	2017-2018
	Kshs	Kshs
The movement on the deferred tax account is as follows:		
Balance at beginning of the year	0	0
Credit to revaluation reserve	(0)	(0)
Under provision in prior year	0	0
Income statement charge/(credit)	0	0
Balance at end of the year	0	0

[Provide short appropriate explanations as necessary]

37 TRADE AND OTHER PAYABLES

	2018-2019	2017-2018
	Kshs	Kshs
Trade payables	2,238,713	1,440,662
Accrued expenses	126,500	126,500
Retention/ contract monies	0	0
Other payables	2,877,053	4,214,753
	5,242,266	5,781,915

[Provide short appropriate explanations as necessary]

38 RETIREMENT BENEFIT OBLIGATIONS

The company does not operate a defined benefit scheme for all full-time employees.

	2018-2019	2017-2018
	Kshs	Kshs
Valuation at the beginning of the year	0	0
Changes in valuation during the year	0	0
Valuation at end of the year	0	0

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.1080.00 or 6 percent of the gross pay per employee per month.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**39 PROVISION FOR LEAVE PAY**

	2018-2019	2017-2018
	Kshs	Kshs
Balance at beginning of the year	0	0
Additional provision at end of year	63,000	63,000
Leave paid out or utilised during the year	(63,000)	(63,000)
Balance at end of the year	0	0

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

**40 Customer deposits**

The balance of dividends payable relates to unclaimed dividends, payable to different ordinary shareholders. The balances are analysed in annual amount below.

	2018-2019	2017-2018
	Kshs	Kshs
Balance at the beginning of the year	7,294,395	6,512,395
Additions during the year	585,500	782,000
	0	0
	0	0
	0	0
Balance at end of the year	7,879,895	7,294,395

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 41 NOTES TO THE STATEMENT OF CASH FLOWS

	2018-2019	2017-2018
	Kshs	Kshs
<b>(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations</b>		
Operating profit/(loss)	(2,939,409)	(1,172,513)
Depreciation	919,988	1,062,916
Amortisation	0	0
(Gain)/loss on disposal of property, plant and equipment	0	0
Operating profit/(loss) before working capital changes	(2,019,421)	(109,597)
(Increase)/decrease in inventories	0	0
(Increase)/decrease in trade and other receivables	2,263,225	(1,132,175)
Increase/(decrease) in trade and other payables	(539,649)	378,764
Increase/(decrease) in customer deposits	585,500	782,000
Increase/(decrease) in retirement benefit obligations	0	0
Increase/(decrease) in provision for staff leave pay	0	0
Cash generated from/(used in) operations	2,309,076	28,589
<b>(b) Analysis of changes in loans</b>		
Balance at beginning of the year	0	0
Receipts during the year	0	0
Repayments during the year	(0)	(0)
Repayments of previous year's accrued interest	(0)	(0)
Foreign exchange (gains)/losses	0	(0)
Accrued interest	0	0
Balance at end of the year	0	0
<b>(c) Analysis of cash and cash equivalents</b>		
Short term deposits	0	0
Balance at beginning of the year	5,346,069	5,427,077
Balance at end of the year	5,727,059	5,346,069

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 41 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

	2018-2019	2017-2018
	Kshs	Kshs
<b>(d) Analysis of interest paid</b>		
Interest on loans (note 12)	0	0
Interest on bank overdraft (note 12)	0	0
	0	0
Interest on loans capitalised	0	0
Balance at beginning of the year	0	0
Balance at end of the year (note 35(b))	(0)	(0)
Interest paid	0	0
<b>(e) Analysis of dividend paid</b>		
Balance at beginning of the year	0	0
2017 dividends paid	0	0
2018 dividends paid	0	0
2019 interim dividends paid	0	0
Balance at end of the year	(0)	(0)
Dividend paid	0	0

## 42 RELATED PARTY DISCLOSURES

## (a) Government of Kenya

The Government of Kenya is the principal shareholder of the *entity*, holding 100% of the *entity*'s equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the *entity*, both domestic and external.

Other related parties include:

- i) The Parent Ministry;
- ii) County Government of xxx
- iii) Xxx;
- iv) Xxx;
- v) Key management;
- vi) Board of directors;

NOTES TO THE FINANCIAL STATEMENTS (Continued)

42 RELATED PARTY DISCLOSURES (Continued)

Transactions with related parties

	2018-2019	2017-2018
	Kshs	Kshs
<b>a) Sales to related parties</b>		
Sales of goods to xxx	0	
Sales of services xxx	0	
<b>Total</b>	<b>0</b>	<b>0</b>
<b>b) Grants from the Government</b>		
Grants from National Govt	0	0
Grants from County Government	0	0
Donations in kind	1,422,280	1,340,950
<b>Total</b>	<b>1,422,280</b>	<b>1,340,950</b>
<b>c) Expenses incurred on behalf of related party</b>		
Payments of salaries and wages for xxx employees	0	0
Payments for goods and services for xxx	0	0
<b>Total</b>	<b>0</b>	<b>0</b>
<b>d) Key management compensation</b>		
Directors' emoluments	0	0
Compensation to the CEO	0	0
Compensation to key management	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

43 CAPITAL COMMITMENTS

Capital commitments at the year- end for which no provision has been made in these financial statements are:

	2018-2019	2017-2018
	Kshs	Kshs
Amounts authorised and contracted for	0	0
Amounts authorized but not contracted for	0	0
Less: Amounts included in Work in progress	(0)	(0)
	0	0

[Provide short appropriate explanations as necessary]

NOTES TO THE FINANCIAL STATEMENTS (Continued)

44 CONTINGENT LIABILITIES

	2018-2019	2017-2018
	Kshs	Kshs
Bank guarantees	60,000	60,000
Legal claims against the <i>entity</i>	0	0
Letters of credit	0	0
Disputed tax penalties	0	0
	60,000	60,000

*[Provide short appropriate explanations as necessary]*

*In the opinion of the directors, no provision is required in these financial statements as the liabilities are not expected to crystallize.*

45 FINANCIAL RISK MANAGEMENT

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

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

(i) **Credit risk**

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
<b>At 30 June 2019</b>				
Receivables from exchange transactions	0	0	0	0
Receivables from non exchange transactions	0	0	0	0
Bank balances	-	-	-	-
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>At 30 June 2018</b>				
Receivables from exchange transactions	0	0	0	0
Receivables from non exchange transactions	0	0	0	0
Bank balances	-	-	-	-
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

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

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**45 FINANCIAL RISK MANAGEMENT (Continued)**

**(ii) Liquidity risk management (Continued)**

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
<b>At 30 June 2019</b>				
Trade payables	0	0	0	0
Current portion of borrowings	0	0	0	0
Provisions	0	0	0	0
Deferred income	0	0	0	0
Employee benefit obligation	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>At 30 June 2018</b>				
Trade payables	0	0	0	0
Current portion of borrowings	0	0	0	0
Provisions	0	0	0	0
Deferred income	0	0	0	0
Employee benefit obligation	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**(iii) Market risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**45 FINANCIAL RISK MANAGEMENT (Continued)**

**(iii) Market risk (Continued)**

**a) Foreign currency risk**

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
<b>At 30 June 2019</b>			
<b>Financial assets</b>			
Investments	0	0	0
Cash	0	0	0
Debtors	0	0	0
<b>Financial Liabilities</b>			
Trade and other payables	0	0	0
Borrowings	0	0	0
Net foreign currency asset/(liability)	<b>0</b>	<b>0</b>	<b>0</b>

The entity manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
<b>At 30 June 2018</b>			
<b>Financial assets</b>			
Investments	0	0	0
Cash	0	0	0
Debtors	0	0	0
<b>Financial Liabilities</b>			
Trade and other payables	0	0	0
Borrowings	0	0	0
Net foreign currency asset/(liability)	<b>0</b>	<b>0</b>	<b>0</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

b) Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on Profit before tax	Effect on equity
	Kshs	Kshs	Kshs
<b>2019</b>			
Euro	10%	0	0
USD	10%	0	0
<b>2018</b>			
Euro	10%	0	0
USD	10%	0	0

c) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

*Management of interest rate risk*

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

*Sensitivity analysis*

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *entity's* market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The *entity* considers relevant and observable market prices in its valuations where possible.

The following table shows an analysis of financial and non- financial instruments recorded at fair value by level of the fair value hierarchy:

At 30 June 2019				
	Level 1 Kshs	Level 2 Kshs	Level 3 Kshs	Total Kshs
<b>Financial Assets</b>				
Quoted equity investments	0	0	0	0
<b>Non- financial Assets</b>				
Investment property	0	0	0	0
Land and buildings	0	0	0	0
	0	0	0	0
	=====	=====	=====	=====
<b>At 30 June 2018</b>				
<b>Financial Assets</b>				
Quoted equity investments	0	0	0	0
<b>Non- financial Assets</b>				
Investment property	0	0	0	0
Land and buildings	0	0	0	0
	0	0	0	0
	=====	=====	=====	=====

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

Fair value of financial assets and liabilities (Continued)

a) Financial instruments measured at fair value (Continued)

	Level 1 Kshs	Level 2 Kshs	Level 3 Kshs	Total Kshs
<b>At 30 June 2019</b>				
<b>Financial Assets</b>				
Quoted equity investments	0	0	0	0
<b>Non- financial Assets</b>				
Investment property	0	0	0	0
Property, plant and equipment	0	0	0	0
	0	0	0	0
	=====	=====	=====	=====
<b>At 30 June 2018</b>				
<b>Financial Assets</b>				
Quoted equity investments	0	0	0	0
<b>Non- financial Assets</b>				
Investment property	0	0	0	0
Land and buildings	0	0	0	0
	0	0	0	0
	=====	=====	=====	=====

There were no transfers between levels 1, 2 and 3 during the year.

b) Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

45 FINANCIAL RISK MANAGEMENT (Continued)

iv) Capital Risk Management

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

	2018-2019	2017-2018
	Kshs	Kshs
Revaluation reserve	19,436,994	19,427,494
Retained earnings	2,727,158	4,747,810
Capital reserve	0	0
<b>Total funds</b>	<b>22,164,142</b>	<b>24,175,304</b>
Total borrowings	0	0
Less: cash and bank balances	(0)	(0)
Net debt/(excess cash and cash equivalents)	0	0
<b>Gearing</b>	<b>0%</b>	<b>0%</b>

46 INCORPORATION

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

47 EVENTS AFTER THE REPORTING PERIOD

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

48 CURRENCY

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

**APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
<b>Basis for adverse opinion</b>					
1.0	Presentation of the financial statements.	-New board appointed on 27 <sup>th</sup> august 2019. -statement of comparison of budget and actual amounts, progress on follow-up of auditors' recommendations and transfers included.	Jacinta Ndegwa - accountant	Resolved	
2.0	Accuracy of bank and cash balances.	Cashbook balances included and signed by the General Manager.	Jacinta Ndegwa - accountant	Resolved	
3.0	Trade and other receivables	The company did not have a board of directors to come up with a bad debts policy.	General Manager – Charles Wamai	In progress	
4.0	Internal borrowing from customers deposits	The Company had started to refund the cash borrowed. However, the company will resume payments once collections are stable since there is a board in place	General Manager – Charles Wamai	In progress	
<b>Report on lawfulness and effectiveness in use of public resources</b>					
1.0	Audit fees	To charge at the rates to be given by the Auditor-General		In progress	
2.0	Lack of internal unit	To consult the board	General Manager – Charles Wamai	In progress	
3.0	Lack of audit committees	In the new board constituted there is already an audit committee.	General Manager – Charles Wamai	Resolved	
<b>Report on effectiveness of internal controls, risk management and governance</b>					






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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.0	Non-revenue water	We shall adhere to 100% metering, legalising illegal connections and rehabilitation of dilapidated pipelines.	Bancy ireri - revenue officer and Juliet Karimi – technical person	In progress	Once funds are available
2.0	Board of directors	A new board was constituted on 27 <sup>th</sup> August 2019	General Manager – Charles Wamai	Resolved	
3.0	Information technology (IT) internal control weakness and lack of a strategic plan.	A new integrated billing software web based initiated	General Manager – Charles Wamai	In progress	Waiting to be operationalised

**Guidance Notes:**

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury.


CHARLES W. WAMAI

  
Director General/C.E.O/M.D  
(enter title of head of entity)

Date: 28/01/2020

Chairman of the Board

ERASMUS KITHANJI M.

  
Date: 28/01/2020

