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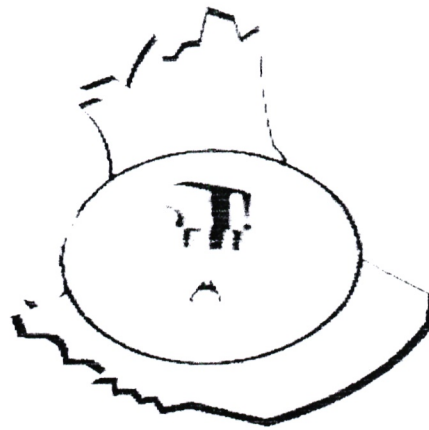
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THE AUDITOR-GENERAL

ON

**KAPENGURIA WATER AND SEWERAGE
SERVICES COMPANY LIMITED**

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



OFFICE OF THE AUDITOR GENERAL
ELDORET HUB
18 MAR 2020
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P. O. Box 2774 - 30100, ELDORET

**KAPENGURIA WATER AND SEWERAGE
SERVICES COMPANY LIMITED.**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH JUNE 2019**

CONTENTS	PAGE
Key Entity Information	2-3
Board of Directors	4
Management Team	5
Chairman's Statement	6
Directors statement	7
Corporate Governance Statement	8-9
Corporate Social Responsibility Statement	10
Statement of Directors' Responsibilities	11
Statement of Comprehensive Income	12
Statement of Financial Position	13
Statement of Changes in Equity	14
Statement of Cash Flows	15
Summary of Significant Accounting Policies	16-21
Explanatory Notes to the Financial Statements	22-24

COMPANY INFORMATION

The company was established 25 May 2006 by the act of parliament of 2002 and was in operation 1st July 2007. At cabinet level the company is represented by cabinet secretary for water and irrigation who is responsible for the general policy and strategic direction of the company.

Principal activity

The principal activities of the company are provision of water and sewerage services

VISION.

To be a leading and most sustainable Water Service Provider in Rift Valley Service Board area of coverage.

MISSION.

To provide reliable, affordable and safe water and sewerage services in an efficient and effective way, to the customers in the defined area, through continuous improvement of the Company.

CORE VALUES.

Values are an integral part of any organization's culture, which in turn creates a sense of identity, belonging, direction and purpose. In our quest for timely provision of quality services, we shall be guided by the following core values;

- Integrity.
- Gender Sensitivity.
- Efficiency and Effectiveness.
- Accountability.
- Innovativeness.
- Customer focused.

CORE FUNCTIONS.

- Provide water & Sewerage Services within Kapenguria Municipality and West Pokot County at large as per our Mission Statement.

:

Registered Office

Makutano Booster station,
Kitale-lodwar road,
Next to ACK Church
P.O. Box 651-30600
Kapenguria, KENYA

Corporate Contacts

Telephone: -
E-mail:

Corporate Bankers

Kenya Commercial Bank,
Kapenguria branch,
P.O. Box 396-30600,
Kapenguria- Kenya.

Independent Auditors

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

Principal Legal Advisers

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

THE BOARD OF DIRECTORS

PASSPORT	NAME	PROFFESION	QUALIFICATION
	Daniel lomukereng	Teacher	Certificate
	Mr George Kombo	accountant	CPAK
	Mr. Emmanuel Linga	administration	MBA
	Mrs. Milka Chelagat	administration	Masters
	Mrs. Emily Chepoghisho	Teaching	degree



MANAGEMENT TEAM

PASSPORT	NAME	Qualification	Area of Responsibility
	YOHANA KOIBEI	DIPLOMA IN WATER TECHNOLOGY	MANAGING DIRECTOR
	SAMSON MAIYWA	CERTIFICATE IN WATER TECHNOLOGY	TECHNICAL MANAGER
	BRIAN TOROITICH	DIPLOMA IN BUSINESS MANAGEMENT	COMMERCIAL MANAGER



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, hereby present to you the Kapenguria water and sewerage limited Annual Report and financial statement for the year ended 30 June, 2019


The results were possible due the support we have received from our customers, the employees, county Government & all our stakeholders.

I am indebted to my fellow Board members for their invaluable insights & support. I wish to acknowledge the Senior Management & Staff for their valuable support & dedication in reaching these favourable results, without their individual contribution. We once again mark another successful year of KAWASES. Finally on behalf of the Board I would like to thank the National & County Government and Regulatory bodies for the guidance, training & support.

I am confident that with your continued support, we will once again steer the Company through another successful financial year.

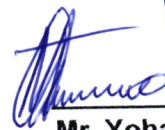
Finally, I wish to thank my fellow Directors, management and staff of the Company for their hard work which has enabled the impressive trading results during the year. I also thank our valued customers for their support and loyalty and assure them of our determination to continually improve the quality of our services.

Thank you & God bless you all


Luka Chepelion

C.E.C Ministry of water





Mr. Yohana Koibei

Managing Director

MANAGING DIRECTOR
KAPENGURIA WATER
& SEWERAGE
SERVICES LTD.

Financial statements

For the year ended 30th June 2019



EXECUTIVE SUMMARY

It is now One year since I joined since Kapenguria Water and Sanitation Company (KAWASES). I would like to comment the slip board for working tirelessly to ensure that KAWASES meets it's made of water service provision. Undoubtedly, the company has made tremendous strides in the Management and delivery of Water and Sewerage Services within the Kapenguria Town and its Environs. From a small department in the council to a leading Water and Sanitation service provider in the county, the company has always sought to strategically position itself to provide quality services to its customers as it strives to meet the minimum industry standards.

The Management of the company from year 2016 has put in place plans and strategies which are carefully drawn with total management input and commitment to make KAWASES the County Water and Sanitation Services Provider. However most of the board members left to join politics in 2017 leaving a slim board that included CEC, CO of water and the BOD chairperson.

The management's focus will be to have the optimum number of staff with the right skills and attitude and will endeavour to train, motivate and retain the staff with the essential talents and avail good and conducive working environment.

The Company therefore, will strive to nurture the company's Core Values and forge good industrial and customer relations for the achievement of the set objectives.

Thank you and God Bless You.


Yohana Koibei
Managing Director

**MANAGING DIRECTOR
KAPENGURIA WATER
& SEWERAGE
SERVICES LTD**

CORPORATE GOVERNANCE STATEMENT

Corporate governance is the process and structure used to direct and manage the business affairs of the Company towards enhancing prosperity and corporate accounting with the ultimate objective of realising shareholders' long term value while taking into account the interest of other stakeholders. Directors are responsible for corporate governance practices of the Company. This statement sets out the main practices in operation during the year under review, unless otherwise indicated.

Directors and Management of the Company regard corporate governance as pivotal to the success of the business and are unreservedly committed to ensuring that good governance is practiced so that the company remain sustainable and viable business of the community stature. As part of this commitment, the Board fully supports best practices in corporate governance and has adhered to the Guideline Governance.

BOARD OF DIRECTORS

The Board consists of five Directors and a Managing Director. The Directors' biographies are on page 4. Directors possess a broad range of skills, qualifications and experience required to direct the Company.

At least one third of the Board members are required to submit them for re-election each year during the Annual General Meeting. Any Director appointed by the Board during the year is required to retire and seek re-election at the next Annual General Meeting.

Business transactions with all parties, Directors or their related parties are carried out at arm's length.

RESPONSIBILITIES

The primary responsibilities of the Board include: establishment of short and long-term goals of the Company and strategic plans to achieve those goals; ensuring preparation of the annual financial statements; approval and review of the annual budgets; setting and periodically reviewing key performance indicators and management performance; managing risks by ensuring that the Company has adequate systems of internal controls together with appropriate monitoring of compliance activities; and working with management to realise shareholders' value.

To enable the Board to function effectively the Board is given full and timely access to relevant information. New Directors are also inducted through provision of necessary information pertinent to the Company's business, meetings with Management and training so as to enhance their understanding of the Company's legislative framework, its governance processes and the nature of the business and operations of the Company. Continuous training is provided. Towards this, nine Directors have been trained on corporate governance by the Rift Valley Water Services Board. The Board meets at least once a quarterly or more often in accordance with requirements of the business.

BOARD WORK PLAN AND MEETINGS

The Board work plan and calendar of meetings is prepared annually in advance. Adequate notice is given for each Board meeting and Directors receive detailed papers on issues to be discussed in good time before the meeting. The Board held a total of 4 meetings during the year, which were very well attended.

Board Committees

A number of standing committees exist in order to assist the Board and management fulfil their responsibilities. Each committee operates within the ambit of defined terms of reference assigned to it by the Board.

During the year, the Board had the following standing committees.

1. Finance/ Technical and General purpose committee.
2. Audit committee.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

In recognition of its obligations as a responsible corporate entity, the Board of Directors and management sustained the Company's participation in corporate activities that enhance the social, economic and environmental interests that affect its internal stakeholders.

The Environment Our business has been a major beneficiary of wood products. We have, therefore, undertaken to contribute towards national a forestation initiatives in collaboration with the Forest Department. Since 2012, the Company has sustained a tree-planting programme at Kapkoris water catchment area and kamaruny from. Also, further encouragement to individual farmers to planted trees along the upstream.

Stakeholder Awareness.

Operate and, consequently, we have endeavoured to contribute to initiatives that impact on improvement of their social well-being.

In order to facilitate awareness and understanding of various aspects and nature of our service, we carried out various awareness campaigns through print and electronic media and also organised face-to-face meetings with a view to reach a wide cross section of our customers and other stakeholders.

Our Human Capital

It is in our interest to continue investing in the development of our human capital as a prerequisite to meeting expectations of our employees and customers. Consequently, we continued to offer various groups of our employees training opportunities to learn new skills and develop careers, locally. All employees also undergo an annual performance appraisal, which includes identification of training and development needs.

Stakeholders

As a service provider that is well aware of its obligations to its customers, we drafted a Customer Charter detailing our obligations to them. We invited customers under the umbrella of resident associations and other interest groups to a meeting to debate and suggest how to enhance our services. Consequent to this interaction and in recognition of the value of partnerships and dialogue in order to better understand the needs of our customers.

Education

Our support to education-related initiatives stems from the fact that the pool of skilled manpower that help to drive the success of our Company are a product of the country's education system. We, therefore, continued to provide opportunities for attachment for Kenya Water Institute students and those from tertiary institutions, to enable them acquire a hand- on experience and fulfil a requirement for graduation. We also provide 5 position every year for internship. During the year under review, 17 students went through the attachment programme at KAWASES

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 149 (2) k of the Public Finance Management Act, 2012 and section 194 of 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 KAWASES at the end of the financial year/period and the operating results of the KAWASES for that year/period. The Directors are also required to ensure that the KAWASE keeps proper accounting records which disclose with reasonable accuracy the financial position of the KAWASES. The Directors are also responsible for safeguarding the assets of the KAWASES.

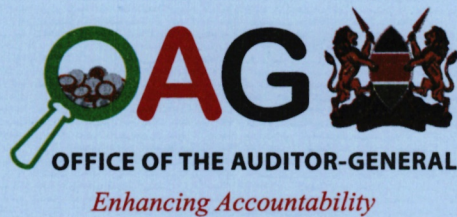
The Directors are responsible for the preparation and presentation of the KAWASES financial statements, which give a true and fair view of the state of affairs of the KAWASE for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate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

The Directors accept responsibility for 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 *company's* transactions during the financial year ended June 30, 2019, and of the *company's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the KAWASES, which have been relied upon in the preparation of the KAWASES 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.

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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

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

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Kapenguria Water and Sewerage Services Company Limited set out on pages 12 to 24, which comprise the statement of financial position as at 30 June, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1.0 Property, Plant and Equipment

The statement of financial position reflects a nil balance in respect of property, plant and equipment as at 30 June, 2019. In addition, Note 6(i) to the financial statements indicates that all the company assets are leased from Rift Valley Water Services Board. However, and as previously reported, the lease agreements for the leased assets were not provided for audit verification. Further, the assets have not been transferred to the Company as required by Section 153(1) of the Water Act, 2016.

Consequently, the accuracy, validity and completeness of the property, plant and equipment nil balance as at 30 June, 2019 could not be confirmed.

2.0 Receivables

2.1 Debtors Inherited from the Ministry of Water

As reported in the previous year, included in the receivables' balance of Kshs.13,856,246 as at 30 June, 2019 are debtors amounting to Kshs.2,496,486 inherited by the Company from the Ministry of Water in the year 2007 and whose supporting documents were not provided for audit verification. Further, no documentary evidence was provided for audit

review to indicate efforts being made by the Management to recover the long outstanding debts. In addition, the Management has also not made any provision for bad debts in the financial statements arising from the inherited debtors that have been outstanding for over ten (10) years and whose recoverability is in doubt.

Consequently, the accuracy, validity and completeness of the receivables' balance of Kshs.13,856,246 as at 30 June, 2019 could not be confirmed.

2.2 Unpaid Share Capital

The receivables' balance of Kshs.13,856,246 also includes unpaid share capital of Kshs.100,000 which was owned by the defunct Municipal Council of Kapenguria-Kshs.70,000 and a community based organization-Kshs.30,000 which had been outstanding since inception of the Company in 2006. As reported previously, the Management has not made efforts to have the amounts paid.

In the circumstances, validity, accuracy and completeness of the receivables balance of Kshs.13,856,246 as at 30 June, 2019 could not be confirmed.

3.0 Inventory

The statement of financial position reflects a nil balance in respect of inventory as at 30 June, 2019. However, evidence of physical stock taking as at 30 June, 2019 was not provided for audit review.

Consequently, the accuracy and completeness of the nil stock balance as at 30 June, 2019 could not be confirmed.

4.0 Payables

4.1 Rift Valley Water Works Development Agency

The statement of financial position as at 30 June, 2019 reflects payables balance of Kshs.22,542,724 which includes Kshs.11,891,741 in respect of Rift Valley Water Services Board (Rift Valley Water Works Development Agency) which is at variance with the amount of Kshs.7,071,302 in the Agency's books for the same period resulting in a variance of Kshs.4,820,439 which has not been explained or reconciled.

4.2 Staff Salary and Deduction Due

As disclosed in Note 9 to the financial statements, included in the payables balance of Kshs.22,542,724 is staff salary and deduction due of Kshs.5,288,748. However, the breakdown and aging analysis for the amount was not provided for audit review.

4.3 Customer Deposits

As reported in the previous year, included in the payables' balance of Kshs.22,542,724 are customer's deposits amounting to Kshs.1,419,200. However, the Company did not provide the bank statement in support of the customers deposits amount of Kshs.1,419,200 as at 30 June, 2019 as required by Section 19(c) of the Model Water Services Regulations, 2007 and raising doubt on the existence of the cash paid by customers as deposits. The Management was in breach of law.

In the circumstances, the validity, accuracy and completeness of the payables balance of Kshs.22,542,724 as at 30 June, 2019 could not be confirmed.

5.0 Failure to Install Water Meters

The statement of comprehensive income reflects a turnover amount of Kshs.8,713,734 which, as disclosed in Note 2 to the financial statements, includes an amount of Kshs.208,150 relating to meter rent. As previously reported, an audit of water production records and customer meter records revealed that out of five (5) production or intake points, only one (1) point (Makutano) is installed with bulk meters with the four (4) other points not fitted with bulk meters. Further, a total of 923 customers were not fitted with meters as at 30 June, 2019 in all the 6 zones and instead billed on flat rate instead of volume of water consumed.

Under the circumstances, the validity, accuracy and completeness of the turnover of Kshs.8,713,734 reflected in the statement of comprehensive income could not be confirmed.

6.0 Un-Accounted for Water

Records availed indicated that 398,601 cubic meters (m³) of water was produced during the year under review out of which 158,678 cubic metres (m³) was billed to customers for Kshs.8,713,734 resulting in 239,923 cubic meters (m³) Unaccounted For Water (UFW) or approximately 60% of the produced water. This is 35% over and above the recommended maximum of 25% by the Water Services Regulatory Board (WASREB) guidelines. No explanation was provided for the high percentage of unaccounted for water. The significant level of Unaccounted for Water (UFW) of 239,923 m³ at a rate of Kshs.54.91 per cubic metre may have resulted in a loss of sales estimated at Kshs.13,175,268 which could have reversed the net loss to profit had it been billed. This may therefore, impact negatively on the Company's profitability and its long-term sustainability.

7.0 Spending of Revenue at Source

The statement of comprehensive income for the year ended 30 June, 2019 reflects income of Kshs.8,713,734 in respect of water sales, meter rent, ledger fee and exhauster services income. However, records provided for audit verification revealed that revenue amounting to Kshs.777,633 collected from customers was not banked but was instead used for daily operating expenses of the Company. No adequate reason was provided for failure to bank all revenue intact as required by Regulation 63(4) of the Public Finance Management (County Governments) Regulations, 2015.

Under the circumstances, the completeness and accuracy of revenue collection of Kshs.8,713,734 for the year ended 30 June, 2019 could not be ascertained.

8.0 Budgetary Control and Performance

The sales revenue and GOK grants estimates for 2018/2019 financial year was Kshs.26,200,000. However, the Company realized a total of Kshs.16,231,297 resulting into a short fall of Kshs.9,968,703 or 38% of the estimated turnover as shown below.

	Budgeted Amount Kshs.	Actual Amount Kshs.	Variance Kshs.	% Under Estimation/ Shortfall
Revenue from Sale of Water	13,000,000	8,215,984	4,784,016	36
GOK Grants	13,200,000	8,015,313	5,184,687	39
Total	26,200,000	16,231,297	9,968,703	38

No explanation was provided for the under-expenditure which may have affected the planned activities and impacted negatively on service delivery to the public.

9.0 Going Concern

The Company reported a loss of Kshs.2,304,277 which when added to previous years' cumulative losses of Kshs.7,902,922 resulted to a total accumulated deficit of Kshs.10,207,199 as at 30 June, 2019. Further, the current liabilities of Kshs.22,542,724 exceeds the current assets of Kshs.14,932,011 resulting to a negative working capital of Kshs.7,610,713. The Company was therefore not able to settle its financial obligations as they fall due.

The Company's going concern is threatened and its existence depends on the continued support from the County Government, creditors and its bankers

10.0 Failure to Observe the One Third Rule on Basic Salary

A review of the payrolls for the months of July, October, November and December, 2018 revealed that sixteen (16) employees of the Company earned net salaries less than a third of their respective basic salaries contrary to Section 19(3) of the Employment Act, 2007 which states the total amount of all deductions made by an employer from the wages of his employee at any one time should not exceed two-thirds of such wages.

The Management was therefore, in breach of the law.

11.0 Unremitted Statutory Deductions

The statement of comprehensive income reflects administrative expenses of Kshs.6,974,527 which, as disclosed in Note 5(ii) to the financial statements, includes an amount of Kshs.689,084 relating to statutory deductions. The statutory deductions had not been remitted to the statutory bodies contrary to the Retirement Benefits Act, No.3 of 1997 which requires employers to remit pension deductions to the respective scheme within 15 days of making the deduction.

12.0 Engagement of Casuals

The administrative expenses of Kshs.6,974,527 also includes an amount of Kshs.5,283,045 relating to salaries out of which an amount of Kshs.3,898,950 was incurred on the payment of wages to thirty-eight (38) casual employees. The casual employees had worked continuously for a period of between 8 to 12 months from July, 2018 to June, 2019 contrary to Section 37 of the Employment Act, 2007 which state that

casual employment may be for a specified period of time provided that it does not exceed three months.

The Management was therefore, in breach of law.

13.0 Failure to Establish an Audit Committee

As reported in the previous year, the Company did not establish an Audit Committee. This is contrary to Regulation 167(1) of the Public Finance Management (County Government) Regulations, 2015 which requires each County Government entity to establish an Audit Committee in accordance with prescribed regulations to monitor the entity governance process, accountability process and control systems of the entity, offer objective advice on issues concerning risk, control, regulatory requirement and governance of the Company.

The Management was therefore, in breach of law.

14.0 Lack of Internal Audit Function

As previously reported, the Company did not have an internal audit function contrary to Section 155(1) of the Public Finance Management Act, 2012 which states that a county government entity should ensure that it has appropriate arrangements for conducting internal audit according to the guidelines issued by the Public Sector Accounting Standards Board.

The Management is therefore, in breach of law.

15.0 Lack of Substantive Board and Managing Director

The Management of the Company affairs was being carried out by the Managing Director hired by the County Government of West Pokot under temporary engagement for six months and whose contract had expired on 15 November, 2018 and had not been renewed. As reported in the previous year, the Company did not have a fully constituted Board. This is contrary to Section 79(1) of the Water Act, 2016 which requires that a water services provider should have a Board of Directors and in the case of a Company, the Members of its Board of Directors shall be constituted in accordance with the Companies Act, 2015 or any other written law and that the Directors be nominated to serve on the Board in accordance with the Company's Memorandum and Articles of Association.

Further, the Company had not revised the Memorandum and Article of Association in line with the revised Water Act, of 2016 and Water Regulations, 2016. In addition, a ten-year Service Provision Agreement signed between the Company and the Rift Valley Water Services Board effective from 29 June, 2007 expired on 30 June, 2017 and no renewal has been done.

In the absence of a substantive Board, the entity governance process, accountability process and control systems is weak.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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 governance.

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

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with

relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion on lawfulness and effectiveness in use of public resources, and on effectiveness of internal controls, risk management and governance.

I am independent of the Company in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

15 September, 2021

**KAPENGURIA WATER AND SEWERAGE COMPANY LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019**

STATEMENT OF COMPREHESIVE INCOME

	Notes	2019 Kshs	2018 kshs
INCOME;			
Turnover	2	8,713,734	9,441,631
GOK Grants	3	8,015,312	8,991,986
		16,729,046	18,433,617
Cost of Sales	4	10,015,015	8,709,286
Gross Profit		6,714,031	9,724,331
EXPENDITURE			
Operating Expenses	5(i)	2,043,781	2,232,829
Administrative Expenses	5(ii)	6,974,527	10,412,607
		9,018,308	12,645,436
Net Profit/(loss)		(2,304,277)	(2,921,105)

KAPENGURIA WATER AND SEWERAGE SERVICES COMPANY LIMITED
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE 2019

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	NOTES	2019 Kshs	2018 Kshs
ASSETS			
Non Current Assets			
Property, Plant and Equipment	6(i)	-	-
Current Assets			
Inventory	6(ii)	-	-
Receivables	7	13,856,246	12,905,141
Cash and Bank balance	8	1,075,765.00	141,564
		14,932,011	13,046,705
Current Liabilities			
Payables	9	22,542,723.88	18,353,141
Total Current Liabilities		22,542,724	18,353,141
Net Current Asset		(7,610,713)	(5,306,436)
Capital Employed			
Share Capital	10(i)	100,000	100,000
Retained Earnings	10(ii)	(10,207,199)	(7,902,922)
Capital Reserve	10(iii)	2,496,486	2,496,486
		(7,610,713)	(5,306,436)

The Financial Statements were approved for issue by the Board of Directors on thisday of.....2019 and signed on its behalf by:



Luka Chepelion
 C.E.C Ministry of water
 WEST BOK COUNTY
 Box 222-30000, KAPENGURIA

**COUNTY EXECUTIVE COMMITTEE MEMBER
 FOR WATER, ENVIRONMENT & NATURAL RESOURCES**

16 MAR 2020



Mr. Yohana Koibei
 Managing Director

**MANAGING DIRECTOR
 KAPENGURIA WATER
 & SEWERAGE
 SERVICES LTD**

Financial Statements
 For the year ended 30th June 2019

KAPENGURIA WATER AND SEWERAGE COMPANY LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2019

STATEMENT OF CHANGES IN EQUITY

	Share Capital Kshs	Capital Reserves Kshs	Retained Earnings Kshs	Total Kshs
At the start of the year 1.7.2017	100,000	2,496,486	(4,981,816)	(2,385,330)
Movement for the year	-	-	-2,921,106	(2,921,106)
At the end of the year 30.6.2018	100,000	2,496,486	(7,902,922)	(5,306,436)
At the start of the year 1.7.2018	100,000	2,496,486	(7,902,922)	(5,306,436)
Movement for the year		-	-2,304,277	(2,304,277)
At the end of the year 30.6.2019	100,000	2,496,486	(10,207,199)	(7,610,713)

KAPENGURIA WATER AND SEWERAGE COMPANY LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2019

STATEMENT OF CASH FLOWS FOR THE YEAR ENDEND 30 JUNE 2019

	2019	2018
	Kshs	Kshs
Operating Activities		
Cash generated from operations	(2,304,277)	(2,921,106)
Increase/(decrease) in cash	(2,304,277)	(2,921,106)
Changes in Working Capital		
Increase /(decrease) in debtors	(951,105)	130,732
Increase /(decrease) in creditors	4,189,583	2,745,614
increase/(decrease) in inventory	-	-
Net inflow/(outflow) from working capital	3,238,478	2,876,346
Net cash used in operating activities	934,201	(44,760)
Movement in cash and cash equivalets		
At the start of the year	141,564	186,324
Increase/(decrease) during the year	934,201	(44,760)
At the end of the year	1,075,765	141,564

Financial Statements

For the year ended 30th June 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR

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

1.A) Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis. 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 *company'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.

B) New and revised standards

i).Adoption of new and revised standards

IAS 19-Defined benefits plan-employee contributions

IAS 32- Offsetting of Financial Assets and Financial Liabilities

IAS 36- Recoverable amount disclosures for non-financial assets

IAS 39- Novation of derivatives and continuation of hedge accounting

IFRS 10, IFRS 27 and IAS 27- Definition of investment entities.

The above revised standards and interpretations have become effective for the first time on Financial Period beginning on or after 1st January 2014 and have been adopted by the company where relevant to its operations.

ii).New and revised standards and interpretations which have been issued but are not effective yet

The following revised standards and interpretations have been published and will be effective for the first time in the years after the current Financial Year (31st December 2014). The Company has not early adopted any of these amendments or interpretations.

Effective for annual periods beginning on or after 1st July 2014 issued 12 December 2013

IAS 40- Investment Property

IAS 16- Property Plant and Equipment

IAS 24- Related Party Disclosures

IAS 38- Intangible Assets

IFRS 1- First-time adoption of IFRS

IFRS 2- Share-based combinations (with consequential amendments to other standards)

IFRS 3- Business Combinations

IFRS 8- Operating Segments

IFRS 13- Fair Value Measurement

IFRIC 21- Levies

Effective for annual periods beginning on or after 1st July 2016 issued 25th September 2014

IFRS 5- Noncurrent Assets held for sale and discontinued operations.

IFRS 7- Financial Instruments disclosures

IAS 39- Employee Benefits

IAS 34- Interim Financial Reporting

New Standards

IFRS 9- Financial Instruments. Effective on or after 1st January 2018

IFRS 14- Regulatory deferred accounts. Effective on or after 1st January 2016

IFRS 15- Revenue from contracts with customers. Effective on or after 1st January 2017

iii) Change in Presentation

The Company reviewed the Presentation of the Financial Statements from its previous format for better understanding by the Stakeholders. The reclassification has been effected on both the current and comparative amounts. No loss in monetary value for the comparative amounts has occurred during reclassification.

This disclosure is as required by IAS 1

(C) 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 water** 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) **A government grant income** is recognised when there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received also grants are recognised in the statement of comprehensive income on systematic basis over the period in which the entity recognises as expenses the related cost for which the grants are intended to compensate
- iii) **Other income** is recognised on accrual basis.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) Property Plant and Equipment.

All categories of Property Plant and Equipment (PPE) are initially recorded at cost less accumulated depreciation and impairment losses.

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

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

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

E) Depreciation and impairment of property, plant and equipment

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

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

Furniture	12.5% (8 years)
Computers and Printers	33.3% (3 years)
Motor cycle	25 % (4 years)
Network extension	2.5% (40 years)
Tools	33.3% (3 years)
Meters & Equipment	12.5% (8years)
Graded Filter	10% (10 years)

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation and impairment of property, plant and equipment (Continued)
ful life of computer software of three years.

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

F) 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.

G) Inventories

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

H) 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.

I) Cash and cash equivalents

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

J) 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 company or not, less any payments made to the suppliers.

K) Comparative figures

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

L) 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.

M) RISK MANAGEMENT POLICIES

The financial risk management objectives and policies are as outlined below:

- **Credit risk**

The Company's credit risk is primarily attributable to its trade receivable and bank deposits. The amounts presented in the balance sheet 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.

In addition, the Company has no significant concentration of credit risk, with exposure spread over a large number of customers.

The credit risk on liquid funds with financial institutions is also low, because the counter parties are banks with high credit-ratings.

- **Liquidity risk**

The risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments has been and continues to be addressed by management, by re-negotiating with water regulators' bodies for tariff adjustment, county and national government for grants.

N) RETIREMENT BENEFITS OBLIGATIONS (IAS 19)

The Company does operate a defined retirement benefits scheme for all employees. Only 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 obligations under the scheme are limited to specific contributions legislated from time to time and are currently at Kshs. 200 per employee per month.

KAPENGURIA WATER AND SEWERAGE COMPANY LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2019

NOTES TO THE FINANCIAL STATEMENTS

	2019	2018
2. Analysis of turnover		
Water Sales	8,215,984	9,011,631
Meter rent	208,150	226,800
Ledger fee	39,600	49,200
exhauster services	250,000	154,000.00
	8,713,734	10,837,400

3. GOK grants		
Grants are electricity costs paid by ministry of water on behalf of the Company		
Electricity Kshs	7,557,692.00	8,339,242
Chemicals	457,620.00	194,621
WARMA Levy	-	458,123
	8,015,312.00	8,991,986.12

	2019	2018
4. Cost of sales		
Electricity	9,557,395	8,457,390
Chemicals	457,620	251,896
	10,015,015	8,709,286

This of cost electricity used for pumping water and paid by the ministry of water as analysed below:
Electricity costs

Station		2019 Kshs	2018 Kshs
KAPET/WORKS			
A/C:17271297		1,039,398	1,346,847
KAPE/BOOSTER A/C:34642708		43,329	61,895
PSKIRIO A/C:30848240		724,794	1,617,420
PSIKRIO A/C:30848261		90,362	392,486
Makutano A/C: 17400281		2,501,774	2,956,496
Karas A/C:17271305		1,478,772	1,342,497
Makutano Booster A/C:17269145		197,750	367,349
Kape Intake A/C:17271792		3,481,217	372,400
TOTALS		9,557,395.62	8,457,390

	2019		2018
		kshs	
Maintenance		365,905	396,585
Levy (RVWSB)		1,396,717	1,531,977
WASREB		82,159	90,116
WARMA		199,000	214,151
		2,043,781	2,232,829

5.(ii) Administrative Expenses

	2019	2018
	kshs	kshs
Salaries	5,283,045	7,182,295
Wages	-	244,000
Honorarium	-	138,000
statutory deduction	689,084	1,544,146
leave allowance	-	-
Board Expenses	-	37,000
Stationery and office exp	37,074	76,475
Postages & Telephone	30,210	71,750
Bank Charges	54,320	42,714
Travelling allowances	236,999	276,660
default paye	-	-
Audit fees	232,000	232,000
miscellaneous/office	105,455	147,307
Transport	241,340	377,260
Rents and Rates	60,000	36,000
Welfare	5,000	7,000
TOTAL	6,974,527	10,412,607

6(i) Property, Plant and Equipment

	2019	2018
	-	-

All the assets managed the Company are leased from Rift Valley Water Board.

There was no addition during the year under review.

6(ii) Inventory

	2019	2018
chlorine	-	-
alum	-	-
	-	-

7. Receivables

	2019	2018
	<u>Kshs</u>	<u>Kshs.</u>
Inherited debtors.	2,496,486	2,496,486
Trade Debtors	11,242,580	9,224,159
Share Capital	100,000	100,000
KPLC(Prepayments)	17,180	1,084,496
	13,856,246	12,905,141

Inherited debtors are debts taken over by the company from the Ministry of water.

8. Cash and Bank Balances

	2019 Kshs	2018 Kshs
Cash at Bank (KCB Current-revenue)	881,103	74,623
expenditure a/c	79,509	24,761
Customer Deposit a/c	105,353	29,476
Cash at hand	9,800	12,704
	1,075,765	141,564

9. Payables

	2019 Kshs	2018 Kshs
Rift Valley Water Service Board	11,891,741	10,915,226
WASREB	541,876	397,643
WARMA	260,630	61,535
Provision for Audit fess	2,124,000	1,892,000
Customer Deposit	1,419,200	1,334,000
K.P.L.C	1,016,529	84,142
staff salary and deduction due	5,288,748	3,668,595
	22,542,724	18,353,141

10. (i) Share Capital

	2019 Kshs	2018 Kshs
Authorised and issued 5,000 shares of Kshs 20 each	100,000	100,000

10. (ii) Retained Earning

	(7,902,922)	(4,981,816)
	(2,304,277)	(2,921,106)
	(10,207,199)	(7,902,922)

10.(iii) Captal Reserves

Inherited debtors	2,496,486	2,496,486
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