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THE AUDITOR-GENERAL

ON

**NAKURU RURAL WATER AND SANITATION
COMPANY LIMITED**

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



NAKURU RURAL WATER AND SANITATION COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

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

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



Nakuru Rural Water and Sanitation Company Limited

Annual Reports and Financial Statements

For the year ended June 30, 2019

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Nakuru Rural Water and Sanitation Company Limited

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KEY ENTITY INFORMATION

Background information:

NARUWASCO is a wholly owned company of Nakuru County Government responsible for provision of water and sanitation services within the rural parts of Nakuru County covering an approximate service area of 7,406km². NARUWASCO assumed this responsibility with effect from 1st April, 2007 after the signing of the Service Provision Agreement (SPA) between it and the RVWSB and subsequent approval by Water Services Regulatory Board (WASREB). The WSP is governed by a Board of Directors with the day to day management being undertaken by the Managing Director.

Principal Activities:

The principal activity of the company is water service provision within its area of jurisdiction.

Directors:

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

Mr. J. Thiga Kariuki	- Chairman
Ms. Frida Mwangi	- Vice-Chair person
Mr. Gilbert Rotich	- Member
Ms. Mary Mburu	- Member
Mr. Charles Njuru	- Member
Mr. Johnson Kamau	- Member
Mr. Philip Wachira	- Member
Mr. Kipngetich Cherono	- Member
Mr. Kennedy Ombati	- Member
CPA. Reuben K Korir	- Managing Director

Company Secretary:

CS Gikuhi Kiana

Registered Office:

NARUWASCO Plaza

Stanley Mathenge Road, off Nakuru - Eldoret Highway

NAKURU, KENYA

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KEY ENTITY INFORMATION (Continued)

Corporate Headquarters:

NARUWASCO Plaza

Stanley Mathenge Road off Nakuru - Eldoret Highway

NAKURU, KENYA

Corporate Contacts:

P O Box 386-20100,

NAKURU, KENYA

Telephone: (254) 51 2 213 214, 721 344 898,

E-mail: info@naruwasco.co.ke Website: www.naruwasco.co.ke

Corporate Bankers:

Kenya Commercial Bank

Nakuru Branch

P.O. Box 18-20100,

NAKURU, KENYA

Independent Auditors:

Auditor General,

Anniversary Towers, University Way

P.O. Box 30084,

GOP 00100

NAIROBI, KENYA

Principal Legal Advisers

The County Attorney,

County Government of Nakuru






NAKURU, KENYA

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THE BOARD OF DIRECTORS

	NAME	PROFILE
1	 <p>Thiga Kariuki</p>	<p>DOB: 12/10/1950</p> <p>Mr. Thiga Kariuki served in senior management position at KFA. He has a wealth of experience in management and decision making having served at KFA between 1970 and 2008. He held various positions among them: Branch Manager, Credit manager, Senior accounts controller. In addition, he does volunteer work at ACK men fellowship. He is serving the Board as chair. He represents Bahati and Subukia sub-counties.</p>
2	 <p>Frida Mwangi</p>	<p>DOB: 1970</p> <p>Ms. Frida Mwangi is a business lady with interests in the hospitality industry. She a member of Lions Club International and a friend of St. Ann's children's home. In addition, she is a board member of Woodard secondary school in Gilgil. She is the chair of finance and general-purpose committee.</p> <p>She represents Gilgil Sub-county at the board.</p>
3	 <p>Kipngetch Cherono</p>	<p>DOB: 1962</p> <p>Mr. Kipngetch Cherono has a wealth of experience in senior management. He works in Egerton University as an administrator.</p> <p>He is a member of the audit and risk management committee of the Board. He represents Rongai Sub-county at the Board.</p>
4	 <p>Mary Mburu</p>	<p>DOB: 1969</p> <p>Ms. Mary M Mburu has a wealth of experience in project management and banking. She serves in the technical committee of the Board. 49 years,</p> <p>She represents professionals at the Board.</p>
5	 <p>Gilbert Rotich</p>	<p>DOB: 1952</p> <p>Mr. Gilbert has a wealth of experience in management having served at senior management positions at Unilever Tea a major multinational tea company from 1976 to 2006. He is currently chairman of KCSEED a community social empowerment agency based in Kuresoi.</p>

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		He is currently the chairman of technical committee of the board. He represents greater Kuresoi sub-county.
6	 <p style="text-align: center;">Patrick Wachira</p>	<p>DOB: 26/12/1954</p> <p>Mr. Patrick has a wealth of management experience having served the national cereals and produce board between 1979 and 1995.</p> <p>He represents Njoro sub-county and the chair of audit and risk management committee of the Board.</p>
7	 <p style="text-align: center;">Johnson Kamau</p>	<p>DOB: 14/06/1964</p> <p>He represents the County Government of Nakuru. He is the county Director of Water. He is a member of the Finance and Technical committees of the Board.</p>
8	Kennedy Ombati	<p>DOB: 16/11/1984</p> <p>Kennedy Ombati represents the county government of Nakuru at the Board. He is the Chief Officer economic planning. He serves in the Audit and Risk management committee of the Board</p>
9	 <p style="text-align: center;">Charles Njuru</p>	<p>DOB: 1958</p> <p>Charles Njuru has a wealth of experience in teaching and management having been a head teacher in various schools. He is an educationist.</p> <p>He represents Molo Sub-county at the Board and serves in the finance and general-purpose committee.</p>
10	 <p style="text-align: center;">CPA Reuben K Korir</p>	<p>DOB: 29th September, 1969.</p> <p>CPA Reuben K Korir is an Accountant by profession, with a wealth of experience in the water sector having served in the sector from 1996 to date.</p>

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MANAGEMENT TEAM

 CPA. Reuben K Korir (BCom, CPA, MBA)	Chief Executive Officer/Managing Director
 Mr. Edward Mwangi (B.Sc. Eng.)	Technical Services Manager
 CPA. Benjamin M Maundu (BCom, CPA)	Commercial Manager
 Ms. Linda Korir (BA, IHRM, MBA)	Human Resource and Administration Manager
 CPA Teresia Mumbi Ng'ang'a (BCom, CPA)	Senior Accountant
 CPA Mary Njoroge (BCom, CPA)	Senior Internal Auditor

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CHAIRMAN'S STATEMENT

It is my pleasure to present the Annual Report and Financial Statements of Nakuru Rural Water and Sanitation Company Limited (NARUWASCO) for the year ended 30th June, 2019.

The company has continued to play its role in providing water services within its area of jurisdiction as defined and mandated by the license from Water Services Regulatory Board (WASREB). The new constitution recognizes access to water as a basic human right to all citizens. The Board is aware that this presents a major challenge in effectively responding to our responsibilities. In this regard, the Board has put in place measures to ensure that its strategic plans are aligned to this fact.

In order to increase access to water services and reduce Non-Revenue Water (NRW), the company, in collaboration with VEI, Nakuru County Government, and other development partners and stakeholders have implemented various programs within its service area.

During the year, among other key improvements, the company registered an improved performance in revenue of 10%. In addition, the company launched its strategic plan for the period 2018 – 2022, this shall guide the direction the company shall take to achieve its key objectives.



Mr. Thiga Kariuki

Chairman

Date: 9/11/2020

Nakuru Rural Water and Sanitation Company Limited

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REPORT OF THE CHIEF EXECUTIVE OFFICER

Financial Performance

The financial year ended 30th June 2019 was the thirteenth year of the company's existence since its establishment on April 2007.

During the year under review, the company realised total gross income of **Kshs 272,988,918.00** compared to **Kshs. 251,744,184.00** for the previous financial year, representing an **8%** increase. The increase in income was as a result of the efforts management put in place among them aggressive metering, improved supervision of meter-reading, billing and revenue collection operations.

During the period under review WASREB in its Impact Report rated NARUWASCO highly in terms of credit worthiness @BB grade, registering position three (3) as the most improved utility in terms of credit worthiness rating. We are basically among the few utilities that is investing heavily in development activities in addition to O&M activities and paying salaries.

Staff Matters:

Capacity building of Staff

In an effort to build capacity of our staff and be able to face new technological advances in the water sector, we continued training them through sponsorship to attend various courses related to their lines of duty. We spent Kshs 3,618,237 in training our staff an improvement of 80% compared to last financial year.

Appraisal of Senior Managers

During the year under review, we developed and implemented performance management tool that shall be used to appraise all staff. Accordingly, the process of appraising senior managers was undertaken during the year.

Recruitment of TM and HRM:

During the period under review, we successfully completed recruitment of new Managers (TM and HRAM) who reported for duty and adopted quickly to the work environment of NARUWASCO.

Automation - Billing System

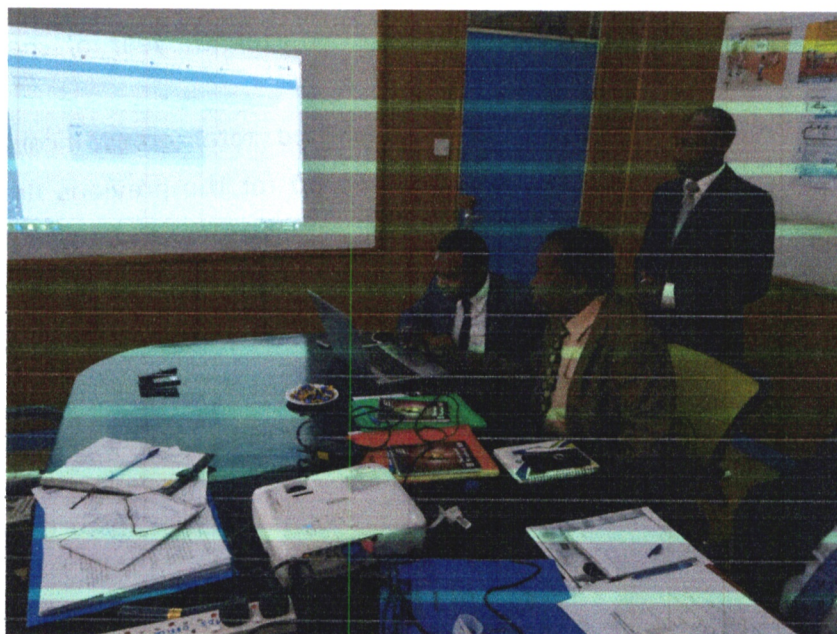
During the year, we successfully acquired and implemented a new billing and customer relations management system. It is a complete web-based ERP system with the ability to

Nakuru Rural Water and Sanitation Company Limited

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completely transform the company commercial processes and operations aiding customer relations management.



Company Chairman commissioning the new billing system in October, 2018

Strategic Plan 2018 - 2022

During the period under review, we successfully launched our Strategic Plan for the period 2018 – 2022. The new strategic plan presents the future of NARUWASCO. It clearly defines the road map to achieve the set objectives.

Donors/Partners – WaterWorX Project

During the year, we started implementation of our partnership program with the Netherlands through VEI (Vitens Evides International). This is a 15-year partnership with the Dutch government and its WSPs under a program called WaterWorX, set to focus majorly on capacity building and network extension to provide improved access to clean water and sanitation services.

Under the project, VEI organized an exposure visit to the Netherlands in September 2018. The team included MDs of three utilities, RVWSB and the county government lead by H.E the Governor.

Corporate/Board Affairs

Board tours:

Nakuru Rural Water and Sanitation Company Limited

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During the financial year, the board toured northern and eastern regions of the company. during the tour, the board commissioned Site Kaburi (Baraka) water project that was fully financed internally.

In addition, we continued to comply with the WASREB guidelines on board expenses where all meetings are held in accordance with the approved Board calendar of meetings.

Projects:

During the financial year, we implemented the following projects and developed proposals for funding:

Project/Proposal	Status
Njuguini Water Project	The project was successfully completed and now operational. The project that was funded by Water For Life (WFL) serves Lare and Kihingo wards of Njoro Sub-county.
Langalanga PEWAK Project	The project funded jointly by NARUWASCO and VEI has been successfully completed. It serves Langalanga area of gilgil. being a DMA, continuously monitoring of NRW is being done to fully achieve the project objectives.
Kiamunyi Borehole Project	The borehole meant to serve Kiamunyi area of Nakuru was successfully drilled and equipped during the year, the borehole has a tested yield of more than 30m ³ /hr. this project is fully funded by NARUWASCO.
Total Mau Summit Water Project	Implementation of the project was officially launched by H.E Governor Lee Kinyanjui on 7 th May, 2019. The project shall serve Total Mau summit area of Kuresoi North Sub-county. Target completion date for the project is February, 2020.
Site-Kaburi Pipeline project	This 4.2 km water project fully funded by NARUWASCO was successfully completed and activation of old dormant connections in site Kaburi (Baraka) area started in addition to the new connections.

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Drilling of Kiamunyi Borehole.

CPA Reuben K Korir

Managing Director

Date: 5/1/2020

Nakuru Rural Water and Sanitation Company Limited

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CORPORATE GOVERNANCE STATEMENT

The Board of Directors of the NARUWASCO has the responsibility of enhancing corporate governance practices to bring the level of governance in line with International Standards. The essence of good corporate governance practice is to promote and protect stakeholders' interests, among them are Nakuru County Government, RVWSB, WASREB, development Partners, Communities and water consumers.

The Board of Directors exercise leadership, enterprise, integrity and judgment in directing the company and acts in its best interest in a transparent, accountable and responsible way. To ensure the efficient running of the Board's operations, the company has established three standing Committees which meet and make recommendations to the full Board on issues delegated to them. Each committee of the Board has a charter clearly stating its roles. During the year under review the company had the following Committees in place;

- Finance and General Purposes Committee
- Technical Committee
- Audit and Risk Management Committee

In order to ensure that the board expenses are within the approved budget for 2018/2019 financial year and regulatory levels, a calendar of the Board meetings was developed and adhered to.

Board meetings held during the year:

Board Committee	Meetings held in the year	Members
Full Board & Special	8	All board members
Finance & General Purpose	6	✓ Ms. Fridah Mwangi - Chairperson ✓ Mr. Charles Njuru ✓ Mr. Johnson Kamau
Audit & Risk Management	4	✓ Mr. Philip Wachira - Chairperson ✓ Mr. Kipngetch Cheronu ✓ Mr. Kennedy Momanyi
Technical Services Committee	4	✓ Mr. Gilbert Rotich - Chairperson ✓ Mr. Johnson Kamau ✓ Ms. Mary Mburu

The Board of Directors are paid sitting allowance for every meeting attended as well as accommodation allowance while on Board duty as per Government and regulatory guidelines. The Chairman is paid a monthly honorarium.

Nakuru Rural Water and Sanitation Company Limited

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For the year ended June 30, 2019**


Mr. Thiga Kariuki

Chairman

Date: 9/11/2020

Nakuru Rural Water and Sanitation Company Limited

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

MANAGEMENT DISCUSSION AND ANALYSIS

RELATED PARTIES DISCLOSURES

County Government of Nakuru

The County Government of Nakuru is the principal shareholder of Nakuru Rural Water and Sanitation Company Limited, holding 100% of the its shares.

Other related parties include:

- i. Water Services Regulatory Board
- ii. Rift Valley Water Services Board
- iii. Water Resources Authority
- iv. Key management
- v. Board of directors

Transactions with related parties

Key management compensation

	2018/2019	2017/2018
Directors' emoluments	3924,900	4,735,100
Compensation to key management	8,265,000	5,970,000
Honoraria	660,000	660,000
Total	12,849,900	11,365,100

As at 30th June, 2019	Total amount Kshs	Fully performing Kshs	Impaired Kshs
Receivables from exchange transactions	162,030,697	162,030,697	0
Receivables from non-exchange transactions	0	0	0
Bank balances	6,321,843.36	6,321,843.36	0
Total	168,352,540.4	168,352,540.4	0
At 30 June 2018			
Receivables from exchange transactions	176,117,066.95	176,117,066.95	0
Receivables from non-exchange transactions	0	0	0
Bank balances	4,337,889.84	4,337,889.84	0
Total	180,454,956.79	180,454,956.79	0

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal.

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The entity has significant concentration of credit risk on amounts due from customers.

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.

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.

As at 30th June, 2019	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs
Trade payables	12,532,057.25	0	12,532,057.25
Current portion of borrowings	633,719.4	0	633,719.4
Total	13,165,776.5	0	13,165,776.5
At 30 June 2018			
Trade payables	8,327,558	2,242,046	10,569,604
Current portion of borrowings	1,927,271	0	1,927,271
Total	9,963,630.45	2,242,046	12,205,676.45

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.

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 since the company is not affected by market prices. Water prices are fixed by the Water Services regulatory board.

Foreign currency risk

The entity has no transactional currency exposures since it does not trade in them.

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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.

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
Share capital	500,000	500,000
Retained earnings	(361,634,333)	(348,493,895)
Capital reserve	228,709,738	228,709,738
WSTF	52,582,090	51,052,317
Total funds	(79,842,505)	(41,303,442)
Total borrowings	633,719	2,665,444
Less: cash and bank balances	(6,321,843)	(4,300,644)
Net debt/(excess cash and cash equivalents)	(5,688,124)	(2,410,619)
Gearing	(7.1)%	(5.7)%

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

During the period under review, the company continued to actively participate in corporate social responsibility (CSR) activities including donations as listed here below:

- i. County Sanitation Strategy Launch Kshs 200,000,

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ii. Athletics Kenya - Cross Country event Kshs 10,000,

In addition, we held our first annual tree planting event in June, 2019. During the event that is majorly focusing on conserving the environment, we planted 5,000 trees.

Nakuru Rural Water and Sanitation Company Limited

Annual Reports and Financial Statements

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REPORT OF THE DIRECTORS

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

Principal activities

During the year under review, the company continued with its core mandate of water service provision.

Results

During the year under review, the company realised a deficit of Kshs 16,359,225.00 compared to the previous year surplus of Kshs 2,074,240.00. The results were affected by provision for ADB loan and Agency fees for Rift Valley Water Services Board during the year.

Dividends

As provided for in the Water Act 2016, no dividends shall be paid by a WSP until universal coverage is met.

Directors

The members of the Board of Directors who served during the year are shown on page 4 (four) above.

Auditors

The Auditor General is responsible for the statutory audit of the *entity* in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

Nakuru Rural Water and Sanitation Company Limited

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 164 of the Public Finance Management Act, 2012 and *section 14 of the State Corporations Act*, require the Directors to prepare financial statements in respect of Nakuru Rural Water and Sanitation Company Limited, which give a true and fair view of the state of affairs of the company at the end of the financial year/period and the operating results of the *company* for that year/period. The Directors are also required to ensure that the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company. The Directors are also responsible for safeguarding the assets of 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 (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 *entity*;
- v. selecting and applying appropriate accounting policies; and
- vi. making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *entity'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, 2012 and the State Corporations Act. The Directors are of the opinion that the *entity's* financial statements give a true and fair view of the state of *entity's* transactions during the financial year ended June 30, 2019, and of the *entity's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the *entity's* financial statements as well as the adequacy of the systems of internal financial control.

Nakuru Rural Water and Sanitation Company Limited

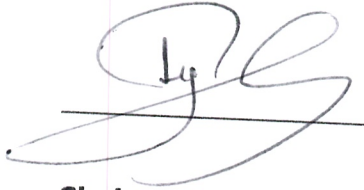
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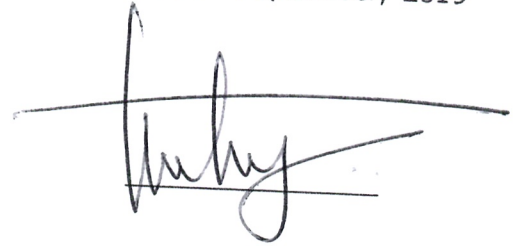
Nothing has come to the attention of the Directors to indicate that the *entity* will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The *entity's* financial statements were approved by the Board on 18th September, 2019 and signed on its behalf by:



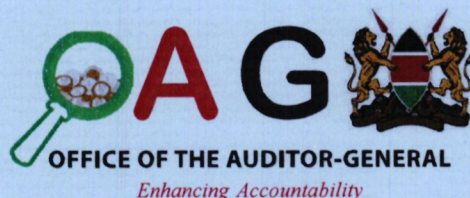
Chairman



Managing Director

REPUBLIC OF KENYA

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



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

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

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

In my opinion, 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 Nakuru Rural Water and Sanitation Company Limited as at 30 June, 2019 and of its financial performance and its cash flows for the year ended, in accordance with International Financial Reporting Standards (IFRS) and do not comply with the Companies Act, 2015.

Basis for Adverse Opinion

1.0 Discrepancies in the Financial Statements Presentation and Disclosure

The financial statements reflect the following discrepancies:

- (i) The statement of the cash flows does not disclose the items that comprise the cash flows from operating activities and investing activities. Instead, only net cash flows from the activities have been disclosed,
- (ii) the items reflected in the cash flows statement are not cross referenced with Notes to the financial statements to provide sufficient disclosure on the balances and
- (iii) no profile images have been provided on some of the members of the Board of Directors,

- (iv) The audit report for the previous financial year (2017/18) highlighted numerous discrepancies in relation to balances reflected in the financial statements, irregularities and ineffective in use of public resources and weaknesses in internal control, risk management and governance. However, contrary to the reporting format prescribed by the Public Sector Accounting Standards Board, Management has not appended to the financial statements for the year under review a report on the progress made in resolving these issues.

In view of these issues, the financial statements do not comply with the requirements of Paragraph 14 of IFRS 1 and the reporting format prescribed by the Public Sector Accounting Standards Board.

2.0 Unconfirmed Balances

Several balances reflected in the financial statements could not be confirmed:

2.1 Accounts Payables

The statement of financial position reflects trade payables totalling Kshs.335,498,739, as further disclosed in Note 23 to the financial statements. The balance contains the following anomalies:

- (i) Recasting of the items denoted at Note 23 to the financial statements as comprising the balance yielded payables totalling Kshs.337,933,030 resulting to an unexplained variance of Kshs.2,494,291; and
- (ii) the sum of Kshs.214,025,320 denoted as owed to the Rift Valley Water Services Board (RVWSB) on account of regulatory levies differs by Kshs.10,045,649 with the balance of Kshs.224,070,969 reflected in the records of the Board. The difference between the two variances was not explained. Further, the Company did not maintain a creditor's ledger for the payables balance totalling Kshs.214,025,320.

In view of these issues, the accuracy and fair statement of the reported trade payables balance totalling Kshs.335,498,739 as at 30 June, 2019 could not be confirmed.

2.2 Long Outstanding Trade Receivables

The statement of financial position reflects trade receivables totalling Kshs.171,896,135 as further disclosed in Note 15 to the financial statements. Analysis of the debtors indicated that they were more than one year old. However, contrary to the Company's debt management policy, no provisions for bad and doubtful debts had been made in respect of any of the debts.

As a result, recoverability of the reported trade receivables balance totalling Kshs.171,896,135 as at 30 June, 2019 could not be confirmed.

2.3 Consumer Deposits

The statement of financial position reflects consumer deposits totalling Kshs.22,572,142 as further disclosed in Note 24 to the financial statements. However, the cashbook for

the deposits bank account maintained at a commercial bank reflected a balance of Kshs.2,735,324 as at 30 June, 2019. The difference totalling Kshs.19,836,818 between the two sets of records was not explained. As a result, the accuracy and validity of the deposits balance totalling Kshs.22,572,142 reflected in the financial statements could not be confirmed.

2.4 Unremitted Statutory Deductions

The trade payables balance includes statutory deductions totalling Kshs.74,114,889 as at 30 June, 2019. No explanation was provided for inclusion of the deductions, which are non-trade payables, in the trade payables balance, and the failure to remit them to the respective authorities.

In view of the delay, the Company is not only in breach of the law but may also be found liable to pay fines and penalties on the outstanding amounts. Further, the trade payables balance totalling Kshs.335,498,739 is not fairly stated.

2.5 Non-Disclosure of Loan

The statement of profit or loss and other comprehensive income reflects interest payments totalling Kshs.7,085,934 on a loan issued by the African Development Bank (AfDB), as disclosed in Note 41 to the financial statements. However, the principal loan balance totalling Kshs.170,999,201 as at 30 June, 2019 shown in the loan repayment schedule has not been reflected in the statement of financial position as at 30 June, 2019.

As a result, the Company's liabilities as at 30 June, 2019 may not be fairly stated.

3.0 Material Uncertainty Related to Going Concern

The statement of profit and loss and other comprehensive income reflects a deficit of Kshs.16,359,225 for the year under review down from a profit of Kshs.2,074,240 reported in the previous year. The loss further depleted the revenue reserves of the Company to Kshs.364,853,120 as at 30 June, 2019. In addition, the Company's current assets totalled Kshs.184,867,115 against current liabilities of Kshs.370,117,186 resulting to a negative working capital of Kshs.185,250,071 as at 30 June, 2019. The unfavorable performance and financial position denotes the existence of conditions that, may cast significant doubt on the ability of the Company to continue as a going concern. As a result, the Company may have to rely on the support of the County Government of Nakuru and creditors to sustain its operations.

Management has not disclosed the actions it has taken, or intends to take, to put the Company back to profitability.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Nakuru Rural Water and Sanitation Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I

believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 Matter

Under collection of Budgeted Revenue

The statement of comparison of budget and actual amounts reflects total budgeted and actual revenues of Kshs.300,200,000 and Kshs.272,988,920 respectively resulting to a revenue deficit of Kshs.27,211,082 or 9% of the budget. No satisfactory explanation was provided by Management for the low collection of revenue.

On the other hand, the budgeted and actual expenditure totalled Kshs.285,000,000 and Kshs.289,348,143 respectively resulting in over-expenditure of Kshs.4,347,349.

Other Information

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

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, because of the significance of the matters discussed in the Basis for Adverse Opinion and Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Non-Revenue Water

Records on water production indicated that the Company produced 8,236,356 cubic meters of water during the year under review out of which 3,527,972 cubic meters or 42% were billed to customers. The balance totalling 4,708,384 cubic meters or 58% of the water produced denoted Non-Revenue Water (NRW) which was 33 percentage points above the allowed threshold of 25% set by the Water Services Regulatory Board.

Had the excess NRW of 2,649,295 cubic meters been billed, the Company would have realized additional revenues totalling to Kshs.196,047,830 at its average billing rate of Kshs.74 per cubic meter. The Company's billing rate was one of the highest charged by Water Service Providers in the Country and it would appear that among the reasons for the high cost of water sold by the Company is inefficiency brought about by the high ratio of NRW. Therefore, the NRW is a major constrain to the Company's profitability and poses a significant threat to its ability to sustain its services.

2.0 Conflict of Interest in Hire of Legal Services

Expenditure records indicated that the Company spent Kshs.149,528 to update its statutory filings at the Registrar of Companies. However, the records indicated that, contrary to Section 66(1) of the Public Procurement and Asset Disposal Act, 2015, the services may have been obtained from a legal firm associated with one of the Company's employees.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, because of the significance of the matters discussed in the Basis for Adverse Opinion and Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1.0 Lack of Risk Management Policies

Review of the Company's operational systems indicated that Management had not established risk management policies contrary to Regulation 158(1) of the Public Finance

Management (County Governments) Regulations, 2015. The provision requires the Accounting Officer in each public entity to develop risk management strategies which include fraud prevention mechanisms.

In the absence of risk management policies, Management lacks objective means to identify, measure and mitigate the operational and other risks that the Company may face.

2.0 Lack of Strategic Committee on Use of Information Communication Technology

In the year under review, the Company did not have an Information Communication Technology Strategy Committee to provide leadership on investment in and use of Information Communication Technology (ICT) including formulation of data security policies. In the circumstance, the Company's ICT assets may not have been managed in a way that achieves value for Money, as required in Section 72(1)(b) of the Public Finance Management Act, 2012.

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 Companies Act, 2015, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. in my opinion, adequate accounting records have been kept by the 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 Management and the 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 such 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 to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting

unless Management is aware of the intention to liquidate the Company or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is 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 of Kenya. 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 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 Company's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause Company to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

11 January, 2022

Nakuru Rural Water and Sanitation Company Limited

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For the year ended June 30, 2019

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

	Notes	2018-2019	2017-2018
		KES	KES
Revenue	6	261,205,642.50	234,365,058.00
Cost of Sales	7	39,615,261.70	35,031,747.00
Gross revenue		221,590,380.80	199,333,311.00
Other incomes:	8	8,115,623.00	11,343,564.00
Grants:	9	1,524,572.10	1,429,813.00
Write off Creditor	43	1,604,082.00	-
Donations in Kind	10	539,000.00	-
Input Tax	11	-	4,605,749.00
NET TOTAL REVENUES		233,373,657.90	216,712,437.00
OPERATING EXPENSES			
Administrative costs	12	152,693,614.27	131,326,327.00
Bank Charges	28	265,785.97	250,944.00
Contracted professional services	29	4,498,235.71	7,443,678.00
Hire of Transport, Plant & Machinery	30	948,021.00	204,830.00
Training Expenses	31	3,618,237.00	2,095,928.00
Regulatory fee	32	7,917,155.51	2,343,651.00
Water Users/Permit fees	33	4,258,451.50	4,333,872.00
Honoraria	34	660,000.00	660,000.00
Repairs & Maintenance	35	13,107,329.00	14,124,685.00
Board Expenses	36	3,924,900.00	4,735,100.00
Depreciation	37	14,904,468.00	7,062,800.00

Nakuru Rural Water and Sanitation Company Limited

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For the year ended June 30, 2019

Audit fees	38	348,000.00	348,000.00
Minor, Alterations works	39	2,221,990.00	1,387,057.00
Loan interest	40	177,644.90	355,008.00
AfDB LOAN	41	7,085,934.00	7,085,934.00
Rift valley Water Ser. Board	42	33,103,116.00	30,880,383.00
TOTAL EXPENDITURE		249,732,882.00	214,638,197.00
SURPLUS(DEFICIT)		- 16,359,225.06	2,074,240.00

Nakuru Rural Water and Sanitation Company Limited

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For the year ended June 30, 2019

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

ASSETS		2018-2019	2017-2018
		KES	KES
Non-Current assets	Notes		
Property Plant & Equipment	13	118,450,409.73	74,741,228.00
Total Non-current assets		118,450,409.73	74,741,228.00
Current Assets			
Inventories	14	994,388.00	1,335,111.00
Trade Receivables	15	171,896,134.68	171,591,318.00
Deposits (Electricity)	16	1,049,000.00	1,049,000.00
Prepayment	17	-	62,964.00
KRA Vat Refunds	18	4,605,749.00	4,605,749.00
Bank and Cash balances	19	6,321,843.36	4,619,890.00
Current assets		184,867,115.04	183,264,032.00
Total Assets		303,317,524.77	258,005,260.00
 EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	20(a)	500,000.00	500,000.00
Capital Reserve	20(b)	228,709,738.00	228,709,738.00
Revenue Reserve	20(c)	(364,853,120.06)	(348,493,895.00)
WSTF Grants	21	68,210,001.14	51,057,518.00
Capital & Reserves		(67,433,381)	(68,226,639.00)
Non-Current Liabilities			
Loan	22	633,719.00	1,927,271.00

Nakuru Rural Water and Sanitation Company Limited

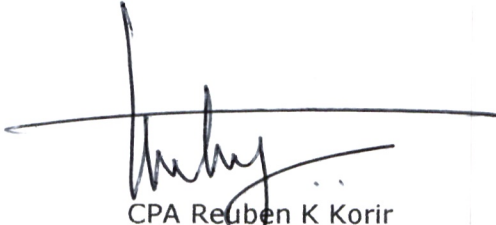
Annual Reports and Financial Statements


For the year ended June 30, 2019

Total Non-Current Liabilities		633,719.00	1,927,271.00
Current Liabilities			
Trade Payables	23	335,498,739.00	295,289,508.00
Consumer Deposits	24	22,572,142.00	18,951,600.00
Prepayment income	25	8,998,785.00	1,239,286.00
Accruals (provision for Audit fees)	26	3,047,520.00	2,351,520.00
Customer suspense account	27	-	6,933,806.00
Reinstating loan understatement of opening balance		-	(461,092.00)
Total Current Liabilities		370,117,186.00	324,304,628.00
TOTAL EQUITY AND LIABILITIES		303,317,524	258,005,260.00

Signed:


 J. Thiga Kariuki
Chairman
 Date: 9/1/2020


 CPA Reuben K Korir
Managing Director
 Date: 9/1/2020


 Teresia M Ng'ang'a
Senior Accountant
 Date: 9/1/2020

Nakuru Rural Water and Sanitation Company Limited

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For the year ended June 30, 2019

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

	Share Capital	Capital Reserve	Revenue Reserve	WSTF Grant	Total
As at 1 July 2018	500,000	228,709,738	(348,493,895)	51,057,518.00	(68,226,639)
Surplus (Deficit) for the year			(16,359,225)	17,152,483.14	793,258
As at 30th June 2019	500,000	228,709,738	(364,853,120)	68,210,001	(67,433,381)

Nakuru Rural Water and Sanitation Company Limited

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STATEMENT OF CASH FLOW FOR THE PERIOD 30 JUNE 2019

OPERATING ACTIVITIES	Notes	2018-2019	2017-2018
		KES	KES
NET CASH FLOW FROM OPERATING ACTIVITIES	44	43,647,579	24,082,289.00
INVESTING ACTIVITIES			
Fixed assets acquired		(57,029,236)	-23,952,763.00
NET CASH FLOW FROM INVESTING ACTIVITIES		(57,029,236)	-23,952,763.00
FINANCING ACTIVITIES			
Loan balance restatement			-461,092.00
Loan		(1,293,552)	-738,173.00
Grants to wstf		17,152,483	151,313.00
Refund to wstf			-5,200.00
Grant from snv			1,278,500.00
Loan Interest		(177,645)	-355,008.00
NET CASH FLOW FROM FINANCING ACTIVITIES		15,681,287	-129,660.00
Increase (Decrease)in Cash and Equivalent for the Year		2,299,630	-5,5524,175.00
Cash and cash equivalents brought forward		4,619,890	10,144,065.00
Actual Balance		6,321,843.36	4,619,890.00

Nakuru Rural Water and Sanitation Company Limited

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For the year ended June 30, 2019

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

Item Description	BUDGET 2018/2019 KES	ACTUAL 2018/2019 KES	VARIANCE KES	%AGE
Income:				
Water sale	288,000,000.00	261,205,642.50	-23,361,003	91.89
Other Incomes	12,200,000.00	8,115,623.50	-4,084,377	30.25
Grants	-	1,524,572.00		
Creditors written off	-	1,604,082.00		
Donations	-	539,000.00		
TOTALS	300,200,000	272,988,918		
Expenditure:				
Personnel Emoluments				
Basic salaries	53,800,000.00	53,583,013.82	216,986	99.60
House allowances	28,500,000.00	28,789,687.50	-289,688	101.02
Commuter Allowances	3,800,000.00	3,706,400.00	93,600	97.54
Other Allowances	3,200,000.00	2,818,572.50	381,428	88.08
Pension (NWCPC & NSSF)	6,000,000.00	5,728,636.00	271,364	95.48
Medical Allowances	7,760,000.00	8,477,500.00	-717,500	109.25
Medial Fund	4,000,000.00	842,852.00	3,157,148	21.07
Leave Allowances	1,400,000.00	1,357,441.00	42,559	96.96
Transfer Allowances	500,000.00	178,500.00	321,500	35.70
Official Entertainment	2,500,000.00	2,046,867.00	453,133	81.87
Gratuity	1,900,000.00	1,869,300.00	30,700	98.38

Nakuru Rural Water and Sanitation Company Limited

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Advertising & Publicity	1,600,000.00	2,569,746.88	-969,747	160.61
Rent & Rates	600,000.00	509,112.00	90,888	84.85
General Office Supplies	3,500,000.00	2,133,780.09	1,366,220	60.97
Audit Fees	424,000.00	348,000.00	76,000	82.08
Communication			0	
Telephone /Airtime	1,820,000.00	2,273,746.48	-2,785,749	124.93
Postal/ Courier Services	130,000.00	113,033.00	130,000	86.95
Internet /Data	1,000,000.00	936,164.00	63,836	93.62
Travelling & Accommodation			0	
Operations	12,000,000.00	13,438,122.40	-1,438,122	111.98
Seminars/Workshops/Tours	7,400,000.00	7,600,157.30	-200,157	102.70
Corporate Social Responsibility	700,000.00	220,000.00	480,000	31.43
Subscriptions	500,000.00	558,912.65	-58,913	111.78
Training	4,000,000.00	3,618,237.00	381,763	90.46
Staff Welfare	1,800,000.00	2,186,221.00	-386,221	121.46
Insurance: Motor& WIBA	800,000.00	610,118.00	189,882	76.26
Purchase of Uniforms & Protective Clothing	1,250,000.00	762,236.43	487,764	60.98
Publishing & Printing	1,100,000.00	578,779.76	521,220	52.62
Contracted Professional Services				
Security	3,200,000.00	3,395,001.11	-195,001	106.09
Sanitation Services	240,000.00	41,343.60	198,656	17.23
Legal Fees	250,000.00	154,328.00	95,672	61.73

Nakuru Rural Water and Sanitation Company Limited

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Computer Services	6,500,000.00	616,963.00	5,883,037	9.49
Other Consultancy services	2,500,000.00	290,600.00	2,209,400	11.62
Bank Charges	500,000.00	265,785.97	234,214	53.16
Minor alteration works	4,500,000.00	2,221,990.00	2,278,010	49.38
Transport exp.	7,000,000.00	6,075,412.71	924,587	115.22
Hire of Transport & other Misc	800,000.00	948,021.00	-148,021	118.50
Water Use Charges	4,800,000.00	4,258,451.50	541,549	88.72
Chemicals: CHLORINE	5,000,000.00	4,455,064.70	544,935	89.10
Chemicals: ALLUMINIUM SULP.	15,800,000.00	13,080,900.00	2,719,100	82.79
Chemicals: OTHERS/QUALITY	700,000.00	82,909.00	617,091	11.84
Maintenance of Plant & Equipment	2,000,000.00	1,416,969.00	583,031	70.85
Maintenance of Building & Stations	4,000,000.00	2,565,347.22	1,434,653	64.13
Maintenance of Water Supply & Pipelines	11,000,000.00	13,107,329.62	-2,107,330	119.16
Electricity Production	24,000,000.00	21,996,388.00	2,003,612	91.65
Electricity for office	600,000.00	338,347.00	261,653	56.39
Water and conservancy	800,000.00	1,174,598.00	-374,598	146.82
Rift Valley Water Ser Board	33,103,116	33,103,116	0	
AfDB Loan	7,085,934	7,085,934	0	
Loan Interest	177,744	177,744	0	
Regulatory fee 1%	3,000,000.00	7,917,155.50	-5,006,811	266.89
Board Expenses:			0	
Sitting Allowances	3,000,000.00	2,215,200.00	784,800	73.84
Honoraria & Airtime	660,000.00	660,000.00	0	

Nakuru Rural Water and Sanitation Company Limited

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				100.00
Travelling & Accommodation	1,200,000.00	988,200.00	211,800	82.35
Lunch & Transport	1,300,000.00	721,500.00	578,500	55.50
TOTALS	285,000,000	289,348,143	4,347,349	1.5

Notes to variance analysis

1. advertising and publicity-The increase is due to a tree planting exercise done during the year whose funds were donated from partners a per note number 10.
2. Hire of transport -The increase is due to an ongoing project transport costs where materials are delivered to headquarters since there is no storage facility at site.
3. Water and conservancy - Increase is due to anticipated huge NAWASCO bills that for the last quarter at the Ndungiri water supply
4. Regulatory fee -Increase is due to enactment of a gazette notice which increased the fee from 1% to 4% from the month of November 2018.
5. Telephone and airtime- The increase is due to a new billing system in efforts to automation.

NB:

- i. Statement of profit and loss and other comprehensive income**
- ii. Statement of financial position**
- iii. Statement of changes in equity**
- iv. Statement of cashflow**

All the above has been aligned to the new reporting template as revised in June, 2019.

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NOTES TO THE FINANCIAL STATEMENTS

1. General Information

NARUWASCO is established by and derives its authority and accountability from the PFM Act. The entity is wholly owned by the County Government of Nakuru and is domiciled in Kenya. The entity's principal activity is provision of water and sanitation services. For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on 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 areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note xx

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

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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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 Kshs xxx, lease liabilities of KSh xxx and a deferred tax asset of Kshs ... 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.

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

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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.

i) *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)

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Together with the revised *Conceptual Framework* published in March 2018, the IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised

Conceptual Framework.

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

iii) Early adoption of standards

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

Conclusion:

Nakuru Rural Water and Sanitation Company Limited have not implemented the above amendments since they have no impact on the company statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

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

Revenue from the sale of goods and services is recognised in the year in which the *entity* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

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Grants from WSTF, SNV, VEI, WFL are recognised in the year in which the *entity* actually receives such grants.

Other income is recognised as it accrues.

Property, plant and equipment

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

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

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

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

Depreciation and impairment of property, plant and equipment

Work in progress is not depreciated. It relates to the costs of ongoing but incomplete works on pipeline 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:

- | | |
|---|------------|
| i. Buildings | 25 years |
| ii. Plant and machinery | 12.5 years |
| iii. Motor vehicles, including motor cycles | 4 years |
| iv. Office equipment, furniture and fittings | 12.5 years |
| v. Computers and office equipment are depreciated on reducing balance method at the rate of 30% | |

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

Intangible assets

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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.

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.

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.

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.

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.

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

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Deferred tax is not computed since NARUWASCO depreciates assets at the same rate as KRA wear and tear rates.

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.

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.

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.

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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Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at 7.5% per employee per month.

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.

Budget information

The original budget for FY 2018 - 2019 was approved by the Board of Directors on June 2018. 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 recast 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.

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 in these financial statements .

Comparative figures

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

Subsequent events

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

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of 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.

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:

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

NARUWASCO's Operational Framework

The Ministry of Water & Irrigation is responsible for policy formulation to create an enabling environment for efficient operation and growth of the sector. It sets the strategic direction and provides a long-term vision for all institutions in the sector. Water

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services is a devolved function hence the county government has a major stake in the company. The power of monitoring and inspection is performed by the county government.

The company's broad mandate is to provide water and sanitation services to the residents of Nakuru County. In order to fulfill her mandate, NARUWASCO works closely in partnership with other institutions in the sector. Some of the institutions that partner with NARUWASCO in the water sector include; Water Services Regulatory Board (WASREB) that exercises national regulatory powers, Water Resource Authority (WRA) which has the authority to manage the catchment areas and sources of water, Water Sector Trust Fund (WSTF) mobilizes grants and cheap finances for the water companies mainly on pro-poor areas, Water Appeals Board (WAB) with mandate of dispute resolution relating to water issues.

Company Governance and Management Structure

The company is governed by a Board of Directors comprising various stakeholders among Constituency representatives and the County Government (shareholder). The Board has two roles; supervisory and advisory roles to the management of NARUWASCO. The top management of NARUWASCO is led by the Managing Director (MD) and supported by senior managers heading specific functions.

Financial strategy

Our financial strategy is to be able to generate sufficient revenues to meet our operational and developmental requirements. Partnership with donors to enable the company solicit for grants to enable financing for long term sustenance of the infrastructure is also key.

Compliance with statutory requirements

The organization's financial statements have been prepared in accordance with the provisions of the PFM Act and have also complied to Public sector accounting standards of Kenya and the approved IFRS templates.

The company is a going concern and have no ongoing or potential court cases that may expose to potential contingent liabilities.

Major Risks Facing the Entity

There is no major risk facing the entity despite the increase in trade and other payables during the financial year. The improved revenue is an indicator that the going concern is not doubtful.

Material arrears in statutory deductions

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The main debt in statutory deductions is the pension where there is an agreement between the two parties on how to settle the same. The agreement has henceforth been honored.

Financial probity and governance issues

There is no major financial improbity reported by the internal audit, the audit committee or any other oversight body during the financial year. Additionally, the entity does not have any governance issue among the board of directors or the corporate management team.

6.Revenue	2018-2019	2017-2018
Revenue	261,205,642.00	234,365,058.00
7. Cost of Sales		
Electricity for Production	2018-2019	2017-2018
Rongai south T/works	145,226.00	183,748.00
Njoro T/works	37,297.00	55,497.00
Elburgon T/W	174.00	4,008.00
Prison Road Booster	2,860.00	127,384.00
Njoro isoleted	1,879,991.00	1,656,818.00
Marishoni B/H	2,946,184.00	196,334.00
block 4/119	767,478.00	509,906.00
Turasha T/W	460,677.00	344,920.00
NKU ELD RD	2,383,613.00	2,463,148.00
Elburgon B/H AM/Office	1,655,330.00	1,650,859.00
Kirobon water project	388,263.00	249,971.00
Njoro B/h 11	1,633,045.00	655,212.00
Nguso Water Project	2,870,540.00	4,480,608.00
Menengai Booster	10,945.00	249,318.00
Twin B/holes molo town	357,525.00	119,613.00

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Kerma B/h	4,064.00	4,629.00
Majangwa B/h	2,075,283.00	2,414,796.00
Elburgon ADB B/h	323,089.00	7,751.00
Molo hospital Rd B/H	10,820.00	20,279.00
Molo ADB B/h no.1	1,943,011.00	205.00
njuguini borehole	414,956.00	509,421.00
Piave water Project	892,715.00	355,742.00
Milimani molo	74,598.00	33,683.00
Ngorika borehole	174,387.00	
Ndeffo borehole	58,652.00	87.00
Njoro road - Ngata	197,911.00	
karunga water project	287,754.00	
Gichobo Project	5,423.00	
Sub-Total	21,996,388.00	16,293,937.00
(b) supply for Production	2018-2019	2017-2018
ALLUMINIUM	13,080,900.00	13,800,032.00
CHLORINE	4,455,064.70	4,476,920.00
SODA ASH		
OTHERS	82,909.00	460,858.00
Sub-Total	17,618,873.70	18,737,810.00
Grand Total	39,615,261.70	35,031,747.00
<u>8.Other incomes:</u>	-	
<u>Molo Sewer charges</u>	405,088.50	
<u>Penalties, reconnection charges</u>	3,771,000.00	8,336,715.00
Connections	2,956,034.50	2,419,849.00
Water Sale by Tanker	983,500.00	587,000.00

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Total	8,115,623.00	11,343,564.00
9. Grants:		
WSTF		151,313.00
PEWAK	1,524,572.10	1,278,500.00
Total	1,524,572.10	1,429,813.00
10. Donations in Kind		
Rift Valley Water Services Board	100,000.00	
Ukulima Sacco	300,000.00	
Kcb	10,000.00	
Post Bank	27,000.00	
Kel Chemicals	12,000.00	
Nairobi Iron Mongers	20,000.00	
Diamond Chemicals	50,000.00	
Nakuru Super Hardware	10,000.00	
Raj	10,000.00	
Total	539,000.00	
11.Input Tax	-	4,605,749.00
12. (a) Admin Costs	2018-2019	2017-2018
Official Entertainment	2,046,867.00	1,923,647.00
Electricity for office	338,347.00	568,508.00
Water conservancy	1,174,598.00	1,005,671.00
Telephone expenses	2,273,746.48	2,623,066.00
Internet/Data	936,164.00	-
Postal and Courier Services	113,033.00	108,259.00

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Travelling and operation	21,038,279.70	17,637,271.00
Publishing and Printing Services	578,779.76	699,860.00
Subscriptions	558,912.65	341,893.00
Advertisement and Publicity	2,569,746.00	1,400,890.00
Rent and Rates	509,112.00	560,400.00
Staff welfare	2,186,221.00	1,657,640.00
Insurance	610,118.00	637,676.00
Supply of Uniforms	762,236.00	327,298.00
General Office Supplies	2,133,780.00	1,907,719.00
Transport Operating expenses	6,075,412.71	4,678,092.00
Corporate Social Responsibility	210,000.00	296,053.00
12.(b) Staff costs		
Salaries and Allowances	96,005,726.69	83,271,755.00
Wages of Temporary Employees	2,816,819.28	4,136,296.00
Gratuity Provisions	1,869,300.00	1,488,000.00
Pension and Nssf contribution	5,728,636.00	5,053,137.00
Leave pay	1,314,927.00	906,039.00
Medical Expenses	842,852.00	97,157.00
SUB-TOTAL	108,578,260.97	94,952,384.00
TOTAL	152,693,614.27	131,326,327.00

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13.(a) FIXED ASSETS MOVEMENT SCHEDULE

	FURNITURE & FITTINGS	METER PLANT & EQUIPMENT	BUILDING	MOTORCYCELES/ VEHICLES	OFFICE EQUIPMENT	SOFTWARE	CAPITAL WORK IN PROGRESS	TOTAL
COST	12.5% KES	12.5% KES	4%	25% KES	30%	20%		
As at 1 July 2018	1,192,850	25,766,693	1,194,494	9,016,657	2,010,422	3,938,951	50,987,436	94,107,503
Additions during the Year	216,475	49,852,794	-	584,561	1,904,483	4,468,302	2,621	57,029,236
Prior year Adjustment							59,752	59,752
Pewak Project							1,524,572	1,524,572
TOTALS	1,409,325	75,619,487	,194,494	9,601,218	3,914,905	8,407,253	52,574,380	152,721,063
LESS								
DEPRECIATION								
As at 1 July 2018	892,133	10,827,241	95,552	5,064,297	911,382	1,575,580		-
During the year	176,166	9,452,436	47,780	2,372,165	1,174,471.00	1,681,451		19,366,185
TOTALS	1,068,299	20,279,677	143,332	7,436,462	2,085,853	3,257,031	-	34,270,653

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NET BOOK VALUE

AS AT 30TH JUNE

2019	341,026	55,339,810	1,051,162	2,164,756	1,829,052	5,150,222	52,574,380	118,450,410
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13. (b) WORK IN PROGRESS	2018-2019	2017-2018
BALANCE B/F	50,987,436.00	44,436,472.00
HOUSEHOLD SANITATION	2,620.50	5,214,814.00
KIWANJA NDEGE		1,336,150.00
TOTAL	50,990,056.50	50,987,436.00
14. INVENTORIES		Prior Year
	2018-2019	2017-2018
CHEMICALS	838,013.00	1,037,736.00
ALLUMINIUM	131,625.00	273,375.00
CHLORINE	24,750.00	24,000.00
SODA ASH		
Others		
TOTAL	994,388.00	1,335,111.00
15. ACCOUNTS PAYABLES	2018-2019	2017-2018
DOD	18,114,635.00	9,196,889.00
NAWASCO	5,439,633.00	22,697,158.00
Other Trade receivables	148,292,866.68	139,617,271.00
Staff receivables	49,000.00	80,000.00
Total	171,896,134.68	171,591,318.00
16. Deposits		
Electricity	1,049,000.00	1,049,000.00
Total	1,049,000.00	1,049,000
17. Prepayments	-	62,964
Water Conservancy		
TOTAL	-	-
18. KRA VAT REFUND:		
	2018-2019	2017-2018

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	4,605,749.00	4,605,749.00
TOTAL	4,605,749.00	4,605,749.00
19. Bank and Cash Balances	2018-2019	2017-2018
Cash in hand	-	-
KCB Deposit account	2,698,368.40	223,077.00
KCB Revenue	49,275.00	37,246.00
KCB Expenditure	559,722.47	1,655,145.00
KCB Contingency account	244,898.75	19,710.00
KCB Household sanitation	-	3,679.00
Equity Bank	-	867.00
Family Bank	216,033.74	420,249.00
Kenya Post Office Saving Bank	2,099,141.00	2,072,174.00
Mpesa	451,244.00	177,971.00
Posta	3,160.00	9,772.00
Total	6,321,843.36	4,619,890.00
20.(a) Share Capital	2018-2019	2017-2018
Authorized:		
5,000 Ordinary shares of Kshs. 100 each	<u>500,000.00</u>	500,000.00
Issued and Fully Paid:		
5,000 ordinary shares of Kshs. 100 each	500,000	500,000.00
	2018-2019	2017-2018
(b) Capital Reserve	228,709,738	228,709,738.00
	228,709,738	228,709,738.00
(c) Revenue Reserve	2018-2019	2017-2018

This item is made up of the following:

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Balance b/f	(348,493,895)	-350,568,137.00
Profit (Loss)	(16,359,225.00)	2,074,242.00
	(364,853,120.00)	- 348,493,895.00
21. WSTF GRANTS	2018-2019	2017-2018
Balance brought forward	51,057,518	50,906,205.00
Household Sanitation Project		
Njuguini	17,152,483	151,313.00
TOTAL	68,210,001.00	51,057,518.00
22. LOAN	2018-2019	2017-2018
KENYA COMMERCIAL BANK	633,719.40	1,927,271.00
TOTAL	633,719.40	1,927,271.00
23. ACCOUNTS PAYABLES	2018-2019	2017-2018
Trade Payables	10,575,029.75.00	10,569,604.00
Statutory deductions and other deductions	74,114,888.48	74,325,767.00
Kenya power and Lighting CO. Ltd.	3,709,926.36	1,117,357.00
Water Resources Authority	13,987,841.50	14,844,887.00
Wasreb	7,408,156.01	1,065,666.00
AFDB Loan	14,171,868.00	7,085,934.00
Rift Valley Water Services Board	214,025,320.00	186,280,294.00
	337,933,030.31	295,289,509.00
24. Consumer deposits	2018-2019	2017-2018
	22,572,142.00	18,951,600.00
	22,572,142.00	18,951,600.00
25. PREPAYMENT INCOME	2018-2019	2017-2018
	8,998,785.00	1,239,285.00

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TOTAL	8,998,785.00	1,239,285.00
26. Audit Fees	2018-2019	2017-2018
2007/2008 (83,520-72000)	11,520.00	11,520.00
2010/2011	300,000.00	300,000.00
2011/2012	300,000.00	300,000.00
2012/2013	348,000.00	348,000.00
2013/2014	348,000.00	348,000.00
2014/2015	348,000.00	348,000.00
2015/2016	348,000.00	348,000.00
2016/2017	348,000.00	348,000.00
2017/2018	348,000.00	
2018/2019	348,000.00	
TOTAL	3,047,520.00	2,351,520.00
27. CUSTOMER SUSPENSE ACC.	2018-2019	2017-2018
	-	6,933,806.00
28. Bank Charges	2018-2019	2017-2018
Kcb Revenue account	96,633.00	50,330.00
Kcb Expenditure Account	113,863.45	130,787.00
Kcb Contingency Account	12,935.00	11,820.00
Kcb Deposit Account	4,954.10	7,412.00
Equity Bank	-	220.00
Family Bank	37,400.42	50,376.00
Total	265,785.97	250,945.00
29. contracted Professional Services	2018-2019	2017-2018
Security	3,395,001.11	3,047,401.00
Sanitation	41,343.60	28,978.00

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Legal services	154,328.00	3,000.00
Computer Services	616,963.00	2,860,298.00
Consultancy service	290,600.00	1,504,001.00
Total	4,498,235.71	7,443,678.00
30. HIRE OF TRANSPORT / MISCELLANEOUS	2018-2019	2017-2018
	948,024.00	204,830.00
	948,024.00	204,830.00
31. Training Expenses	2018-2019	2017-2018
	3,618,237.00	2,095,928.00
	3,618,237.00	2,095,928.00
32. Regulatory Fees	2018-2019	2017-2018
Regulatory fee	7,917,155.51	2,343,651.00
Total	7,917,155.51	2,343,651.00
33. Water Users/Permit fees	2018-2019	2017-2018
Water use fee	4,258,451.50	4,333,872.00
TOTAL	4,258,451.50	4,333,872.00
34. HONARARIA & AIRTIME	2018-2019	2017-2018
	660,000.00	660,000.00
TOTAL	660,000.00	660,000.00
35. Repairs and Maintenance	2018-2019	2017-2018
Maintenance of water supply	9,105,013.12	8,830,124.00
maintenance of building and station	2,565,347.22	2,742,444.00
Maintenance of plant & equipment	1,416,969.00	2,552,117.00
Total	13,087,329.34	14,124,685.00
36. Board Expenses	2018-2019	2017-2018
Sitting Allowance	2,215,200.00	3,309,100.00

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Travel and accommodation	988,200.00	441,000.00
Lunch and Transport	721,500.00	985,000.00
Total	3,924,900.00	4,735,100.00
37. Depreciation	2018-2019	2017-2018
Furniture	176,165.63	149,106.00
Meters, plant and Equipment	9,452,435.88	3,220,837.00
Motorcycles	2,372,165.00	47,776.00
Computers office equipment	1,174,471.00	2,254,164.00
Building	47,780.00	603,127.00
Software	1,681,450.60	787,790.00
TOTAL	14,904,468.10	7,062,800.00
38. Audit (Provision of Audit fees)	2018-2019	2017-2018
	348,000.00	348,000.00
	348,000.00	348,000.00
39. Minor Alteration Works:	2,221,990.00	1,387,057.00
	2,221,990.00	1,387,057.00
40. LOAN INTEREST:	Current Year	Prior Year
40. Loan Interest	2018-2019	2017-2018
KCB (INTEREST)	177,644.90	355,008.00
TOTAL	177,644.90	355,008.00
41. AfDB	2018-2019	2017-2018
	7,085,934.00	7,085,934.00
TOTAL	7,085,934.00	7,085,934.00
42. RVWSB	2018-2019	2017-2018
RVWSB Agency fee	33,103,116.00	
	33,103,116.00	-

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43. ACCOUNTS PAYABLES

	2018-2019	2017-2018
Cornerstone	1,604,082.00	-

44. Cash Flow: Reconciliation of Operating Activities

Surplus/(Loss) for the year	(16,359,225.06)	2,074,242.00
Add: Depreciation	14,904,468.00	7,062,800.00
Profit before operating Activities	(1,454,756.96)	9,137,042.00
Decrease/(Increase) in debtors	(304,816.68)	(36,814,464.00)
Decrease/(Increase) in inventory	340,723.00	184,992.00
Decrease/(Increase) in prepayments	62,964.00	(57,964.00)
Increase in deposits (Rent and Electricity)	-	(20,000.00)
(Decrease) /Increase in Creditors	40,209,231	47,055,259.00
Increase in consumer deposits (payable)	3,620,542.00	2,764,661.00
Customer suspense	(6,933,806.00)	2,508,985.00
Prepayment income	7,759,499.00	(1,024,222.00)
Increase/(Decrease) in Accruals	348,000.00	348,000.00

NOTES TO THE FINANCIAL STATEMENTS (Continued)

45. FINANCIAL RISK MANAGEMENT POLICIES

Nakuru Rural Water and Sanitation Company financial risk management objectives and policies are detailed below:

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 to the financial statements.

(b) Financial risk management objectives

Nakuru Rural Water and Sanitation Company activities expose it to a variety of financial risks including credit and liquidity risks. Nakuru Rural Water and Sanitation Company 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

(c) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Executive Board, which has built an appropriate liquidity risk management framework for the management of Company's short, medium and long-term funding and liquidity management requirements. The (Entity Name) manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows.

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

The amount in the unexpended grants and account was split between the Project reserves and Liability to project accounts

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 judgment in the process of applying the *entity's* accounting policies. The areas involving a higher degree of judgment or complexity, or

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where assumptions and estimates are significant to the financial statements, are disclosed in Note xx

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

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.

46. INCORPORATION

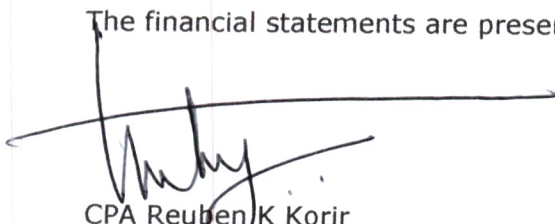
The entity is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

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).



CPA Reuben K Korir
Managing Director
Date:



J. Thiga Kariuki
Chairman of the Board
Date: 9/11/2020

