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REPORT

OF

THE AUDITOR-GENERAL

ON

**IMETHA WATER AND SANITATION
COMPANY LIMITED**

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



IMETHA WATER AND SANITATION COMPANY LTD

ANNUAL REPORTS AND FINANCIAL STATEMENTS

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

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

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IMETHA WATER AND SANITATION COMPANY INFORMATION

Incorporation

The *Imetha water and sanitation company* ltd was incorporated by the companies Act (cap 486) Act of the laws of Kenya on 31st March 2006. At cabinet level, the *Imetha water and sanitation company* ltd is represented by the Cabinet Secretary for Ministry of Irrigation, Water and Natural resources, who is responsible for the general policy and strategic direction of the *Imetha water and sanitation company*.

The constitution of Kenya 2010 under the fourth schedule placed water and sanitation services to the county governments. Consequently, the transition authority vide gazette notice no 154 of the 9th august 2013, transferred water service provision including water and sanitation and sewerage companies to the county government of Meru.

Principal Activities

The principal activity of *Imetha water and Sanitation Company* ltd is to provide adequate, reliable and affordable water in its area of jurisdiction.

Directors

The Directors who served in Imetha Water and Sanitation Company ltd during the year/period were as follows:-

1	Dr. Mworira Mugambi	Director	16 May 2018	
2	Mr George Kimathi	Director	16 May 2018	
3	Mr Joseph Kabii Chabari	Director	16 May 2018	
4	Ms Elizabeth Kanini	Director	16 May 2018	
5	Mr. Joseph Kithure Mberia	Secretary	16 May 2018	

Registered Office

Ministry of water & irrigation offices
Meru-Nanyuki Road
P.O. Box 467 - 60200
MERU/KENYA

Corporate Headquarters

Ministry of water & irrigation offices
Meru-Nanyuki Road
P.O. Box 467 - 60200
MERU/KENYA

Corporate Contacts

Telephone: (254)064- 31781
E-mail: imethawsl@gmail.com
Website: www.imethawasco.co.ke

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Corporate Bankers

1. Co-operative Bank of Kenya
P.O. Box 1328-60200
Meru
2. Capital Sacco
P.O. Box 1479-60200
Meru

Independent Auditors





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

Principal Legal Advisers


1. The Attorney General
State Law Office-Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya
2. Mithega & Company Advocates
P O Box 612-60200
MERU
TEL. 0733-235604

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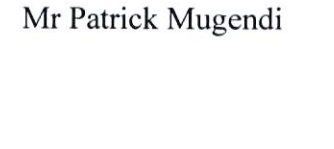
THE BOARD OF DIRECTORS

Photo	Name and Qualifications	Date of Birth and Experience
	<p>Dr. Mugambi Mworio Ph.D. (Range Science), MSc (Range science), BSc. Ecology</p> <p>Joined 16th May 2018</p>	<p>Date of Birth 1953 Senior Lecturer and Chairman Department of Agriculture Kenya Methodist University Chairman Eastern Conservancy Kenya Forest Services Associate consultant, Publix (Africa) Ltd</p>
	<p>Mr. Joseph Kabii Chabari MBA(Finance), BBA(Accounting), CPA(K)</p> <p>Joined 16th May 2018</p>	<p>Date of Birth 1982 Chief Officer Finance and Economic Planning, Chief Accountant National Treasury Mbooni Sub County January 2008 to December 2017</p>
	<p>Mr. George Kimathi Phd. Climate Change and Adaptation Msc.Natural Resources Management, Bsc (Environmental Science)</p> <p>Joined 16th May 2018</p>	<p>Date of Birth 28th July 1984 Ag. Chief Officer Water and Irrigation County Government of Meru,</p>
	<p>Ms. Elizabeth Kanini Dip. Business Management</p> <p>Joined 16th May 2018</p>	<p>Date of Birth 1974 Formerly nominated MCA from 2013 to 2017, Land Control Board Member from July 2007 to June 2014, and Worked at Meru North Farmers SACCO.</p>



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	<p>Mr. Joseph Kithure Mberia B.Arts (Social Sciences), Dip Business Management/Administration, Principles of Modern Management, Sales Management and Marketing</p> <p>Joined 16th May 2018</p>	<p>Date of Birth 22nd December 1965 General Manager – Commercial Division Resorts and Cities Limited from October 2014 to June 2017 ; Various Managerial Posts- Nestlé Kenya Ltd 2004 to May 2012</p>
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MANAGEMENT TEAM:

<p>1 Mr. A. N. Kamundi</p>		<p>Date of birth 1967 Key profession/ Academic qualifications:</p> <p>National Diploma in Water Engineering</p> <hr/> <p>Responsibility: General Manager</p> <p>March 2015- to date 15th august 2018</p>
<p>2 Mr. Edward Njagi Mugambi</p>		<p>Date of birth 1969 Key profession/ Academic qualifications:</p> <p>Higher National Diploma in Water Engineering</p> <hr/> <p>Responsibility: Technical Manager August 2015 - to date</p>
<p>3 Mr Patrick Mugendi</p>		<p>Date of birth 1978 Key profession/ Academic qualification:</p> <p>Bachelor's degree Human resource Development Studies & Economics.</p>

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	<p>Responsibility: Human Resource Officer</p> <p>22nd February 2014 - to date</p>
<p>4 Winfred Mukiri</p> 	<p>Date of birth 1986</p> <p>Key profession/</p> <p>CPA K, Bachelor's degree in Commerce Banking and Finance option</p> <hr/> <p>Responsibility: Commercial Manager</p> <p>September 2012-to Date</p>

CHAIRMAN'S STATEMENT

Dear stakeholders, Ladies and gentlemen,

Water resource is a scarce commodity. Water is a fundamental means of attaining Africa's development goals. The continent faces numerous challenges ranging from food insecurity, poverty and slow economic growth emanating from scarcity of this valuable resource. It is widely recognised that low and middle income countries lack the capacities to effectively develop and manage their water resources sustainably. Thus, the vast majority of the Sub-Saharan African, Kenya being one of the countries, still faces enormous challenges in realizing the UN water related Sustainable Development Goals. Meru County just like any other urban area in Kenya is facing a rapid population growth. Similarly, the drying of rivers has adversely affected the availability of water resource. Consequently, in the coming months, the corporation with other stakeholders in the water sector intends to have a consultative forum on restoration, conservation and protection of water catchment areas.

Despite the challenges the Corporation recognises the need for urgent action to provide clean portable water and sanitation to its populace as a means of achieving the greater vision of Making Meru Great. The Corporation has laid down strategies to ensure that the water catchment areas, treatment, storage, distribution and recycling as well as to sensitize our customers on prudent water use and conservation are sustainably managed.

The corporation's strategic priority action areas for year 2018-2020 include expansion of distribution and transmission lines; this will enable the increase of supply of water to our customers to cope with the current water demand. A new sewerage system been handed over to the corporation in Maua water scheme by tana water services board.

In conclusion let me pay a particular tribute to the very hard work by the Board of Directors, management and staff. My special thanks to our customers who have been with us all through. All of us who are involved with the Corporation feel a sense of privilege for the chance to be involved.

Thank You



Dr Mworia Mugambi

Chairman of the Board,

Meru County Urban Water & Sanitation Services Corporation

REPORT OF THE GENERAL MANAGER

First and foremost let me salute you all dear stakeholders. Secondly, let me register my recognition to you all for the important role you have either played individually or collectively for the success the company has recorded this far.

The mandate bestowed on the company to provide water services to over **35,000** people in our area of jurisdiction is overwhelming and was only possible through your un-relented support.

The company operated and maintained nine (9) Water Schemes including the one borehole at Kandebene to provide water to our clients in the year.

The activities in the water schemes included regular attendance of the intakes, desilting of intakes just before and after rains for optimal functioning, flushing and scouring of water transmission mains, prompt repair of burst and leakages, servicing of Gensets and most importantly treating water to ensure water distributed to our customers is safe and meets the required quality standards. The timely and coordinated discharge of these activities ensured that customers were served in an almost 24 hour basis in the course of the business.

The company utilized its income to take care of its recurrent expenditure the bulk of which was used to purchase production inputs like water treatment chemicals and materials for systems maintenance. Quite a sizeable chunk was used to pay the employees remunerations. It is worthy reporting that the only subsidy the company received from the County Government was payment of salaries for employees seconded to the company from the County Government. The company shall work towards achieving 150% operational cost coverage which is the recommended sector's benchmark.

The company has continued to ensure that all the water connections are metered. This will not only ensure that Non-Revenue Water is managed with an effect of availing more water for distribution and thereby increasing the company's revenue base. Currently, the combined metering ratio for the company is **78%** which is below the sector's benchmark of 100%. The company shall acquire more customer meters to ensure that all flat rate connections are metered.

The sewerage system to serve Maua town and the surrounding area was completed and handed over to the company. The funding of these mega projects in Maua is from the National Government. The county

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Government of Meru is also doing a new reticulation system in Maua. this will greatly enhance service delivery in the area.

Automation of the company's activities especially in the areas of revenue collection and management is considered paramount by the company if efficiency is to be achieved in this critical area. The company has automated the billing system and customer care in all the 9 schemes.

In the course of the year the company had a workforce of **102** employees who manned and operated the water schemes. The company recognizes the importance of the Human Resource to achieve the set goals in terms of improved service delivery to our clients. In realization of this important aspect the company in the course of the year organized both internal and external trainings to build capacity of the employees who in turn provides better services to the company's client. There was also low staff turnover in the course of the year.

As expected the company never went without a share of its challenges. our major challenge has remained to be the low water levels in the rivers where the company abstract water from. As explained, this is as a result of climatic changes experienced globally.

The fact that this phenomenon occurs for a period of three months in a year means that the company is not able to provide adequate water to meet the ever-increasing water demand of our customers during the months of August, September and October. This has a direct effect on lowering the company's income and by extension adversely service delivery to our esteemed customers. As a short time measure to mitigate against this challenge, the company resulted to supply water on a rationing basis. A more permanent solution to this challenge would be construction of water dams which shall moderate the fluctuation of water levels in the water sources.

The other major challenge the company is facing is the high levels of Non-Revenue water which currently stands at **40%**. Whereas the commercial losses contribute to the rather high levels of NRW recorded, the other major contribution factor to these losses is actually the aged and therefore very wasteful water systems the company inherited from the Government. Major face lifts are urgently required in some of the water schemes particularly in Tigania, Mwimbi and Kanyakine Schemes These facelifts calls for enormous resources and are therefore categorized under the capital works which calls for assistance from the external partners.

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Destruction of water pipes by road contractors has also been a major challenge. This happened in all the nine (9) Water Schemes with Maua and Nkubu hardest hit.

Before I end my remarks Ladies and Gentlemen, allow me to once again thank all of you stakeholders for your support and cooperation which made us succeed in the year.

Thank you and God bless you all.



EDWARD NJAGI

A.G GENERAL MANAGER

CORPORATE GOVERNANCE STATEMENT

The Board of directors of the Company is responsible for the Governance of the Company. Good corporate governance is a fundamental part of the culture and business practices of the Company. The key aspects of the Company's corporate governance framework and primary corporate governance practices for the year are outlined below.

The Board of directors

The Board's most significant responsibilities are:

Stakeholder interests

- Guiding the Company with a view to long-term provision of clean and safe water at low cost having regard to the interests of all stakeholders, including customers, regulators, staff and the communities in the areas in which the Company operates;
- Providing strategic direction to the Company with a focus on consistent business performance, behaviour, transparency and accountability; and
- Reviewing and monitoring corporate governance and corporate social responsibility.

Strategy

- Reviewing, approving and monitoring corporate strategy and plans;
- Reviewing, approving and monitoring major investment and strategic commitments.

Performance

- Reviewing business results; and
- Monitoring budgets.

Integrity of external reporting

- Reviewing and monitoring the processes, controls and procedures which are in place to maintain the integrity of the Company's accounting and financial records and statements, and
- Reviewing and monitoring reporting to stakeholders and regulators

Risk management and compliance

- Monitoring and reviewing the risk management processes, the Company's risk profile and the processes for compliance with prudential regulations and standards and other regulatory requirements; and

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- Reviewing and monitoring processes for the maintenance of adequate credit quality, Executive review, succession planning and culture
- Approving key executive appointments and remuneration, and monitoring and reviewing executive succession planning and diversity;
- Reviewing and monitoring the performance of the General Manager and senior management; and
- Monitoring and influencing the Company's culture, reputation and ethical standards.

Board performance

- Monitoring Board processes and performance. The Board has reserved certain powers for itself and delegated authority and responsibility for day-to-day management of the Company to the General Manager. Delegations are subject to strict limits. The General Manager's authorities and responsibilities include:
 - Development and implementation of Board approved strategies;
 - Setting operational plans within a comprehensive risk management framework; and
 - Sound relationship management with the Company's stakeholders. All delegated authorities provided by the Board to the General Manager are reviewed as required.

Composition of the Board.

The members of the Board and the period each member has been in office are set out in the Report of the Directors. The composition of the Board is driven by the following principles:

- The Board will be of an appropriate size and as recommended by the regulator to allow efficient decision making;
- The Chairman of the Board was elected by all the other Directors;
- The Board should be representative of all the areas of operation of the company
- The composition of the board should be such that neither gender is more than two thirds
- The Board should consist of directors with a broad range of expertise, skills and experience from a diverse range of backgrounds, including sufficient skills and experience .

Board meetings

The company board of directors conducts its meetings according to the rules and procedures contained in its governing documents. There were three meetings held in each quarter that is audit committee meetings, finance administration and technical committee meetings and the full board meeting. During the year the

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company held two audit committee meetings, two finance, administration and technical meeting and two full board meetings.

The committee was constituted and had the following members:

During the financial year 2018/2019 the board held the following meetings. The details of the attendance at these meeting are as set out below

Name of the Director	Committee Meeting	Full board Meeting	Attended	Eligible to Attended
DR, Mugambi Mworio	0	9	9	9
Mr Joseph Kabii Chabari	1	8	9	9
Mr. George kimathi	1	9	10	10
Ms Elizabeth kanini	1	9	10	10
Mr. joseph Mberia		6	6	6

Water Sector Reforms

The Constitution of Kenya 2010 devolved the provision of water services to the County governments. Consequently, the County Assembly of Meru passed a bill to provide for development, regulation and management of county public works related to water and sanitation services. The Act provides for the creation of Meru County Urban Water and Sanitation Corporation to be the successor to MEWASS and Imetha. The corporation is responsible for the provision of water and sanitation services in the urban settlement within Meru County.

MANAGEMENT DISCUSSION AND ANALYSIS

Imetha water and Sanitation Company presents its financial performance for the year ending 30th June 2019. The company continued to provide water service in its area of jurisdiction whose mission is to provide quality water and sanitation services to its customer's delight, through a committed workforce using modern technology.

Revenue

The revenue from water services billings, to date had an upward trend compared to the previous year. The company continued to enhance distribution network capacity in order to deliver more water. This has helped in growing the revenue.

During the year ending June 2019, the company's revenue was **Kshs 53,462,471** compared to the **Kshs 51,973,992** of the year ended 30th June 2018. The reason for the increases was primarily due to enhanced service delivery and a modern billing system installed and has improved efficiency.

Expenditure

The company's primary expenditure relates to Administration, Operation and Maintenance and Personnel costs. The others are depreciation of assets and finance costs during the year ending 30th June 2019, we incurred a total expenditure of **Kshs 49,357,164** as compared to **49,184,249** in the previous year.

Liquidity

In the financial year ending June 2019, there was increase in receivable, these is attributable to the institutional customers mostly government departments and county government. There was also an increase in accounts payables this is because the company was not able to settle some of the debts, e.g. WRMA and TWSB due to financial constraints. The company had a positive working capital of **Kshs 3,959,975**

As at 30th June 2019 the company had **Kshs 11,602,450** as cash at hand and bank, inventory of **Kshs 2,560,726**. The total current assets were **Kshs 42,013,588** and the total current liabilities was **Kshs 38,053,613** therefore the company had a net working capital of **Kshs 3,959,975**

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The company through its pro poor programmes continued to increase coverage for both water and sanitation to the unserved and underserved within its area of jurisdiction during the financial year.

The company was be able to:

- i. Supply adequate, affordable and reliable drinking water to Mutumba, Mia Moja and Riverside low income areas.
- ii. To provide sufficient storage to the underserved low income areas.
- iii. To improve the health standards of Timau Water Schemes by providing safe drinking water
- iv. To increase the company's coverage by supplying the targeted underserved areas.

REPORT OF THE DIRECTORS

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

Principal activities

The principal activities of the Imetha water and sanitation company continue to be to provide adequate, reliable and affordable water in its area of jurisdiction.

Results

The results of the Imetha water and sanitation company for the year ended June 30, 2019 are set out on page 24-62.

Directors

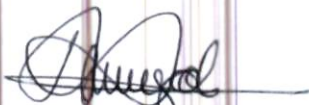
The members of the Board of Directors who served during the year are shown on page 3 In accordance with Regulation of meru county water and sanitation services act of 2014

Auditors

The Auditor General is responsible for the statutory audit of the *Imetha water and sanitation company* in accordance with a

Article 229 of the constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



Dr Mworia Mugambi

***Chairman of board,
Meru County Urban Water & Sanitation Services Corporation***

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the *Imetha water and sanitation company's* financial statements, which give a true and fair view of the state of affairs of the *Imetha water and sanitation 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 *Imetha water and sanitation company*; (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 *Imetha water and sanitation company*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

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

The Directors are of the opinion that the *Imetha water and sanitation company's* financial statements give a true and fair view of the state of *Imetha water and sanitation company's* transactions during the financial year ended June 30, 2019, and of the *Imetha water and Sanitation Company's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *Imetha water and Sanitation Company*, which have been relied upon in the preparation of the *Imetha water and*

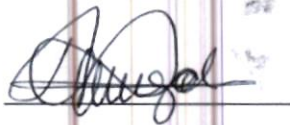
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sanitation company's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The *Imetha water and sanitation company's* financial statements were approved by the Board on 24th **September, 2019** and signed on its behalf by:



Dr. Mworira Mugambi
Chairman

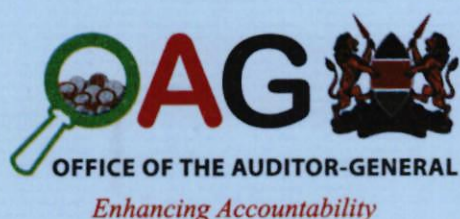


Elizabeth Kanini
Director

Imetha water and sanitation company.
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REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
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HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Imetha Water and Sanitation Company Limited set out on pages 24 to 59, 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 the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Imetha Water and Sanitation Company Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Water Act, 2016, the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Failure to Prepare Periodic Monthly Bank Reconciliations

The statement of financial position reflects an amount of Kshs.11,602,450 under cash and cash equivalents. However, there was no evidence that monthly bank reconciliations were prepared and submitted to the County Treasury as required under Section 90(1) of the Public Finance Management (County Governments) Regulations, 2015 which provides that an Accounting Officer should ensure bank reconciliations are completed for each bank account held by the Accounting Officer every month and submitted not later than the 10th of the subsequent month to the County Treasury with a copy to the Auditor-General.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.11,602,450 could not be confirmed. The Company was also in breach of the law.

2.0 Irregular Payment of Board Allowances

The statement of profit and loss and other comprehensive income reflects an expenditure of Kshs.13,143,483 in respect to administrative costs which, as disclosed in Note 6 to the financial statements, includes Directors' expenses amounting to Kshs.636,109. However, the Directors were paid sitting allowances amounting to Kshs.108,000 over and above the rates approved by the Salaries and Remuneration Commission (SRC).

Consequently, the accuracy of the Directors' expenses of Kshs.636,109 and the propriety of the overpayment of Kshs.108,000 could not be confirmed.

3.0 Top up Payments on Salaries

The statement of profit and loss and other comprehensive income reflects an expenditure of Kshs.23,886,387 in respect to personnel costs which, as disclosed at Note 4 to the financial statements, includes an amount of Kshs.5,346,940 indicated as GOK salaries. The payments were top up allowances paid to thirteen (13) officers seconded to the Company from the County Water Office. However, no agreement between the Company and the County Water Office on the secondment of the thirteen (13) officers was provided for audit review.

In the circumstances, the accuracy of the personnel costs of Kshs.23,886,387 and the validity of Kshs.5,346,940 in respect to GOK salaries could not be confirmed.

4.0 Property, Plant and Equipment with no Ownership Documents

As disclosed in Note 14 to the financial statements, the statement of financial position reflects a balance of Kshs.19,931,132 in respect to property, plant and equipment. The balance includes amounts of Kshs.163,885 and Kshs.1,506,191 in respect to nine (9) motorcycles and three (3) motor vehicles respectively all totaling to Kshs.1,670,076. However, the ownership documents for the assets were not provided for audit verification.

In the circumstances, the ownership of the motor vehicles and motorcycles could not be confirmed.

5.0 Trade and Other Receivables

The statement of financial position reflects a balance of Kshs.27,850,412 in respect to trade and other receivables whose aging analysis was not provided for audit review. Further, the trade and other receivables balance increased by Kshs.4,877,895 (21%) to Kshs.27,850,412 from Kshs.22,972,517 reported in the previous year. A receivables balance of Kshs.18,261,013 had been reported in financial year 2016/2017. The upward trend for the receivables might indicate laxity in debt collection and also casts doubt on recoverability of the receivables.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Imetha Water and Sanitation Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

1.0 Budgetary Control and Performance

1.1 Over-Expenditure

The statement of comparison of budget and actual amounts reflects an approved revenue budget of Kshs.50,169,071 and actual revenue of Kshs.53,462,471 resulting to a net over collection of Kshs.3,293,400. Similarly, the statement reflects an approved expenditure budget of Kshs.43,688,754 and an actual expenditure of Kshs.49,357,164 resulting to a net over expenditure of Kshs.5,668,412. The over expenditure was contrary to Regulation 43(2) of Public Finance Management (County Governments) Regulations, 2015 which states that County government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan with the exception of unforeseen and unavoidable spending dealt with through the County Emergency Fund, or supplementary estimates.

1.2 Unbalanced Budget

The Company's statement of comparison of budget and actual amounts for the year ended reflects Kshs.50,169,071 and Kshs.43,688,754 in respect to approved revenue and expenditure budgets respectively resulting to a budget imbalance of Kshs.6,480,317. The unbalanced budget is contrary to Regulation 31(c) of the Public Finance Management (County Governments) Act, 2015 which states that budget revenue and expenditure appropriations shall be balanced.

In the circumstances, the Water Company was in breach of the law.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness

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

Basis for Conclusion

1.0 Unsupported and Incomplete Payment Vouchers

A review of the Water Company's payment vouchers revealed that the same are not serialized and the payment amounts are only written in figures and not in both figures and words, contrary to Section 104 of the Public Finance Management (County Government) Regulations, 2015 which requires that all receipts and payment should be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation. Further, the Regulation requires that all receipt and payment vouchers should contain adequate narration of the particulars of the services, goods or works procured and being paid for and all amounts appearing in a voucher shall be written in words as well as in figures.

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

2.0 Non-Revenue Water

During the year under review, the Company produced 1,187,759 Cubic Meters (M³) of water. However, only 708,648 Cubic meters (M³) was distributed and charged to customers while the balance of 479,111 Cubic Meters (M³) or approximately 40% of the total volume produced was not charged to customers and therefore remained unaccounted for as non-revenue water. Further, the Water Services Regulatory Board (WASREB) guidelines allow a maximum loss (unaccounted water) of 25% for every cubic meter of water produced and hence, only 296,940 M³ (25%) loss was allowable out of 1,187,759 cubic meters (M³) of water produced by the Company. The loss of 182,171M³ (approximately 15%) of water produced during the year under review at a total cost of Kshs.11,995,960 (at Kshs.65.85 per cubic meter) was therefore, non-allowable.

In the circumstance, the significant high level of non-revenue water may negatively impact on the Company's profitability and its long-term sustainability if not controlled.

3.0 Motor Vehicles not in Use

The statement of financial position reflects a balance of Kshs.19,931,132 in respect of property, plant and equipment which, as disclosed in Note 14 to the financial statements, includes an amount of Kshs.1,506,191 relating to motor vehicles. However, motor vehicle registration number GK T040 - Land Rover was grounded and unserviceable. Further, motor vehicle registration GK Z673 Isuzu IFR was grounded in November, 2018. A mechanical inspection report dated 4 December, 2018 indicated that the vehicle could be serviced at a cost of Kshs.257,400. However, as at the time of audit inspection in December, 2019, one (1) year after the date of the inspection report, the motor vehicle was still grounded and no reasons were provided as to why it was not repaired.

It is not clear why the Company has not repaired or disposed the two motor vehicles. In addition, value for money may not have been obtained due to underutilization and loss in value of the two grounded motor vehicles.

4.0 Unapproved Salary Structure

The statement of profit and loss and other comprehensive income reflects an expenditure of Kshs.23,886,387 in respect to personnel costs which were incurred as per the Company's salary structure approved by the Board on 29 October, 2015. However, no evidence was provided for audit that the Company's salary structure was approved by the Salaries and Remuneration Commission (SRC) as required under Article 230(4) of the Constitution which states that the Salaries and Remuneration Commission will set and regularly review the remuneration and benefits of all state officers and advise the national and county governments on the remuneration and benefits of all other public officers.

5.0 Failure to Maintain an Updated Fixed Assets Register

The statement of financial position reflects a balance of Kshs.19,931,132 in respect to property, plant and equipment. However, as previously reported, the fixed assets register provided for audit review did not reflect details on the value, acquisition date, class, category and condition of assets contrary to Section 136 of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to maintain a register for all assets under their control which should include dates of acquisition among other details.

The Company was also in breach of the law.

6.0 Long Outstanding Imprests

The statement of financial position reflects a balance of Kshs.27,850,412 in respect to trade and other receivables which include an amount of Kshs.565,424 relating to un-surrendered imprests which was issued between 15 January, 2014 and 11 June, 2015 and which remained outstanding for over four (4) years. However, no explanation was provided for failure to recover the imprests, contrary to Regulation 93(6) of the Public Finance Management (County Governments) Regulations, 2015, which provides that the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with interest charged at the prevailing Central Bank Rate.

The Company was therefore, in breach of the law.

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

Basis for Conclusion

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 the audit, that;

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

Responsibilities of Management and those Charged with Governance

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

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

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern or 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 the Company to cease to continue as a going concern or 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 the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships

and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

30 August, 2021




Imetha water and sanitation company.
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For the year ended June 30, 2019

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

INCOME	NOTE	2018-2019	2017-2018
		Kshs	Kshs
Water Sales	1	46,667,923	44,091,857
County government of meru susbsidy	3	5,346,940	6,702,504
Other Incomes	2	1,447,608	1,179,631
		-	-
Total Income		53,462,471	51,973,992
EXPENDITURE			
Personnel costs	4	23,886,387	25,735,445
finance cost	5	21,748	
Administrative costs	6	13,143,483	10,619,281
Operations and Maintenance	12	7,461,036	9,254,856
Depreciation charge	14	4,844,512	3,574,667
Total Expenditure		49,357,164	49,184,249
Deficit/Surplus of Income		4,105,307	2,789,743
			-
Transfer to Reserves			

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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	NOTES	2018-2019 Ksh	2017-2018 Ksh
ASSETS			
Non-current Assets			
Property plant and equipment	14	19,931,132	19,600,540
Intangible assets	14	2,666,667	
Total Non current assets		22,597,798	19,600,540
Current Assets			
Inventory	11	2,560,726	2,633,357
Trade and other Receivables	8	27,850,412	22,972,517
Cash and cash equivalents	7	11,602,450	9,859,100
		42,013,588	35,464,974
Current Liabilities			
Trade and other Payables	9	38,053,613	32,705,648
Total Current Liabilities		38,053,613	32,705,648
Net Current Assets		3,959,975	2,759,326
TOTAL ASSETS		26,557,774	22,359,866
EQUITY AND LIABILITIES			
Capital Reserves	10(a)	7,925,244	7,832,643
Revenue Reserves	10(b)	18,632,529	14,527,223
TOTAL EQUITY AND LIABILITIES		26,557,774	22,359,866
The financial statements set out on page 20 to 58 were signed on behalf of the Board of Directors by:			
DR. Mworia Mugambi	Chairman Board of Directors		
MR. Edward Njagi	A.G General Manager		
CPA Winfred Mukiri ICPAK RG NO 17874	Commercial Manager		

Imetha water and sanitation company.
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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	Capital Reserves	Revenue Reserves	Total
	KSHS	KSHS	KSHS
As at 1st July 2017	6,098,135	11,737,480	17,835,615
Amortisation of Capital Grant	(1,155,692)	-	(1,155,692)
TWSB meters	2,890,200		2,890,200
Suplus/Deficit for the year		2,789,742.71	2,789,743
As at 30th June 2018	7,832,643	14,527,223	22,359,866
As at 1st July 2018	7,832,643	14,527,223	22,359,866
water meters (grants from TWSB)	847,600		847,600
Grants from TWSB	300,000		300,000
Amortisation of Capital Grant	(1,054,999)		(1,054,999)
WSTF	-		-
Suplus/Deficit for the year		4,105,306.64	4,105,307
AS at 30 June 2019	7,925,244	18,632,529	26,557,773

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2018-2019	2017-2018
Cash flow from operating activities		KSH	KSH
Net deficit/Surplus for the year		4,105,307	2,789,743
Adjustment of non cash items			
Armortisation of Capital Grant	10a	(1,054,999)	(1,155,692)
Depreciation charge	14	3,511,179	3,574,667
Amortisation of intangible asset	14	1,333,333	
		7,894,819	5,208,718
Working Capital Changes			
Increase in inventory	13	72,631	(1,276,766)
Increase in Trade & other receivables	13	(4,877,895)	(4,711,505)
Increase in Trade & other payables	13	5,347,965	2,207,200
Net Cash flow from operating activities		8,437,520	1,427,647
Cash flow from Investing activities			
Aquisition of Property, Plant & Equipment	14	(3,841,770)	(1,912,880)
Acquisition of Intangible Assets	14	(4,000,000)	
Net Cash flow before financing activities		595,750	(485,233)
Cash flow from Financing activities			
Increase In Capital Reserves	10a	1,147,600	2,890,200
Net increase in cash and cash equivalents		1,743,350	2,404,967
Cash and cash equivalents as at 1st July 2018	13	9,859,100	7,454,134
Cash and cash equivalents as at 30th June 2019	13	11,602,450	9,859,100

Imetha water and sanitation company.
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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT FOR THE YEAR ENDED 30 JUNE 2019

	Original budget	Adjustment/ Supplement ary	Final budget	Actual on comparable basis	Performance Difference	variance
	2018-2019 Kshs		2018-2019 Kshs	2018-2019 Kshs	2018-2019 Kshs	
Revenue						
Government grants and subsidies	5,656,404		5,656,404	5,346,940	309,464	5%
Water sales	44,512,667		44,512,667	46,667,923	(2,155,256)	-5%
Other income				1,447,608	(1,447,608)	-100%
Total income	50,169,071		50,169,071	53,462,471	(3,293,400)	
EXPENSES						
Personnel Costs						
Salaries ,Wages & Allowances	25,030,219	-	25,030,219	23,886,387	1,143,832	5%
Administration Expenses						
Postage & Telephone	350,213	216,321	566,534	564,645	1,889	0%
Travelling and Subsistence	1,653,574		1,653,574	1,774,280	(120,706)	-7%
Advertising and Publicity	225,000		225,000	209,000	16,000	8%
Fees,Levies and Permits	2,141,241		2,141,241	5,687,593	(3,546,352)	-166%
General Expenses	75,000	70,000	145,000	130,388	14,612	11%
Office Stationery	522,413		522,413	290,207	232,206	44%
Professional Services	300,000		300,000	-	300,000	100%
Security	336,000		336,000	286,000	50,000	15%
Electricity & Water	508,671	151,253	659,924	644,945	14,979	2%
Transport Hire	10,000		10,000	10,000	-	0%
Training Expenses	200,725	367,875	568,600	485,100	83,500	15%
Official Catering	266,796	70,000	336,796	311,378	25,419	8%
Insurance	100,000		100,000	88,250	11,750	13%
Uniforms	280,085		280,085	277,650	2,435	1%
Meetings and Conferences	271,117	216,136	487,253	674,890	(187,637)	-39%
Directors Expence	275,000	389,365	664,365	636,109	28,256	4%
Audit fee Expenses	232,000		232,000	232,000	-	0%
Waspa subscriptions	55,000		55,000	55,000	-	0%
Computer repairs	78,750	25,000	103,750	96,010	7,740	8%
News papers and periodicals	15,600		15,600	15,480	120	1%
corporate governance	600,000		600,000		600,000	100%
Bank Charges	100,000		100,000	42,048	57,953	58%
social responsibilities	50,000		50,000		50,000	100%
increase in provision				602,511	(602,511)	-100%
Depreciation				4,844,512	(4,844,512)	-100%
finace cost				21,748	(21,748)	-100%
Billing Sytem Development		180,000	180,000	30,000	150,000	83%
Sub-Total	8,647,185	1,685,950	10,333,135	18,009,743		
Operation and Maintenance						
Chemicals	1,865,600		1,865,600	1,580,220	285,380	15%
Repair & Maintainance	3,500,000		3,500,000	3,556,619	(56,619)	-2%
Motor Expenses	1,140,000		1,140,000	819,191	320,809	28%
Fuel ,Oils & lubricants	1,680,000		1,680,000	1,392,206	287,794	17%
Rent and Rates	139,800		139,800	112,800	27,000	19%
Sub-Totals	8,325,400		8,325,400	7,461,036		
Total expenditure	42,002,804	1,685,950	43,688,754	49,357,164		
surplus	8,166,267		6,480,317	4,105,307		

EXPLANATION OF THE VARIANCES BETWEEN BUDGET AND ACTUALS AMOUNTS FOR THE YEAR ENDED 30 JUNE 2019.

1. Personnel Cost- during the period the expense was under spent because of the following

- The general manager resigned from on august 2018
- Three (3) staff seconded from the county government were taken back to the County Government of Meru
- The accountant resigned from the company on April 2019

2. Fees and levies -the levy increased from 1% to 4 % in the course of the year hence the increase.

3. Stationery -Due to the installation of billing system the usage of stationery reduced due to reduction in use of stationeries.

During the period the company made a supplementary budget of Kshs 1,767,740 and it was approved by the board of directors

The actual income comprise of water sales of Kshs 46,021,423 and labour charges of Kshs 645,500 all totalling to Kshs 46,667,923

NOTES TO THE FINANCIAL STATEMENTS

1.General information

The *Imetha water and sanitation company* ltd was incorporated by the companies Act (cap 486) Act of the laws of Kenya on 31st March 2006. At cabinet level, the *Imetha water and sanitation company* ltd is represented by the Cabinet Secretary for Ministry of Irrigation, Water and Natural resources, who is responsible for the general policy and strategic direction of the *Imetha water and sanitation company*.

The constitution of Kenya 2010 under the fourth schedule placed water and sanitation services to the county governments. Consequently, the transition authority vide gazette notice no 154 of the 9th august 2013, transferred water service provision including water and sanitation and sewerage companies to the county government of Meru

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 *Imetha water and sanitation company's* accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *Imetha water and sanitation company*. The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

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

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

Amendment/Interpretation to a standard	Effective date	Impact: The standard has no impact on the financial statements of Imetha water and sanitation Company
IFRS 9: Financial Instruments (Issued 24 July 2014)	Effective for annual periods beginning on or after 1 January 2018	<p>Finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing <u>IAS 39</u> <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>The standard contains requirements in the following areas:</p> <ul style="list-style-type: none"> • Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. • Impairment. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised • Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk

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Amendment/Interpretation to a standard	Effective date	Impact: The standard has no impact on the financial statements of Imetha water and sanitation Company
		<ul style="list-style-type: none"> • management activities when hedging financial and non-financial risk exposures • Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39
IFRS 15: Revenue from Contracts with Customers (Issued 28 May 2014)	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018	<p>IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.</p> <p>The five steps in the model are as follows:</p> <ul style="list-style-type: none"> • Identify the contract with the customer • Identify the performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contracts • Recognise revenue when (or as) the entity satisfies a performance obligation. <p>Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.</p>
IFRIC 22: Foreign Currency Transactions and Advance Consideration (Issued 8 December 2016)	Applicable to annual reporting periods beginning on or after 1 January 2018	<p>The interpretation addresses foreign currency transactions or parts of transactions where:</p> <ul style="list-style-type: none"> • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in

Imetha water and sanitation company.
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Amendment/Interpretation to a standard	Effective date	Impact: The standard has no impact on the financial statements of Imetha water and sanitation Company
		<p>advance of the recognition of the related asset, expense or income; and</p> <ul style="list-style-type: none"> • the prepayment asset or deferred income liability is non-monetary. <p>The Interpretations Committee came to the following conclusion:</p> <ul style="list-style-type: none"> • The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. • If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.
<p><i>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)</i> <i>(Issued 19 January 2016)</i></p>	<p>Effective for annual periods beginning on or after 1 January 2017</p>	<p>Amends <u>IAS 12</u> <i>Income Taxes</i> to clarify the following aspects:</p> <ul style="list-style-type: none"> • Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. • An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax

Imetha water and sanitation company.
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Amendment/Interpretation to a standard	Effective date	Impact: The standard has no impact on the financial statements of Imetha water and sanitation Company
		assets of the same type.
<i>Disclosure Initiative (Amendments to IAS 7) (Issued 29 January 2016)</i>	Effective for annual periods beginning on or after 1 January 2017	Amends <u>IAS 7 Statement of Cash Flows</u> to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
<i>Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Issued 12 April 2016)</i>	Effective for annual periods beginning on or after 1 January 2018	Amends <u>IFRS 15 Revenue from Contracts with Customers</u> to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.
<i>Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (Issued 20 June 2016)</i>	Effective for annual periods beginning on or after 1 January 2018	Amends <u>IFRS 2 Share-based Payment</u> to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.
<i>Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) (Issued 12 September 2016)</i>	Overlay approach to be applied when IFRS 9 is first applied. Deferral approach effective for annual periods beginning on or after 1 January 2018 and only	Amends <u>IFRS 4 Insurance Contracts</u> provide two options for entities that issue insurance contracts within the scope of IFRS 4: <ul style="list-style-type: none"> • An option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach; • An optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4;

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Amendment/Interpretation to a standard	Effective date	Impact: The standard has no impact on the financial statements of Imetha water and sanitation Company
	available for three years after that date	this is the so-called deferral approach. The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.
<i>Transfers of Investment Property (Amendments to IAS 40)</i> <i>(Issued 8 December 2016)</i>	Effective for annual periods beginning on or after 1 January 2018	The amendments to <u>IAS 40 Investment Property</u> : <ul style="list-style-type: none"> • Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. • The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.
<i>Annual Improvements to IFRS Standards 2014–2016 Cycle</i> <i>(Issued 8 December 2016)</i>	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods	Makes amendments to the following standards: <ul style="list-style-type: none"> • IFRS 1 - Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose • IFRS 12 - Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as

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Amendment/Interpretation to a standard	Effective date	Impact: The standard has no impact on the financial statements of Imetha water and sanitation Company
	beginning on or after 1 January 2017	<p>discontinued operations in accordance with IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i></p> <ul style="list-style-type: none"> • IAS 28 - Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date	Impact: The standard has no impact on the financial statements of Imetha Water and Sanitation Company.
<i>IFRS 16: Leases</i> (Issued 13 January 2016)	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

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<p><i>IFRS 17 Insurance Contracts</i> (Issued 18 May 2017)</p>	<p>Applicable to annual reporting periods beginning on or after 1 January 2021</p>	<p>IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2021.</p>
<p><i>IFRIC 23: Uncertainty over Income Tax Treatments</i> (Issued 7 June 2017)</p>	<p>Applicable to annual reporting periods beginning on or after 1 January 2019</p>	<p>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:</p> <ul style="list-style-type: none"> • Whether tax treatments should be considered collectively • Assumptions for taxation authorities' examinations • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • The effect of changes in facts and circumstances
<p><i>Prepayment Features with Negative Compensation</i> (Amendments to IFRS 9) (Issued 12 October 2017)</p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.</p>
<p><i>Long-term Interests in Associates and Joint Ventures</i> (Amendments to IAS 28) (Issued 12 October 2017)</p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Clarifies that an entity applies IFRS 9 <i>Financial Instruments</i> to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.</p>
<p><i>Annual Improvements to IFRS Standards 2015–2017 Cycle</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Makes amendments to the following standards:</p>

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<p><i>(Issued 12 December 2017)</i></p>		<ul style="list-style-type: none"> • IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. • IAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits. • IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows <i>generally</i> when calculating the capitalisation rate on general borrowings.
<p><i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) (Issued 7 February 2018)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>The amendments in <i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)</i> are:</p> <ul style="list-style-type: none"> • If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement.

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		<ul style="list-style-type: none"> In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.
<p><i>Amendments to References to the Conceptual Framework in IFRS Standards</i> <i>(Issued 29 March 2018)</i></p> <p>IFRS Insurance contract (issued 18 may 2017)</p>	<p>Annual periods beginning on or after 1 January 2020</p>	<p>Together with the revised <i>Conceptual Framework</i> published in March 2018, the IASB also issued <i>Amendments to References to the Conceptual Framework in IFRS Standards</i>. 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 <i>Conceptual Framework</i>. 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 <i>Conceptual Framework</i>.</p> <p>IFRS 17 requires liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. The 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</p>

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iii Early adoption of standards

The entity did not -adopt any new or amended standards in the year 2018

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

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

i. Revenue from the sale of water services is recognised in the year in which the *Imetha water and sanitation company* delivers service to the customer, the customer has accepted the bill and collectability of the related receivables is reasonably assured.

ii. Grants from National Government or County Government are recognised in the year in which the *Imetha water and sanitation company* actually receives such grants.

iii. Finance income comprises interest receivable from bank deposits is recognised in profit or loss on a time proportion basis using the effective interest rate method.

Iv Other income is recognised as it accrues.

b) In-kind contributions

In-kind contributions are donations that are made to the *Imetha water and sanitation company* in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the *Imetha water and sanitation company* includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

c)Property, plant and equipment

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

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses.

Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

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

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

d)Depreciation and impairment of property, plant and equipment

All non-current assets are valued at historical cost and after subsequent adjustment with their respective depreciation.

Subsequent costs are included in asset carrying amount or recognized as a separate asset, as appropriate. All other repairs and maintenance are charged to the income and expenditure account during the financial period in which they occurred. No asset revaluation has been carried in the year under review. Value of

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water treatment plant freehold land and property is under valuation and report will be submitted when all procedures and formalities are completed and subsequently be incorporated in the financial statement

Depreciation:

This has been calculated on reducing balance method pro-rata to time of purchase using the following rates:

Meters	12%
Pipes and fittings	20%
Furniture and Equipment	12.5%
Motor Vehicles & cycles	25%
Computer and accessories	30%
W.T.P Equipment	12.5%
Loose Tools	33.33%

e) Depreciation and impairment of property, plant and equipment (Continued)

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

f) Intangible assets

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

g) Amortisation and impairment of tangible assets

Amortisation is calculated on the reducing balance method pro-rata to time over the estimated useful life of the asset at the following rates:

Meters	12%
Pipes and fittings	20%
Furniture and Equipment	12.5%
Motor Vehicles & cycles	25%
Computer and accessories	30%
W.T.P Equipment	12.5%
Loose Tools	33.33%

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.

h) Finance and operating leases

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

i) 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.

j) 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.

A provision of 10% is made on all receivables.

k) Taxation

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

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

L) 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. For the purposes of these financial statements, cash and cash equivalents also include short term cash Imprest and advances to

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authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

k) 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 *Imetha water and sanitation company* or not, less any payments made to the suppliers.

M) 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

n) 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.

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NOTES TO THE FINANCIAL STATEMENTS

	2018-2019	2017-2018
INCOME		
NOTE 1		
Water Sales	45,871,422.98	41,770,257
Reconnection Fees	150,000.00	429,100
Labour Charges	646,500.00	1,892,500
Total	46,667,923	44,091,857
NOTE 2		
Other Incomes	2018-2019	2017-2018
Bank Interest	166,660.30	-
Sundry Incomes	225,948.50	23,939
Armotisation of Capital Grant	1,054,999.21	1,155,692
Adjustment for deprciation	-	-
	1,447,608	1,179,631
NOTE 3	2018-2019	2017-2018
MWI Salary subsidy	5,346,940.00	6,702,504
Total subsidies	5,346,940	6,702,504
Grand total income	53,462,471	51,973,992
NOTE 4	2018-2019	2017-2018
Personnel Costs		
GOK Salaries	5,346,940	6,702,504
Salaries & Wages	17,351,848	17,706,536
staff welfare	211,600	257,800
Gratuity	366,092	438,012
Pension	471,307	481,393
NSSF	138,600	149,200
	23,886,387	25,735,445
NOTE 5	2018-2019	2017-2018
FINANCE COSTS		
Bank Withholding interest	21,748	-
	21,748	-

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 6	2018-2019	2017-2018
Administrative Costs	KSH	KSH
Postage & Telephone	564,645	389,891
Travelling and Subsistence	1,774,280	1,699,482
Advertising and Publicity	209,000	73,080
Fees, Levies and Permits	5,687,593	3,734,407
General Expenses	130,388	102,597
Office Stationery	290,207	478,792
Professional Services	-	309,800
Security	286,000	288,000
Electricity & Water	644,945	619,139
Transport Hire	10,000	-
Training Expenses	485,100	285,594
Official Catering	311,378	252,251
Insurance	88,250	99,378
Uniforms	277,650	382,885
Meetings and Conferences	674,890	475,706
Biling system	-	-
Directors Expencc	636,109	482,772
Audit fee Expenses	232,000	232,000
Waspa subscriptions	55,000	55,000
Computer repairs	96,010	63,974
Corporate gonernance training	-	-
News papers and periodicals	15,480	15,780
Increase in provision for bad debts	602,511	529,056
Bank Charges	42,048	49,697
Billing System Development	30,000	-
	13,143,483	10,619,281

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7	2018-2019	2017-2018
Cash and cash equivalents	KSH	KSH
Bank : Current Co-op 01120023210300	2,016,347	647,643
Current Borehole 01136023210300	24,740	220,843
Savings Co-op 0110003210300	9,308,391	7,443,148
Capital Sacco	185,759	1,513,603
Project Account	-	59
Corporation account	45,200	
Cash at hand	22,013.50	33,804
	11,602,450	9,859,100
NOTE 8	2018-2019	2017-2018
TRADE AND OTHER RECIEVABLES		KSH
Bal b/d	23,548,583	18,258,022.0
Bills For the year	45,871,423	41,770,257.0
Total bills	69,420,006	60,028,279.0
Less Bills received	39,846,317	36,479,696.0
Total bills recievable	29,573,689	23,548,583.0
Less 10% provision for bad debts	2,957,369	2,354,858.0
Staff debts	664,668	1,009,668.0
Unsurrendered imprest	565,424	565,124.0
prepayments	4,000	
Peformance Guarantee Co-op	-	204,000.0
Net recievables	27,850,412	22,972,517.0
NOTE 9	2018-2019	2017-2018
Trade and other payables	KSH	KSH
Trade creditors	18,738,377	14,846,361
Accruals	5,700,636	4,535,687
Customer Water deposits	12,140,600	11,649,600
Provision for audit fees	232,000	232,000
Audit fees payable	1,242,000	1,442,000
Total Trade and other payables	38,053,613	32,705,648

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 10	2018-2019	2017-2018
Capital and Reserves	KSH	KSH
a) <u>Capital Reserve</u> (Deferred Income)	7,832,643	6,098,135
b) water meters from TWSB	847,600	2,890,200
Grants from twsb	300,000	
Amortisation of capital grant	(1,054,999)	(1,155,692)
	7,925,244	7,832,643
b) <u>Revenue Reserves</u>		
At start	14,527,223	11,737,480
Amortisation of capital grant		2,789,743
WSTF	-	-
Surplus/Deficit for the year	4,105,307	-
	18,632,529	14,527,223
Total reserves	26,557,774	22,359,866
NOTE 11		
	2018-2019	2017-2018
INVENTORY		
Stationery	182,582	252,506
Meters	525,000	1,064,180
Chemicals	518,715	489,435
pipe and fittings	1,334,429	827,236
	2,560,726	2,633,357
NOTE 12		
Operation and Maintenance	2018-2019	2017-2018
		KSH
Chemicals	1,580,220	1,963,116
Repair & Maintainance	3,556,619	3,968,780
Motor Expenses	819,191	1,318,000
Fuel ,Oils & lubricants	1,392,206	1,826,160
Rent and Rates	112,800	178,800
	7,461,036	9,254,856

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13		
NOTES TO THE STATEMENT OF CASH FLOW	2018-2019	2017-2018
a) Reconciliation of operating profit/loss to cash generated from operations		
Operating profit	4,105,307	2,789,743
Amortisation of capital grants	(1,054,999)	(1,155,692)
Depreciation	4,844,512	3,574,667
Operating profit before working capital changes	7,894,819	5,208,718
Increase in inventories	72,631	(1,276,766)
Increase in trade payables	5,347,965	2,207,200
Increase in trade receivables	(4,877,895)	(4,711,505)
Cash generated from operations	8,437,520	1,427,647
b) Analysis of cash and cash equivalents		
cash at bank	11,580,437	9,825,296
cash in hand	22,014	33,804
Balance at end of the year	11,602,450	9,859,100

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 PROPERTY, PLANT AND EQUIPMENT										
COST	METERS KSH KSH	MOTOR CYCLES KSH	FURNITURE & EQUIPMENT KSH	COMPUTERS & ELECTRONICS KSH	PIPES & FITTINGS KSH	WATER TREATMENT PLANT & EQUIP. KSH	MOTOR VEHICLES KSH	LOOSE TOOLS KSH	LAND KSH	TOTAL KSH
As at 1/7/18	17,295,775	2,505,920	732,540	1,658,859	23,001,579	3,177,635	2,038,100	17,127	290,000	50,717,535
NET ADDITIONS	847,600		97,990	667,000	300,000		1,390,000			3,302,590
OPENING STOCK	1,064,180									1,064,180
closing stock	(525,000)									(525,000)
Disposal										
As at 30/6/19	18,682,555	2,505,920	830,530	2,325,859	23,301,579	3,177,635	3,428,100	17,127	290,000	54,559,305
DEPRECIATION										
As at 1/7/18	9,107,725	2,287,407	455,280	1,512,836	14,358,350	1,497,879	1,883,179	14,339	-	31,116,995
Charge for the year	1,246,308	54,628	39,761	177,207	1,743,646	209,970	38,730	928	-	3,511,178.17
Disposal										
As 30/6/19	10,354,033	2,342,035	495,041	1,690,043	16,101,996	1,707,849	1,921,909	15,267	-	34,628,173
NET BOOK VALUE										
AS at 30/6/19	8,328,522	163,885	335,489	635,816	7,199,583	1,469,787	1,506,191	1,860	290,000	19,931,132
AS at 30/6/18	8,188,050	218,513	277,260	146,023	8,643,229	1,679,756	154,921	2,788	290,000	19,600,540
INTAGIBLE ASSET										
	BILLING SOFT WARE									
	KSHS									
01/11/2018	4,000,000									
AS AT 30/6/2019	4,000,000									
AMORTISATION	1,333,333									
NET BOOK VALUE	2,666,667									
AS AT 30/06/2019	2,666,667									

NOTES TO THE FINANCIAL STATEMENTS

15 RETAINED EARNINGS

The retained earnings represent amounts available for distribution to the *Imetha water and sanitation company's* shareholders. Undistributed retained earnings are utilised to finance the *Imetha water and sanitation company's* business activities.

16. RELATED PARTY DISCLOSURES

Government of Kenya

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

There were no other *Imetha water and sanitation company* transactions involving the Government of Kenya.

County Government of Meru and Tharaka Nithi county Government

Imetha Water and Sanitation Company operates in both Meru and Tharaka Nithi counties, therefore it is. All transactions between Imetha Water and Sanitation Co. and the two County Governments are at arm's length.

Other related parties are the company Directors and the key management. Other than the directors emoluments, all transactions made with these parties are at arm's length

Subsidy from the Government

	2018-2019	2017-2018
	Kshs.	Kshs.
Subsidies from the County Government of Meru	<u>5,346,940</u>	<u>6,702,504</u>
Total	<u>5,346,940</u>	<u>6,702,504</u>

Key Management's Compensation

	Kshs.	Kshs
Director's Emoluments	<u>611,109</u>	<u>482,772</u>
Total	<u>611,109</u>	<u>482,772</u>

17. CONTINGENT LIABILITIES

Bank guarantees 204,000

[Bank guarantee is in relation to Service Provision Agreement between Imethawasco and licensee Tana Water Services Board was terminated)]

18 FINANCIAL RISK MANAGEMENT

Imetha Water and Sanitation Company is exposed to a variety of financial risks including credit and liquidity risks. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

Credit risk

The company has exposure to credit risk which is the risk that the customers may not be able to pay the bills when they fall due.

The company provides a credit period of a maximum of 14 days to the water customers.

Failure to pay within this period the water supply is disconnected.

The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the company'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 and maintaining a savings account where a portion of the company's revenue is reserved

19. INCORPORATION

The Imetha water and sanitation company is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya

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APPENDIX I

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit report	Issue observations from Auditor	Management comments	Focal point person to resolve the issue (name and designation)	Status (resolved/not resolved)	Timeframe: put a date when you expect the issue to be resolved
1.0	Inaccuracy of financial statements	During the casting of the budget figures, one item of the revenue of Kshs 1,599,000 was omitted. The error was rectified and the correct budget statement done.	Winfred Mukiri-Commercial Manager		Was rectified
2.0	Trade creditors	The trade payables amounting to Kshs 5,965,941 belongs to Fees Payable to WRA for both Meru and Isiolo, the company entered into a MOU With both WRA offices. Payable as follows:- Meru WRA offices kshs 60,493 kshs 419,290 monthly respectively			

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Other key Audit Matters					
3.0	Trade and other receivables	<p>The company has been using manual billing system hence the aging of the debtors was difficult. However the management has procured a billing system whereby aging of debtors is possible.</p> <p>During the year under review, the county and national governmental departments did not honor their bills thereby increasing trade receivables at the close of financial year.</p> <p>The company has increased collection efficiency after procuring the modern billing system. The system has increased the efficiency in terms of meter reading, billing, bills dispatchment and payments of water bills.</p>	Winfred Mukiri Accountant	resolved	

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4.0	Non-revenue water	<p>The major cause of NRW, which was at 42% ,was due to the old and dilapidated water infrastructure the company inherited from the Ministry of water of the National Government way back in the year 2006.</p> <p>As per the transfer plan, the government was required to rehabilitate the infrastructure first before handing it over to the company Over the years, the management has however been using the internally generated revenue in the company to rehabilitate the inefficient infrastructure. The resources required to effectively deal with NRW in all the nine Imethawasco schemes is enormous i.e. approximately Kshs. 1,258,300,000</p> <p>The company's internally generated revenue is hardly enough to renew the water system. On several occasions, the company has reached out to the county</p>			
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		<p>government of Meru for assistance to rehabilitate the water infrastructure to reduce the high levels of NRW.</p> <p>In the financial year 2018/2019 the county government of meru allocated Kshs 20M to install a new rectulation system in Maua town. This has been availed and the contractor is on sited carrying out the works.</p>			
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5.0	<p>Budgetary control and performance</p> <p>Income</p>	<p>During the year the company had budgeted kshs 1,599,000 to be collected from labour charges from new connections. However, more connections were made during the Year resulting to an increase in connection fees.</p> <p>The income of Kshs 1,179,631 from amortization of capital grants and other sundry incomes. Out of Kshs 1,179,631 the Kshs 1,155,692 relates amortization of capital grants.</p> <p>The under collection of water sales by Kshs 4,918,714</p> <p>During the year, the company relinquished 2 potential schemes to Tharaka-Nithi County whose revenue had been factored in the budget.</p> <p>During the year under review, the county and national governmental departments did not honor</p>	<i>resolved</i>		
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6.0.	Expenditure	<p>their bills therefore affecting the correction efficiency of financial year.</p> <p>The underutilization of personal cost was partially as result of relinquishing staff working in the two water schemes in Tharaka Nithi County.</p> <p>The Company had planned to engage some personnel to man Maua sewerage systems. However the sewerage was completed towards the end of the financial year 2017/2018</p> <p>Motor vehicles expenses - the company has two very old vehicles and 12 motorcycles whose maintenance cost is very high. Also the vehicles are consuming a lot of fuel. The company is planning to purchase a new motor vehicle and some motorcycle to reduce the running cost.</p> <p>During the year under review the travelling expenses rose</p>			
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		<p>due to many un foreseen mandatory meetings.</p> <p>In circumstances where such over expenditures were incurred, the same was reported and explained to the company's Board of Directors when presenting the quarterly financial reports. (Attached are the quarterly financial reports tabled to the Finance, Administration and Technical Committee of the Company .</p>			
7.0	Fixed assets	<p>Documents relating to ownership and acquisition date of assets owned by the company could not be availed to the auditors because it has been difficult to find most of the purchase documents since some cannot be traced. However, the management started updating the register when a new asset is purchased.</p>			

APPENDIX II

PROJECTS IMPLEMENTED BY THE ENTITY

During the year under review there were no any projects implemented by the company

APPENDIX III
INTER-ENTITY TRANSFERS

During the financial year 2018-2019, there were inter-entity transfers

During the year a corporation account was opened in family bank and kshs 50,000 deposited.

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**APPENDIX IV
RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES**

There was no any transfer from any government entity