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REPORT

OF

THE AUDITOR-GENERAL

ON

EMBE WATER AND SANITATION COMPANY LIMITED

FOR THE YEAR ENDED 30 JUNE, 2019



EMBE WATER AND SANITATION COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

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

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

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KEY ENTITY INFORMATION

Background information.

Embe water and sanitation company (EMBEWASCO) is a water service provider (WSP) which was incorporated in June 2006 and falls under Tana water services Board. EMBEWASCO covers an area of over 362 km² which has a population of about 47,067. The head office is at Siakago Town, Embu County.

Principal Activities

The principal activity of EMBEWASCO is provision of water and sanitation services within the designated SPA region of Mbeere sub-counties of Embu County.

Directors

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

1.	Christopher M. Ileri	- Chairman	Appointed on December,2012
2.	Dominic M. S. Kiurah	- Director	Appointed on December,2012
3.	Grace Nginda Ita	- Director	Appointed on December,2006
4.	Genesio Njuki Njiru	- Director	Appointed on December,2012
5.	Eng. Albert Gatuta	-Director	Appointed on December,2012
6.	John Nyaga Nduma	-Director	(General manager)

Corporate Secretary.

Mr. Richard Gikuhi Kiana

P.O Box 1271-10100

Nyeri.

Registered Office And Headquarters

Mbeere North Sub- County Water Officer's Building

Siakago- Ugweri Road

P.O.Box 195-60104

SIKAGO

Corporate Contacts.

Mobile: 0703192338

Email: embewater@yahoo.com

Website: www.embe.co.ke

Independent Auditors.

Office of Auditor General

Anniversary Towers, University Way

P.O Box 30084-00100

NAIROBI

Principal Legal Advisers

The Attorney General

State Law Office

Embe Water and Sanitation Company Limited
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Harambee Avenue
P.O. Box 40112
Nairobi

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THE BOARD OF DIRECTORS

NO.	NAME OF THE DIRECTOR	PROFESSION
1.	CHRISTOPHER IRERI 	1959. P1 TEACHING CERTIFICATE. CAREER TEACHER, HEAD TEACHER AND HEAD OF KENYA PRIMARY SCHOOL HEADS ASSOCIATION MBEERE NORTH.
2.	DOMINIC M. S. KIURAH 	1948. ADVANCED DIPLOMA IN PROFESSIONAL COMPUTING & DATA PROCESSING. RETIRED KENYA RAILWAYS EMPLOYEE (AUDIT DEPARTMENT). BUSINESSMAN.
3.	GENESIO NJUKI NJIRU 	1960. CUSTOMER CARE & PUBLIC RELATIONS CERTIFICATE. BUSINESSMAN.
4.	GRACE NGINDA ITA 	1947 PRIMARY TEACHER CERTIFICATE RETIRED TEACHER. FARMER
5.	ENG. ALBERT NJERU GATUTA 	1982 BSC. WATER AND ENVIRONMENT ENGINEERING. CHIEF OFFICER, MINISTRY OF WATER, EMBU COUNTY GOVERNMENT.
6.	JOHN NYAGA NDUMA 	1962 HIGHER NATIONAL DIPLOMA IN WATER ENGINEERING GENERAL MANAGER.
7.	CPS GIKUHI KIANA 	CPSK COMPANY SECRETARY

MANAGEMENT TEAM

NO.	NAME		DESIGNATION & QUALIFICATION
1.	JOHN NYAGA NDUMA		GENERAL MANAGER -HIGHER NATIONANAL DIPLOMA WATER ENGENEERING
2.	VICTOR MURITHI IRERI		FINANCE OFFICER CPA PART IV. DIP. IN BUSINESS MGT. BCOM -FINANCE
3.	LENNY KAMAU MIKINYANGO		HUMAN RESOURCE & ADMINISTRATION. DIPLOMA IN HUMAN RESOURCE MANAGEMENT.
4.	NANCY KORIR		DISTRIBUTION MANAGER. DIPLOMA IN WATER ENGENEERING.

CHAIRMAN'S STATEMENT

INTRODUCTION

The WSP is contracted by Tana Water Services Board to provide provision of water and sewerage services in Mbeere North Sub County of Embu County. Since the contracting of the Water service provider, Embe water and Sanitation Company has been endeavouring to offer quality provision water services within legal and regulatory framework.

It is worthwhile noting that the provision of water services is entering a critical phase with the implementation of the Constitution of Kenya 2010 and therefore the gains made in the provision of water services since the inception of water sector reforms needs to be safe guarded.

Over the period under review, the water consumption has recorded remarkable improvement and is projected to rise higher in the medium term. Our sales recorded improvement which was attributed to reliable water supply to the consumers, growth in unit sales and enhanced revenue collection mechanisms.

Improving access to services does not only call for creation of institutions and provision of resources, it should include a change in attitudes, managerial practices and organizational capacities. It is in these regard the WSP has aspired and is eager to change the status quo through sustainable commitment to ensure that sector objectives are achieved.

The recognition of the human right to water and sanitation in the constitution implies that investments and financing plans have to be aligned towards realization of this right. The WSP as a duty bearer on behalf of the Government is reinforcing its effort to extend services to currently un served areas.

BUSSINESS ENVIRONMENT

Water policy of 1999 and water act 2002, and subsequent revised Water Act 2016, introduced extensive reforms in water sector in line with international best practice by separating functions, introducing commercialization, decentralization and professionalism of water services and introducing a strong pro - poor focus in line with human right to water and sanitation. On the basis of this enabling environment, significant progress has been made in the provision of formalized water services to citizens. Water Services Regulatory Board (Wasreb) has made it a priority agenda to emphasize the need to preserve and build on the gains made in the pre devolution period.

LEGAL

The Constitution of Kenya 2010, devolved the responsibility for provision of water services to the County Government. In order to sustain and improve on the significant gains made by the water sector reforms of 2002 in the application of devolved principles, a legal framework such as a new water policy and water Bill aligned to the requirements of the Constitution 2010 to guide and support the devolution process is important.⁹

GOVERNANCE

Takeover of WSP by the County Government is supported by the Constitution of Kenya 2010, it is prudent that the process be carried out within the existing legal structures and framework so that the flow of services to the customers are not compromised.

Embu County Government the successors of Mbeere County Council, holds powers as stakeholder and have one representative who seat on the Board of Directors.

COMMERCIAL

The WSP has built a sustainable business environment based on the principles of accountability, efficiency and effectiveness. In this respect, the WSP has acquired operational License and Service Provisional Agreement (SPA) and Regular Tariff Adjustment (RTA). These are the main regulatory instruments that establish standards for the operations and guide towards financial sustainability.

In collaboration with stakeholders such as Ministry of Water and Irrigation, Water Services Regulatory Board, Tana Water Services Board (TWSB), Water Services Trust Fund (WSTF), National Drought Management Authority (NDMA) and Mbeere North Constituency Fund

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(CDF), the WSP has strengthened its governance framework, promoted professional management and improved on water services assets.

SECTOR PERFORMANCE OVERVIEW

In the year under review the WSP posted positive improvement in most areas as indicated in the following key performance indicators as illustrated below.

Item	Description	Units	2018/19	2017/18	% Age increase
1.	Water coverage	%	51	50	1
2.	Sanitation coverage	%	91	91	0
3.	Drinking water quality	%	92	92	0
4.	Hours of services	No	18	17	0
5.	Non-Revenue Water	%	49	40	9
6.	Metering ratio	%	100	100	-
7.	Annual turnover	Kshs. (M)	31.2	29.12	3
8.	Collection Efficiency	%	79	75	4
9.	Staffing per 1,000 connections	No	13	13	0


APPRECIATION

In concurrence with the emerging issues, let me take this opportunity to thank you most sincerely for entrusting us with your investment and assure you that we will always endeavour to give you a fair return.

In conclusion I would like to recognize all the respective stakeholders, public, Board of Directors and management who have made Embe Water and Sanitation Company to realize the achievements it has made within the period under review and request that to provide critical insight on how to move forward in improving the provision of water services.

Thank you and God bless us all.

SIGNED:



CHRISTOPHER IRERI

Embe Water and Sanitation Company Limited
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REPORT OF THE GENERAL MANAGER

OVERVIEW

The Financial Year 2018 – 2019 marked an improved performance by posting increase in water coverage from 50% to 51%, revenue collection by 1%. This has reduced reliance on Government of Kenya subsidy. This move indicates a positive trend towards water service provider sustainability.

Change of attitude by employees, application of best management and professional practices and strengthened organization capacities as resulted to better service delivery by your WSP for the period under review. Low Budgetary allocation by the Government toward improvement of dilapidated water system infrastructure remains ever bigger challenge. There is need to recognize the important role that the private sector can play in increasing access either directly in water services provision or indirectly through financing.

FINANCIAL PERFORMANCE

The operating revenue increased significantly driven by the improved unit sales and operation efficiency. The operating income increased from Kshs.29,869,681 to Kshs.34,316,561 due to increased collection efficiency and recovery of debts.

INSTITUTIONAL CAPACITY

Among the company's core values is the continued improvement in customer services and innovation. The company has initiated information technology platform and is implementing web-based billing and accounts software which will offer a competitive advantage and ensure superior customer services. Our staffs are the greatest resource the company attaches great importance toward its productivity. The WSP encourages staff training and development as a means of ensuring that the organization is fully and appropriately staffed with employees who have requisite competence to perform their jobs and that all members of staff feel valued and supported.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITIES STATEMENT

The water service Provider recognizes that it has a corporate social and environmental responsibility. The company is partnering with groups with similar objectives towards social development and empowerment of the broader community through various corporate social initiatives, staff welfare and environmental conservation and improvement.

SERVICE DELIVERY

In the period under review, the WSP served 20,342 persons out of 43,239 persons with total active connection of 3,560.


These customers are served with 157 Kilo metres pipeline network of various sizes, several storage tanks and other civil engineering infrastructure. The status of these infrastructures poses a challenge and therefore requires attention for them to work efficiently.

FUNDING

The main sources of income during the period under Audit was internally generated revenue.

However, the Company expects, in its future endeavours, to enjoy funding from Government of Kenya, Embu County Government among other Development partners.

Traditionally the WSP funds its operations expenditure with revenue generated and capital expenditure from the Government and development partners. In the spirit of fulfilment and protection of this Constitutional duty of the right to water, I acknowledge this obligation and realize the need to strengthen the participation and empowerment of our Board of Directors, customers, collaborators and business partners.



General Manager

Date 07/10/019

CORPORATE GOVERNANCE STATEMENT

Good corporate governance is key to the integrity of water sector institutions and markets and is central to the health of our economies and their stability. Corporate governance plays a leading role in making certain how corporations and their boards and management are directed, controlled and held to account. Corporate governance therefore encompasses the systems, practices and procedures by which the individual corporation regulates itself in order to remain competitive, ethical, sustainable and fair.

The board of Embewasco limited follows principles of openness, integrity and accountability in its stewardship of the company's affairs. It recognizes the developing nature of corporate governance and assesses the company's compliance with generally accepted corporate governance practice on a regular basis, directly and through its board committees and management. The role of the board is to ensure conformance by focusing on and providing the company's overall strategic direction and policy making as well as performance review through accountability and ensuring appropriate monitoring and supervision. The board is also responsible for the overall system of internal control and for the reviewing its effectiveness. The controls are designed to both safeguard the company's assets and ensure the reliability of financial information.

A management team, comprising the general manager, heads of departments and senior staff meets regularly to consider issues of operational and strategic importance to the company. Here below are the key features of the existing corporate governance practices within Embe Water and Sanitation Company Limited which are reviewed and improved on a regular basis:-

I. Board Of Directors.

The Board of Directors consists of one executive director and four non-executive directors, who have been appointed in accordance with the Water Act 2016. The chairman of the board is a non-executive director and the board meets formally at least four times a year.

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

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

The board meets regularly and retains full and effective control over the company in all strategic, financial, operational and compliance areas. In 2018-2019, four board meetings were held and all directors attended the four meetings

To assist the board in the discharge of its responsibilities, board committees have been established. The board committees met at FOUR times a year. The committees are as follows:-

a) Audit Committee

The audit committee comprises of three non-executive directors and a senior manager. The committee is responsible for inter alia, developing and advising an audit and financial controls and compliance issues of the company. It also defines the scope of the internal audit function and acts as a liaison between the external auditors and management. The current members of the committee are: - Dominic Kiurah, (Chairman), Embu county representative and Mr.Genesio Njuki.

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b) Finance and Technical Committee

The finance and technical committee comprise of four non-executive directors and the general manager. The committee provides guidance to the board on finance and technical requirements for the company. The current members are Christopher Ireri, Genesio Njuki (Chairman), Grace N. Ita, CEO Tana Representative.

2. Internal Controls

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

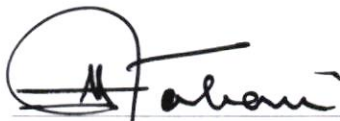
3. Related Party Transactions and Directors Remuneration.

The related party transactions with the company during the year ending 30th June 2019 are detailed under note 19 on page 23-24 of these annual report and financial statements.
The remuneration for directors consists of sitting allowances for their services in connection with the Board and committee meetings.

The aggregate amount of director's remuneration for services rendered during the year ending 30th June 2019 are contained under note 17 on page 20-23 of these annual report and financial statements.

4. Going Concern

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



Christopher Ireri
Chairman



Alex K. Mikinyango
Ag. General Manager.

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MANAGEMENT DISCUSSION AND ANALYSIS

The EMBEWASCO is contracted by Water Services Regulatory Board to engage in provision of water and sewerage services in Mbeere North Sub County of Embu County. Since the contracting of the Water service provider, Embe water and Sanitation Company has been endeavouring to offer quality provision water services within legal and regulatory framework. It is worthwhile noting that the provision of water services is entering a critical phase with the implementation of the Constitution of Kenya 2010 and therefore the gains made in the provision of water services since the inception of water sector reforms needs to be safe guarded. Over the period under review, the water consumption has recorded remarkable improvement and is projected to rise higher in the medium term. Our sales recorded improvement which was attributed to reliable water supply to the consumers, growth in unit sales and enhanced revenue collection mechanisms.

Operational Performance.

The company performance is reported under water coverage. Water coverage from currently stands at 339 km² serving a population of 20,342. The increased performance is attributed to internally generated funds coupled with assistance of development partners such as WSTF, CDF, TWSB and the County government of Embu.

However, the company faces challenges in: Financial resources for development, decline in water resource capture, inadequate hydrological data for planning. The continued consumer demand for water is raising at a higher rate than is water service provision supply. Currently, only 20% of eligible population has services.

The company will continue engaging its current financials partners in financing the required projects while at the same time, looking for other sources of finance, more so commercial financing concept.

Financial Performance.

The company has maintained increased financial performance from year to year in the areas of total revenue billings increasing from **Kshs.29,869,681** to **Kshs. 34,316,561** and increased revenue collection. This translates to an increased collection efficiency from 75% to 79% respectively.

This shows that revenue collected as a percentage of revenue (Billing) provided for sustainable levels of operating and maintenance cost and propelling the company towards total financial sustainability.

Corporate Governance.

EMBEWASCO strives to comply with the company's Act, Cap 486, water Act 2002 and 2015; the Kenya institution 2010 and all other laws and guidelines as spelt out by WASREB. The key issues raised by WASREB guidelines include: Public participation in appointment of directors, oversight and supervision rules of the Board, information and control systems checks and balances in operations and compliance to set Water Service Providers (WSP) systems; Financial management to measure compliance with applicable IFRS and IPSAS.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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

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

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

The Environment

The Company relies on the environment which provides water which is produced, treated and transmitted via pipeline to respective customers. Over the time the company has been advocating for water catchment protection and it has been represented in meetings for Water Resource Users Association (WRUA). On sewer management, despite the system overload, the Company prioritizes and minimizes impact on the standards, most particularly with the sewerage treatment and disposal. The water treatment plant uses certified chemicals in dosing system.

The company recognizes co-existence with other and hence it has been actively involved in activities and social events occurring within its area of jurisdiction. Several events of social nature in which company has been involved with include:

i) National Holidays:

The Company actively participates in national holidays such as Jamhuri day and Madaraka day and provides snacks and drinks through its CSR kitty

ii) Disability Day:

The Company participates annually in supporting activities during disability day.

The Customer

Efficient delivery of services to our customer is one of the crucial areas of the Company. The aim is to sustain 24hour service delivery and minimum interruptions to the flow of water. The current water supply hours per day stands at 18 hours.

Customer service is an area of high priority as the Company is cognizant of the importance of the customer in the service delivery process and indeed to its overall performance. The Company is therefore committed to effective communication with the customers and sensitizing them on key issues in the management of water resource especially at the consumption point.

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Though the company has not fully met needs of un served customers, the company has endeavoured to extend service using its own resources and has even mobilized funds from donors and commercial loans to extend service to customers.

Human Resource

The Company recognizes that health, safety and training, play a key in ensuring our employees commitment to responsibility in the workplace and a working environment in which personal and employment rights are upheld. Effective policies and procedures are aligned with Company needs and the promotion of good communication processes, to assist timely and consistent delivery of relevant information to employees.

The Company provides equal opportunity for all employees and job applicants. It has in place policies covering issues such as performance management, training and family friendly policies. E.g. Compassionate Leave, Paternity Leave among others. The employees of the Company are active players of various teams which compete locally and nationally.

Stakeholders

The company actively encourages open communication with stakeholders. Principally through the board, the company endeavours to establish and maintain healthy relationships with its institutional stakeholders by holding regular consultations on issues requiring stakeholder participation as enshrined in the Constitution of Kenya 2010.

The company holds Annual General Meeting (AGM) once a year. The stakeholder representatives are given 21 days notices of AGM. At AGM the Company makes full presentation to stakeholders to explain recent and future developments in activities undertaken by company, followed by an open question and answer session which provides stakeholders with opportunity to ask directors and management questions regarding operations and performance of the company.

REPORT OF THE DIRECTORS.

Principal activity

The principal activity of the entity is provision of water and sanitation services within the SPA area.

Results

The results of the entity for the year ended June 30, 2019 are set out on pages 1-29

Directors

The members of the Board of Directors who served during the year are shown on page 4 In accordance with Regulation of the company's Articles of Association.

Auditors

The Auditor General is responsible for the statutory audit of the company in accordance with the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board



Corporate Secretary

Date

07/10/019



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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 the company, which give a true and fair view of the state of affairs of the company at the end of the financial year and the operating results of the company for that year. The Directors are also required to ensure that the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company. The Directors are also responsible for safeguarding the assets of the company.

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

The Directors accept responsibility for the company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the company's financial statements give a true and fair view of the state of company's transactions during the financial year ended June 30, 2019, and of the company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The company's financial statements were approved by the Board on 06th September 2019 and signed on its behalf by:

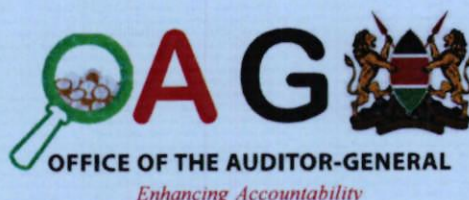

Director


Director


Director

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON EMBE 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 Embe Water and Sanitation Company Limited set out on pages 1 to 27, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows, 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 matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, the financial position of the Embe 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 Unsupported Balances in the Statement of Cash Flows

The statement of cash flows reflects Kshs.1,840,866 and Kshs.46,698 in respect to restatement on debtors control accounts and net cash flow generated from financing activities both totalling to Kshs.1,887,564. However, the respective details and supporting documents were not provided for audit.

In the circumstance, the accuracy of the statement of cash flows for the year ended 30 June, 2019 could be confirmed.

2.0 Inaccuracies in Cash and Bank Balances

The statement of financial position reflects cash and bank balance of Kshs.633,953 as at 30 June, 2019. The balance excludes an amount of Kshs.796,790 in respect of customer deposits as at 30 June, 2019. Further, the statement of financial position reflects bank overdraft balance of Kshs.2,356,993 in respect to bank overdraft as at 30 June, 2019.

However, a review of the cashbook, bank statement and certificate of balance revealed that the Kshs.2,356,993 was in respect of overdrawn current account cashbook arising from posting of sixty-six (66) unpresented cheques amounting to Kshs.2,583,239. Further, included in the Kshs.2,583,239 is Kshs.296,723 in respect to stale cheques as at 30 June, 2019 which had not been reversed in the cashbook and thereby understating the cashbook by the same amount.

In the circumstances, the accuracy, completeness and fair statement of the Kshs.2,356,993 bank overdraft balance as at 30 June, 2019 could not be ascertained.

3.0 Loss of Cash

As reported in previous years, Minute 16/06/04 of the board meeting held on 18 November, 2014 stated that two cashiers had defrauded the Company of Kshs.782,385. However, except for the copies of the letters to the suspects, Management has not demonstrated efforts made to recover the lost cash.

In the circumstances, the recoverability of the Kshs.782,385 is in doubt.

4.0 Lack of Ownership Documents for Plant, Property and Equipment

The statement of financial position and as disclosed in Note 2 to the financial statements reflects plant, property and equipment balance of Kshs.67,869,559 as at 30 June, 2019. However, as reported in previous years, the plant, property and equipment balance of Kshs.67,869,559 as at 30 June, 2019 included Kshs.4,850,000 and Kshs.12,679,740 for land and buildings respectively inherited from the Ministry of Water and Irrigation and maintained by the Company. However, Management did not provide evidence of transfer of ownership for audit.

Consequently, the ownership of the land and buildings valued at Kshs.17,529,740 as at 30 June, 2019 could not be confirmed.

5.0 Unaccounted for Customer Deposits

The statement of financial position and as disclosed in Note 6 to the financial statement reflects customer deposits balance of Kshs.4,296,790. Included in this balance is Kshs.3,500,000 invested in treasury bonds and Kshs.796,790 which has not been invested but was banked in the Company's two (2) bank accounts instead of a separate account for ease of accountability. Further, the customer deposits were not reflected in the cash and bank balances.

In the circumstances, the security of the Kshs.4,296,790 customers deposit as at 30 June, 2019 could not be confirmed and customer refunds may not be possible on demand.

6.0 Long Outstanding Accounts Receivables

The statement of financial position and as disclosed in Note 4 to the financial statements reflects Kshs.19,052,092 in respect to accounts receivables as at 30 June, 2019. However, as reported in the previous years, the receivables balance of Kshs.19,052,092 as at 30 June, 2019 included gross account receivables of Kshs.1,893,821 inherited from the Ministry of Water and Irrigation in 2006 which remained outstanding for 14 years.

In the circumstances, the recoverability of the accounts' receivables balance of Kshs.19,052,092 as at 30 June, 2019 could not be confirmed.

7.0 Irregular Hire of Transport

The statement of profit and loss and other comprehensive income and as disclosed in Note 17(iii) to the financial statements reflects establishment costs of Kshs.13,705,568. Included in the amount is Kshs.296,300 in respect to transport hire and equipment which further includes Kshs.177,000 spent on hire of five (5) motor cycles used for meter reading exercise that was procured from three (3) different firms at Kshs.800 per day. However, details on how the cost of hiring the motor cycles was arrived at, registration numbers of the motor cycles hired and names of officers ferried by the hired motor cycles were not provided for audit review. Further, review of the list of prequalified suppliers provided for audit revealed that the hire of transport and equipment services had not been included in the prequalification process for the financial year 2018/2019.

In the circumstance, the validity of the expenditure of Kshs.177,000 on hire of transport for the year ended 30 June, 2019 could not be ascertained.

8.0 Unsupported Payment for Laboratory Apparatus, Chemicals and Reagents

The statement of profit and loss and other comprehensive income and as disclosed in Note 17(iii) to the financial statements reflects Kshs.13,705,568 in respect to establishment costs. Included in this amount is Kshs.1,370,077 in respect to laboratory apparatus, chemicals and reagents. However, Management did not provide documentation on how the items were taken on charge in the stores.

In the circumstance, validity of the expenditure of Kshs.1,370,077 in respect to laboratory apparatus, chemicals and reagents for the year ended 30 June, 2019 could not be ascertained.

9.0 Material Uncertainty in Relation to Going Concern

The statement of profit and loss and other comprehensive income reflected a deficit of Kshs.2,002,937 for the year ended 30 June, 2019. (2018: deficit: Kshs.8,022,767). The trend has resulted to retained accumulated losses of Kshs.112,217,630 as at 30 June, 2019. The financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive financial support from the County Government and its creditors.

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

Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.34,800,000 and Kshs.123,480,786 respectively resulting to an under-funding of Kshs.34,316,561. Similarly, the Company incurred expenditure of Kshs.36,355,753 against an approved budget of Kshs.34,792,501 resulting to an over-expenditure of Kshs.1,563,252. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

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 Non-Revenue Water

Note 16 to the financial statements reflects 964,290 cubic meters (m³) of water produced for consumption during the year ended 30 June, 2019 out of which only 495,664 cubic meters was billed to customers. The balance of 468,626 cubic meters (approximately 49%) of the total water produced with an approximate expected earning of Kshs.29,523,438 represents Non-Revenue Water (NRW) which is 24% over and above the allowable limit of 25% set by Water Services Regulatory Board Guidelines. The non-revenue water of 24% may have resulted in a loss of sales estimated at Kshs. 14,335,839.

The significant level of non-revenue water is an indication of inefficiency and ineffectiveness in the use of water and public resources, and may negatively impact on the Company's profitability and its ability to sustain services in the long run.

2.0 Irregular Payment of Casual Wages

The Company incurred expenditure of Kshs.3,260,412 in respect to casual labour. Included in this amount was payment of Kshs.2,863,919 spent in respect to sixteen (16) casual workers who were engaged for a period of twelve months. This was contrary to Section 5.12 of the Company's approved Human Resource Policy Manual which provides that casual appointments shall be made for a period not exceeding three months'

renewable contract and shall be paid their wages on daily basis. Further the respective engagement letters for the casuals were not provided for audit.

In the circumstances, the Company is in breach of its human resource policy and the payment was irregular.

3.0 Recruitment of Interns

Included in the Kshs.3,260,412 expenditure on casual labour is Ksh.396,493 paid to interns recruited without Board's approval. This was contrary to Section 5.11 of the Company's approved Human Resource Policy Manual which stipulates that besides preparing our youth for the job market, internship also seeks to temporarily address gaps in specialized areas shall be done with appropriate authority of the Board of Directors.

In the circumstances, the Company is in breach of its human resource policy.

4.0 Maintenance of Water Supply Systems

The incurred expenditure of Kshs.3,674,108 in respect to water management. Included in this amount is expenditure of Kshs.2,204,730 on maintenance of water supply systems which further includes Kshs.313,385 spent on purchase of various stock items through imprest. The procurement was not supported by quotations, approved requisition showing items and quantities to be purchased and details on whether the items were taken on charge in the stores.

In the circumstance, the validity of the expenditure on purchase of various stock items through imprest expenditure of Kshs.313,385 could not be confirmed.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1.0 Lack of Internal Audit Unit

The Company did not have an internal audit section to carry out internal audit functions. This was contrary to Section 155(1) (a) of the Public Finance Management (PFM) Act, 2012 which provides that a County Government entity shall ensure that appropriate

arrangements are made for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

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

2.0 Lack of Approved Information Technology Security Policy

Review of the Company's information technology systems revealed that it has in place Enterprise Resource Planning (ERP) to manage its operations. However, the Company did not have an approved IT policy for governance and management of its ICT resources. In addition, there is no ICT steering committee in place to assist in development of ICT policy framework to enable the company realize long term ICT strategic goals. Lack of an approved IT policy may result in unclear direction regarding maintenance of information security across the organization and safeguarding the Company's ICT assets. Further, without a sound and approved framework, users do not have any rules and procedures to follow in order to minimize risk of errors, fraud and the loss of data confidentiality, integrity and availability.

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 governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have not been kept by the Water Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are not in agreement with the accounting records and returns.

Responsibilities of Directors and those Charged with Governance

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Directors 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 the Directors 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

12 January, 2022

EMBE WATER AND SANITATION COMPANY LIMITED**Annual Reports and Financial Statements****For the year ended June 30, 2019****STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019**

INCOME	NOTES	30.06.2019 KSHS	30.06.2018 KSHS
Water Revenue	10	29,693,738	29,495,063
Grants and subsidies	11	-	-
Miscellaneous incomes	12	4,622,823	374,618
TOTAL INCOMES		34,316,561	29,869,681
LESS: EXPENSES			
Other operating expenses	13	479,640	478,470
Finance costs	14	271,365	260,556
Indirect Expenses	15	-	-
Administrative expenses	17	35,568,493	37,153,422
TOTAL EXPENDITURE		36,319,498	37,892,448
Operating profit/ (loss) before Taxation		(2,002,937)	(8,022,767)



EMBE WATER AND SANITATION COMPANY
Annual Reports and Financial Statements
For the year ended June 30, 2019


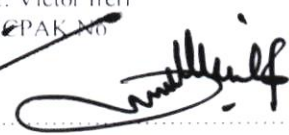
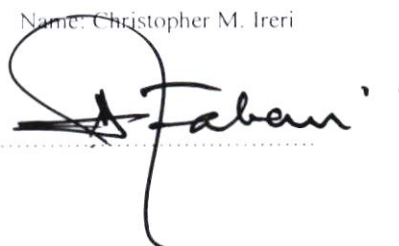
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

ASSETS	NOTES	30.06.2019 KSHS	30.06.2018 KSHS
NON-CURRENT ASSETS			
Property, Plant and Equipment's	2	67,869,559	76,948,728
Treasury Bonds		3,500,000	-
CURRENT ASSETS			
Bank Guarantee	3	220,000	220,000
Stores (stock)		464,950	1,497,074
Receivables	4	19,052,092	16,072,915
Prepayments		557,319	-
Cash & Bank balances	5	633,953	1,944,758
TOTAL CURRENT ASSETS		20,928,314	19,734,747
TOTAL ASSETS		92,297,874	96,683,475
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Accumulated funds	8	190,497,018	190,497,018
Retained earnings	9	(112,217,630)	(108,372,026)
TOTAL ACCUMULATED FUNDS EMPLOYED		78,279,388	82,124,992
CURRENT LIABILITIES			
Customer deposit	6	4,296,790	3,857,390
Bank Overdraft		2,356,993	-
Payables and accruals	7	7,364,703	10,701,093
TOTAL CURRENT LIABILITIES		14,018,486	14,558,483
TOTAL EQUITY AND LIABILITIES		92,297,874	96,683,475

The financial statements were approved by the Board on _____ 2019 and signed on its behalf by:
 Ag. General Manager Head of Finance Chairman of the Board

Name: Alex K. Mikiinyango Name: Victor Ileri
 ICPAK No

Name: Christopher M. Ileri

Embe Water and Sanitation Company Limited
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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

30.06.2018	CAPITAL KSHS	RETAINED EARNINGS KSHS	TOTAL KSHS
OPENING BALANCE	190,497,018	(102,971,382)	87,525,636
Less overstated Capital	-	-	-
Add Understated Retained Earnings	-	2,626,622	2,626,622
Additions during the year	-	(8,022,767)	(8,022,767)
TOTAL	190,497,018	(108,367,527)	82,129,491
30.06.2019	CAPITAL KSHS	RETAINED EARNINGS KSHS	TOTAL KSHS
OPENING BALANCE	190,497,018	(108,367,527)	82,129,491
Restated amount on Debtors	-	(1,840,866)	(1,840,866)
Prior year adjustment	-	(6,300)	(6,300)
Additions during the year	-	(2,002,937)	(2,002,937)
TOTAL	190,497,018	(112,217,630)	78,279,388

Embe Water and Sanitation Company Limited
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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019.

	NOTES	30.06.2019 Kshs	30.06.2018 Kshs
Cash flows from operating activities			
Net surplus / (deficit) realised from operations		(2,002,937)	(8,020,966)
Adjustments on non-cash items:			
Depreciation		7,756,527	9,015,714
Restatement on debtors control account		(1,840,866)	2,626,622
Provision for Bad debts (decrease)		156,799	-
Provision for Gratuity		686,615	-
Provision for wasreb fees		312,546	-
Provision for WARMA fees		247,832	-
Net Cash From Operating Activities Before Working Capital Changes		5,316,516	3,621,370
working capital changes			
Decrease (Increase) in stock		1,032,124	(206,380)
Decrease (Increase) in trade and other receivables	4	(2,979,177)	(5,080,228)
Increase/(Decrease) in customer deposits	6	439,400	444,030
Increase(Decrease)in trade payables	7	(3,336,390)	4,295,274
Increase/(Decrease) in Bank Overdraft		2,356,993	-
Increase in Prepayments		(557,319)	-
Cash flows from working capital		(3,044,369)	(547,304)
Net Cash From Operating Activities After Working Capital Changes		2,272,147	3,074,066
Investing Activities			
(Purchase)/ maturity of Treasury Bills		(3,500,000)	3,000,000
Purchase of Non-current Assets***		(36,255)	(100,000)
Cash flow generated from (used in) investing activities		(3,536,255)	3,100,000
Financing Activities			
Cash flow generated from (used in) financing activities		(46,698)	-
INCREASE/ (DECREASE) IN CASH AND CASH AND CASH EQUIVALENT.		(1,310,806)	5,974,066
CASH AND CASH EQUIVALENTS AT START OF YEAR		1,944,759	(4,029,307)
Cash and cash equivalents at end of year		633,953	1,944,759

EMBE WATER SANITATION COMPANY LIMITED

Annual Reports and Financial Statements

For the year ended June 30, 2019

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

	Original budget 2018-2019 Kshs	Adjustments 2018-2019 Kshs	Final budget 2018-2019 Kshs	Actual on comparable basis	Performance difference
TOTAL INCOME	34,800,000		34,800,000	34,316,561	483,439
PERSONNEL COSTS					
Salaries	12,300,000		12,300,000	11,446,416	853,584
Gratuity	805,000		805,000	686,615	118,385
Staff Training	224,000	-50,352	173,648	30,000	143,648
Staff Welfare	286,189		286,189	198,990	87,199
Daily Casuals payments	3,710,212	- 414,827	3,295,385	3,260,412	34,973
Security	343,860	48,140	392,000	355,000	37,000
Electricity-office administration	143,646	50,352	193,998	172,324	21,674
Travel and accommodation	2,252,006	1,014,496	3,266,502	3,252,999	13,503
fuel & oil	792,266	47,734	840,000	810,000	30,000
Insurance	224,000		224,000	183,519	40,481
Telephone, fax, Email/mobile	542,599		542,599	542,547	52
postage and courier	1,267	10,733	12,000	11,260	740
printing ,stationery & materials	238,000	- 10,733	227,267	131,362	95,905
office cleaning and miscellaneous	30,000		30,000	15,300	14,700
Directors sitting allowances(quarterly)	745,000	241,667	986,667	909,000	77,667
official entertainment	407,540		407,540	379,640	27,900
Advertisements, publicity, newspapers	121,550		121,550	28,980	92,570
stakeholders meeting, exhibits & marketing(1/2 yearly)	600,000	- 242,303	357,697	126,000	231,697
Bank charges	262,681	10,195	272,876	271,365	1,511
Audit fee (once)	100,000		100,000	100,000	-
Consultancy/ Freelance fee(twice per year)	220,000	- 47,734	172,266	29,200	143,066
Water Quality Analysis(quarterly)	60,000	-	60,000	-	60,000
Equipment and transport hire	225,324	72,809	298,133	296,300	1,833

Embe Water and Sanitation Company Limited
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	Original budget 2018-2019 Kshs	Adjustments 2018-2019 Kshs	Final budget 2018-2019 Kshs	Actual on comparable basis	Performance difference
Service provider agreement fee(9% levy and 1% levy)	3,480,000	- 981,566	2,498,434	312,546	2,185,888
miscellaneous penalties & contingencies	20,090		20,090	10,000	10,090
Legal fees	90,000		90,000		90,000
PRODUCTION AND MAINTENANCE					
chemicals & Reagents	1,342,600	153,807	1,496,407	1,370,077	126,330
Raw material charges(50cents per metre cubed)	520,000	- 32,930	487,070	247,832	239,238
Water system repairs	2,500,000	20,000	2,520,000	2,204,730	315,270
computer and equipment maintenance and repair	156,816		156,816	144,650	12,166
staff uniforms & protective clothing	120,230	242,303	362,533	271,900	90,633
Bicycle maintenance allowances	21,384	216	21,600	21,600	-
office Building and grounds maintenance	26,156		26,156	13,510	12,646
Motor vehicle/Cycle service, repair, tyres	195,085	414,611	609,696	572,098	37,598
NON-Cash EXPENDITURE					
Increase/ (Decrease) in provision for bad debts	-	-	-	156,799	- 156,799
Depreciation	-	-	-	7,756,527	- 7,756,527
TOTAL EXPENDITURE	33,107,501	546,618	33,654,119	36,319,498	- 2,665,379
CAPITAL EXPENDITURE					
Motor cycles----purchases	600,000	- 468,283	131,717		131,717
computer hardware and software upgrades	620,000		620,000	29,600	590,400
office furniture/fittings maintenance and repair	120,000		120,000	6,655	113,345
Photocopiers and printers	200,000	- 48,140	151,860		151,860
Assorted tools	70,000	- 10,195	59,805		59,805
Laboratory apparatus	75,000	- 20,000	55,000		55,000
TOTAL CAPITAL EXPENDITURE	1,685,000	- 546,618	1,138,382	36,255	1,102,127
Total	34,792,501	-	34,792,501	36,355,753	- 1,563,252

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Embe water and sanitation company (EMBEWASCO) is a water service provider (WSP) which was incorporated in June 2006 and falls under Embu County Government. EMBEWASCO covers an area of over 362 km² which has a population of about 47,067. The head office is at Siakago Town, Embu County. For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

A) STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

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

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

IFRS 16: Leases

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee, where right of use assets of, lease liabilities of and a deferred tax asset are recognised with a corresponding decrease of the net amount in retained earnings in these financial statements. However, during the financial period 2018-2019, none of the above liabilities were incurred, thus none recognised.

IFRIC 23: Uncertainty Over income tax treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

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

The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

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

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

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

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

None of the above standards and amendments, have any impact on the current financial period upon their adoption.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

IFRS 17 Insurance Contracts (Issued 18 May 2017)

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021.

Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018- Applicable for annual periods beginning 1 January 2020)

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

iii) Early adoption of standards

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

C) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

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

- i) **Revenue from the sale of goods and services** is recognised in the year in which the *entity* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the *entity* actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

b) In-kind contributions

In-kind contributions are donations that are made to the *entity* 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 *entity* 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Property, plant and equipment

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

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

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

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

d) Depreciation and impairment of property, plant and equipment

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Intangible assets

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

f) Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

g) Investment property

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

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

h) Finance and operating leases

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

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

i) Fixed interest investments (bonds)

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

j) Quoted investments

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

k) Unquoted investments

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

l) Inventories

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

The value of inventories as at 30th June, 2019 was Kshs.464, 950 derived from respective reconciled inventory ledger balances.

m) Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

n) Taxation

Current income tax

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Current income tax (Continued)

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

Deferred tax

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Deferred tax (Continued)

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

o) Cash and cash equivalents

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

p) Borrowings

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

q) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

r) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2010. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.1,080.00 per employee per month.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

s) Provision for staff leave pay

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

t) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

u) Budget information

The original budget for FY 2018-2019 was approved by the National Assembly on xxxx. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded additional appropriations of xxxxx on the 2018-2019 budget following the governing body's approval.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) Budget information (Continued)

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

v) Service concession arrangements

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

w) Comparative figures

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

x) Subsequent events

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

D) SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

Estimates and assumptions.

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

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Useful lives and residual values

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

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

Provisions

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

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

2.

PLANT, PROPERTY AND EQUIPMENTS
AS AT 30TH JUNE, 2019

	LAND	BUILDING	MACHINERY	COMPUTERS AND ACCESSORIES	MOTOR VEHICLE & CYCLES	FURNITURE & FITTINGS	TOTAL
Cost	4,850,000	15,160,344	93,494,052	916,250	3,752,378	125,582	118,298,606
Additions	-	-	-	29,600	-	6,655	36,255
	4,850,000	15,160,344	93,494,052	945,850	3,752,378	132,237	118,334,861
DEPRECIATION							
Charge in prior years	-	2,221,834	37,733,126	574,144	2,128,289	51,382	42,708,775
Charge for the year	-	258,770	6,970,116	111,512	406,022	10,107	7,756,527
Total charge	-	2,480,604	44,703,242	685,656	2,534,311	61,489	50,465,302
N.B.V 30/06/2019	4,850,000	12,679,740	48,790,810	260,194	1,218,067	70,748	67,869,559
W.D.V 30.06.2018	4,850,000	13,700,219	55,760,926	342,106	1,624,088	74,200	76,948,728

	KSHS 30.06.2019	KSHS 30.06.2018
3 BANK GUARANTEE		
Balance b/f	220,000	220,000
ADD: Additions during the year	-	-
	220,000	220,000

The above amount is withheld by the bank (co-operative bank of kenya-Siakago) on behalf of

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tana water service board. Therefore treated as an asset in the statement of financial position.

4 ACCOUNT RECEIVABLES

Receivables as at 30/06/2019	20,054,834	16,918,858
LESS: 5% Provision	<u>(1,002,742)</u>	<u>(845,943)</u>
Balance as at 30TH JUNE 2019	<u>19,052,092</u>	<u>16,072,915</u>

5 CASH AND CASH EQUIVALENTS

Cash at hand	5,367	4,441
Cash in bank-Current Account	-	309,724
-Savings Account	<u>628,586</u>	<u>1,630,593</u>
	<u>633,953</u>	<u>1,944,758</u>

6 CUSTOMER DEPOSITS

Balance b/f	3,857,390	3,413,360
ADD:Additions during the year	449,200	503,800
Less: Refunds during the year	<u>(9,800)</u>	<u>(59,770)</u>
	<u>4,296,790</u>	<u>3,857,390</u>

7 ACCOUNTS PAYABLES AND ACCRUALS

Note 24 on Page 27-28	<u>7,364,703</u>	<u>10,701,093</u>
	<u>7,364,703</u>	<u>10,701,093</u>

8 CAPITAL FUNDS

Balance b/f	190,497,018	190,497,018
ADD: Additions during the year	<u>-</u>	<u>-</u>
	<u>190,497,018</u>	<u>190,497,018</u>

9 RETAINED EARNINGS

Balance b/f	(108,373,827)	(102,971,382)
Less: Restated amount on prior year debtors	(1,840,866)	2,626,622
ADD: Additions during the year	<u>(2,002,937)</u>	<u>(8,022,767)</u>
	<u>(112,217,630)</u>	<u>(108,372,026)</u>

10 WATER REVENUE

Water charges	29,537,238	28,862,863
Reconnection fees	156,500	632,200

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	<u>29,693,738</u>	<u>29,495,063</u>
11 GRANTS AND SUBSIDIES		
GOK subsidy on staff salaries	-	-
12 MISCELLANEOUS INCOME		
Reimbursement from Road Contractor	2,796,040	-
Bank interests	265,901	-
Surcharges	175,832	175,832
Application fees	41,800	63,937
Labour	76,800	99,759
Others (Metre Rent, Etc)	<u>1,266,450</u>	<u>35,090</u>
	<u>4,622,823</u>	<u>374,618</u>
13 OTHER OPERATING EXPENSES		
Audit fees	100,000	100,000
Official Entertainment	<u>379,640</u>	<u>378,470</u>
	<u>479,640</u>	<u>478,470</u>
14 FINANCIAL COSTS		
Bank charges	<u>271,365</u>	<u>260,556</u>
	<u>271,365</u>	<u>260,556</u>
15 INDIRECT EXPENSES		
GOK Subsidy on staff salary	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
16 WATER PRODUCTION AND DISTRIBUTION IN CUBIC METRES		
Water received from intake	1,207,581	876,337
Less: Water used in treatment works	<u>243,291</u>	<u>53,092</u>
Volume of water produced for consumption	964,290	829,329
Less: volume of water billed	<u>495,664</u>	<u>494,443</u>
Un-accounted for water (water not billed)	<u>468,626</u>	<u>345,886</u>
Percentage of U F W	49	47

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17 ADMINISTRATIVE EXPENSES	30.06.2019	30.06.2018
i) Water management		
9% Board Administration fees	-	2,688,271
1% Water Regulatory fees(WASREB)	312,546	298,697
Raw water charge (WARMA)	247,832	247,222
Maintenance of water supply system	2,204,730	1,485,420
Directors allowance	<u>909,000</u>	<u>666,000</u>
	<u>3,674,108</u>	<u>5,385,610</u>
ii) Staff emoluments		
Salaries	11,446,416	11,185,906
Casual labour	3,260,412	3,159,423
Staff welfare	198,990	266,400
Staff Training	30,000	
Staff travel and subsistence	<u>3,252,999</u>	<u>2,308,107</u>
	<u>18,188,817</u>	<u>16,919,836</u>
iii) Establishment costs		
Electricity	172,324	226,990
Printing and stationery	131,362	217,283
Telephone, fax and mobile	542,547	499,600
Advertisement, publicity and newspapers	28,980	14,640
Transport hire and equipment	296,300	235,800
Insurance	183,519	308,060
Office cleaning and miscellaneous	15,300	19,560
Postage and courier	11,260	22,880
Stakeholders' meeting and exhibition	126,000	-
Consultant and Freelance	29,200	-
Laboratory apparatus, chemicals and reagents	1,370,077	1,616,463
Computer repairs and maintenance	144,650	138,450
Building, grounds and General repairs	13,510	30,865

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Motor vehicles & cycles running expenses	572,098	362,751
Motor vehicles running (fuel)	810,000	750,200
Security services	355,000	418,500
Miscellaneous penalties and contingencies	10,000	9,970
Bicycle repairs and maintenance	21,600	19,800
Staff uniforms	271,900	-
Provision for Gratuity	686,615	673,069
Increase/ (Decrease) in provision for bad debts	156,799	267,381
Depreciation	<u>7,756,527</u>	<u>9,015,714</u>
Total establishment costs	<u>13,705,568</u>	<u>14,847,976</u>
TOTAL ADMINISTRATIVE EXPENSES	<u>35,568,493</u>	<u>37,153,422</u>

18. RETIREMENT BENEFIT OBLIGATIONS

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently is at a maximum of Kshs.1, 080 per employee per month.

For permanent staff, in addition to N.S.S.F there exists registered provident fund where the company contributes 12.5 percent of the employees' basic pay and employee 7.5 percent.

19. RELATED PARTY DISCLOSURES

Parties related to the organisation include those parties who have the ability or where the organisation has the ability to exercise control or exercise significant control over the operating and financial decisions. Related parties include the management personnel, their principals and close family members.

The organisation is related to:

- (i) Water services regulatory board
- (ii) Tana water services board
- (iii) Directors and management personnel of the organisation

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(a) Due to related Parties

Schedule 2 on Page 27-28	<u>7,364,703</u>	<u>10,701,093</u>
	<u>7,364,703</u>	<u>10,701,093</u>

Tana Water Services Board, are being paid amount owed for administrative costs before the Water Act of 2016 came into effect. The same amount was calculated at 9% of the total revenue billings while Water services regulatory board is paid 1% of the same. The above refers to outstanding balances as at the end of the year. Staffs under terms of contract are paid gratuity calculated at the currently revised rate of 31% of their Basic salaries at the end of their three years contract hence the figures shown above relates to the accrued gratuity over the period. Audit fee is the provision for the financial year. Below is the summery movement schedule of gratuity.

NAME	JOHN NDUMA	VICTOR IRERI	ALEX MIKINYANGO	AMOUNT
Balance Brought Forward	354,717	367,886	245,440	968,043
Provision for the period	357,710	195,746	133,159	686,615
Payments during the period	-	-	(372,407)	(372,407)
Balance carried down	712,427	563,632	6,192	1,282,251

20. FINANCIAL RISK MANAGEMENT POLICIES

Financial risk management objectives

The organisation's overall risk management programme focuses on unpredictability of changes in the operating environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

The major types of financial risks faced by the organisation are:

- Market risk
- Credit risk
- Liquidity risk

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. FINANCIAL RISK MANAGEMENT POLICIES (Continued)

Market risk management

(i) Foreign exchange risk

The organisation is not exposed to foreign exchange risk since it does not have foreign currency transactions.

(ii) Interest rate risk

The organisation is not exposed to interest rate risk since it has no borrowings.

(iii) Price risk

The organisation does not hold investments that would be subject to price risk hence there is no exposure to price risk.

Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the organisation. The organisation measures, monitors and manages credit risk for each receivable. The organisation's credit risk is primarily attributable to bank balances, trade and other receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the organisation's management based on prior experience and their assessment of the current economic environment.

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

The amount that best represents the organization's maximum exposure to credit risk is made up as follows:

	30.06.2019 <u> </u> KSHS	30.06.2018 <u> </u> KSHS
Receivables	19,052,092	16,072,915
Cash & Bank balances	<u>633,953</u>	<u>1,944,758</u>
	19,686,045 -	17,916,673

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. FINANCIAL RISK MANAGEMENT POLICIES (Continued)

Credit risk management (Continued)

The debtors under the fully performing category are paying their debts. The receivables that are past due relate to receivables overdue by over 30 days. The finance department is actively following these receivables. No collateral is held with respect to the debt. The debt that is impaired has been fully provided for.

Liquidity risk management.

Prudent liquidity risk management includes maintaining sufficient cash to meet organisation obligations.

The organisation manages liquidity risk through continuous monitoring of forecast and actual cash flows.

The liquidity risk is also managed through the continuous receipts from water revenue.

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

Capital risk management

The organization manages its capital to ensure that it is able to continue as a going concern while maximizing the return to stakeholders.

The organization is not exposed to capital risk since it has got no borrowings.

The capital structure of the organisation consists of:

		2019	2018
		Kshs	Kshs
Accumulated funds	8	190,497,018	190,497,018
Retained earnings	9	<u>(112,217,630)</u>	<u>(108,372,026)</u>
TOTAL ACCUMULATED FUNDS EMPLOYED		<u>78,279,388</u>	<u>82,124,992</u>

21. CONTINGENT LIABILITIES.

The organization is exposed to various contingent liabilities in the normal course of operations. Management evaluates the status of these exposures on a regular basis to assess the probability of the organization incurring related liabilities. However, provisions are only made in the financial statements where, based on the management's evaluation, a present obligation has been established.

In May 2014, two cashiers had defrauded the Company of Kshs. 782,385. However, the matter together with Audited statement on the fraud was submitted to Siakago police station procedurally for

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the culprits to be apprehended and tried. Despite several visits to the Station by our Human Resource and Administration Manager on progress of the case, the company is yet to receive any positive report. Recovery of the lost money therefore, is dependent on prosecution of the two in the coming future.

22. CAPITAL COMMITMENTS

The company did not have capital commitments as at 30 June 2018.

23. CURRENCY.

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

24. INCOPORATION

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

25. EMBE WATER AND SANITATION COMPANY
SCHEDULE OF CREDITORS
AS AT 30TH JUNE 2019

DETAILS	30.06.2019 (KSHS)	30.06.2018 (KSHS)
Liberty Life	4,992	17,472
Britam Assurance Co.	145,516	278,802
Ngathi General Workshop	22,000	42,930
Waspa	-	55,000
Ukulima sacco	133,012	173,602
Water Services Reulatory Board	709,885	397,339
New Embu Uhuru Garage	92,038	144,376
Tana Water Services Board	4,254,831	6,254,831
upper ena water resources	20,000	20,000
Eagle Twenty Enterprises	-	105,150
Pan Africa Chemicals	-	384,540
Georgia Insurance Agency	-	137,395
Sanlam	-	33,685
Africa Merchant Assurance Co.	137,275	137,275
Bentel Security Services	-	95,000
Kel Chemicals	-	374,102
Jackline Kanini-Unpaid imprests	-	141,095
Kenya Power	-	32,307

Commisioner of Domestic Taxes	15,071	-
NSSF	-	42,680
PAYE for June 2018	-	76,544
NHIF	-	32,200
Siakago Filling Station	-	30,000
Manager Coop Bank Loan Recovery	-	49,769
Faulu Bank Loan Recovery		122,696
Water Resources Management Authority	247,832	247,222
Provision for Audit	300,000	100,000
Accrued Gratuity	1,282,251	968,043
customer Deposit refunds	-	4,520
Unsurrendered imprests	-	
June casual salaries	-	202,518
TOTALS	<u>7,364,703</u>	<u>10,701,093</u>

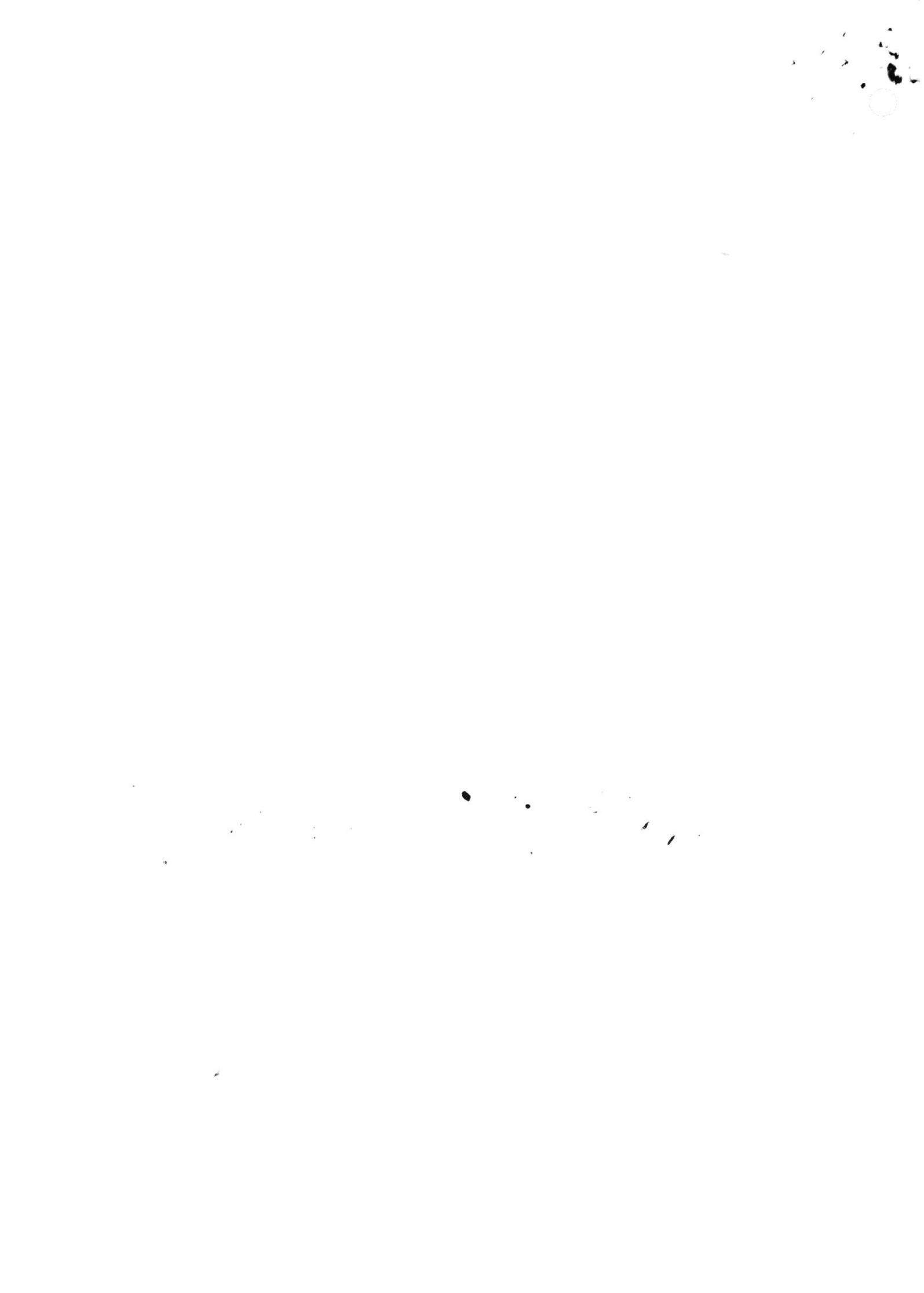
APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.1	Variances in prior year retained and loss balances and their comparative figures.	The observations raised were and have been addressed in the current financial statements accordingly.	Victor Ileri Finance officer	Resolved	30 th June, 2019
1.2	Accuracy of the statement of cashflows	The observations raised were and have been addressed in the current financial statements accordingly.	Victor Ileri Finance officer	Resolved	30 th June, 2019
1.3	Accuracy of the comparative	The cash variance of Kshs. 3,000,000.00 was in respect to amount of	Victor Ileri Finance officer	Resolved	30 th June, 2019



Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	balances between the statement of cashflows and financial position	treasury bond cash refunded upon maturity			
2.0	Cash and Bank Balances	The observations raised were and have been addressed in the current financial statements accordingly	Victor Ileri Finance officer	Resolved	30 th June, 2019
3.0	Loss of Cash	The matter is in the hands of the police.	John Nduma General Manager	Not Resolved	2019-2020
4.0	Payables and accruals	All the supporting documents were availed during the audit exercise and such observations raised and agreed upon were adequately addressed.	Victor Ileri Finance officer	Resolved	30 th June, 2019
5.0	Accounts receivables	Continued recovery efforts in place and debtors policy to address this in final preparation stages.	Victor Ileri Finance officer	Not Resolved	30 th June, 2020
1.1 & 1.2	Budget control and performance	The management will endeavour to ensure compliance in budget. However, under realization of budget in our case DOES NOT in any way reflect revenue collected and unaccounted for, considering that all documents were availed for audit that could have revealed such alleged anomalies. In reality, a budget acts as guideline on expected	Victor Ileri Finance officer	Not Resolved	30 th June, 2020



Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		revenues and expenses. In a commercial entity, compliance to the budget to the last cent is yet to be attained.			
2.0	Financial Performance	The management is putting more efforts, especially on higher revenue realisation and reduced costs, aimed towards profitability.	John Nduma	In continuation	2019-2020
3.0	Property Plant and Equipment	The title of these assets is still under Ministry of Water awaiting transfer.	National and county Governments	Not resolved	Eventually.
1.0	Presentation and Disclosure	Indicated standards have now been adhered to.	Victor Ileri Finance officer	Resolved	30 th June, 2019
1.2	Irregular payment of casuals	The management is the process of addressing the casuals issues as reported	Alex Mikinyango	Not resolved	30 th June, 2020

SIGNED


Director

SIGNED


General Manager

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

During the period under audit, the company was not engaged in implementation of any project. Its primary activities for the period was restricted to normal operations and maintenance.

APPENDIX III: INTER-ENTITY TRANSFERS.

The company, during the financial year 2018-2019, did not receive any funds in form of recurrent, development or donor funds and as such relied on own internally generated income.

